Report of the Deputy Chief Executive

STATEMENT OF ACCOUNTS 2022/23 – UNDERLYING PENSION ASSUMPTIONS

1. Purpose of report

To provide Members with information regarding the assumptions made by the pension fund actuary in calculating the IAS19 figures to be reported in the 2022/23 Statement of Accounts.

2. Recommendation

The Committee is asked to NOTE the assumptions to be used in the calculation of pension figures for 2022/23.

3. Detail

IAS19 (International Accounting Standard 19 – Employee Benefits) is one of the financial reporting standards with which the Council must comply when producing its annual Statement of Accounts. The basic requirement of IAS19 is that an organisation should account for retirement benefits when it is committed to give them, irrespective of when they are paid out.

In order to calculate the cost of earned benefits for inclusion in the Statement of Accounts, the scheme actuaries use certain assumptions to reflect expected future events which may affect the cost. The assumptions used should 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. The proposed assumptions for 2022/23 are shown in the appendix.

The Council will use the calculated costs and the underlying assumptions based upon the advice of the actuary of the Nottinghamshire County Council Pension Fund, Barnett Waddingham, and the administering authority (Nottinghamshire County Council) in preparing the annual Statement of Accounts. A formal actuarial valuation is carried out every three years, the last being as at 31 March 2019. This covers the financial years 2020/21, 2021/22 and 2022/23. The Actuary's final report for 2022/23 is due to be received on 19 April 2023. All of the figures relating to IAS19 are simply accounting adjustments made to comply with accounting standards and have no direct impact on resources. The amount charged to the General Fund Balance is the actual amount paid out in employers' contributions and not the charge calculated in accordance with IAS19. The liability shown in the balance sheet is an estimate based on assumptions and would only ever become payable if the Council ceased as a going concern.

4. Financial Implications

The comments from the Head of Finance Services were as follows:

There are no direct financial implications arising from this report, with estimated pensions costs already included within the establishment budgets.

5. Legal Implications

The comments from the Head of Legal Services and Deputy Monitoring Officer were as follows:

The legislation, the Accounts and Audit Regulations (2015) and the Accounts and Audit (Amendment) Regulations 2022, sets out the timescales for the production of the Council's accounts, including the dates of the public inspection period. The Statement of Accounts must be published by that date or as soon as reasonably practicable after the receipt of the auditor's final findings.

Section 151 of the Local Government Act 1972 requires the Council to make arrangements for the proper administration of its financial affairs and to secure that one of its officers (the Deputy Chief Executive) has the responsibility for the administration of those affairs, which include responsibility for preparing the Council's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

The Statement of Accounts is that upon which the auditor should enter his certificate and opinion which is prepared under the Local Government Finance Act 2003.

6. Human Resources Implications

There were no comments from the Human Resources Manager.

7. Union Comments

There were no Unison comments in relation to this report.

8. Data Protection Compliance Implications

There are no Data Protection issues in relation to this report.

9. Equality Impact Assessment

As there is no change to policy an equality impact assessment is not required.

10. Background Papers

Nil

APPENDIX

PROPOSED FINANCIAL ASSUMPTIONS FOR 2022/23

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:

- 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.

- Expected Return on Assets – The actuaries anticipate that a typical local Government Pension Fund might achieve a negative return of 6% in the year to 31 March 2022 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 between 0.25% and 0.8% dependent on the duration of the employer's liabilities.

- Salary Increases – The actuaries have proposed that salary increases will be 3.6% per annum in the long term.

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 Broxtowe may be different from the assessment below.

<u>Changes in Actuary's Assumptions upon Employer's Liability from 2021/22</u>

Assumption	Duration of Individual Employee Liability (Years)			
	Less than 10 years	Between 10 to 15	Between 15 to 20	Greater than 20 years
Effect of change in discount rate on employer's liability	Decrease of 17%	Decrease of 24%	Decrease of 30%	Decrease of 36%
Change in inflation on employer's liability	Decrease of 8%	Decrease of 8%	Decrease of 7%	Decrease of 7%
Overall impact	Decrease of 24%	Decrease of 30%	Decrease of 35%	Decrease of 41%

Supreme Court Ruling in McCloud/Sargeant Cases

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. The first case (McCloud) and the second case (Sargeant) were subsequently linked and in June 2019 the Court of Appeal ruled the reforms amounted to unlawful discrimination.

There are currently uncertainties in relation to Local Government Pension Schemes (LGPS) benefits due to the McCloud and Sargeant judgements. Remedial regulations are expected in 2023 and uncertainty over the benefit changes proposed for the LGPS will remain until these have been finalised.

Impact of Goodwin Case

Following a case involving the Teachers' Pension scheme, known as the Goodwin case, differences between survivor benefits payable to members with same-sex or opposite-sex survivors have been identified within a number of public sector pension schemes. As a result, the Government have confirmed that a remedy is required in all affected public sector pension schemes, which includes the LGPS.

The Actuary does not intend to make any adjustments to accounting valuations as a result of the Goodwin case.

Impact of Lloyds Judgement

The Lloyds Banking Group court case involved a ruling that, in cases where a member exercised their right to a transfer value out of the scheme, the trustee had the duty to make a transfer payment that reflects the member's right to equalised benefits and remains liable if an inadequate transfer payment had been paid. It is not yet known if, or how, this will affect the LGPS.