Report of the Deputy Chief Executive

STATEMENT OF ACCOUNTS 2019/2020 – UNDERLYING PENSION ASSUMPTIONS

1 Purpose of Report

To provide Members with information regarding the assumptions made by the pension fund actuary in calculating the IAS 19 (International Accounting Standard 19 - Employee Benefits) figures to be reported in the 2019/2020 Statement of Accounts.

2 Introduction

IAS 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 IAS 19 is that an organisation should account for retirement benefits when it is committed to give them, irrespective of when they are paid out.

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 2019/20 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 2016. The Actuary's final report for 2019/2020 is due to be received on 17 April 2020. All of the figures relating to IAS 19 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 IAS 19. 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

Recommendation

The Committee is asked to CONSIDER the assumptions to be used in the calculation of pension figures for 2019/2020

Background Papers
Nil

APPENDIX

Proposed Financial Assumptions for 2019/2020

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 positive return of 12% in the year to 31 March 2020 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 0.8% and 0.9% dependent on the duration of the employer's liabilities
- **Salary Increases** – The actuaries have proposed that salary increases are in line with CPI to 2020, and then they increase in line with CPI plus 1.5%.

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.

Changes in Actuary's Assumptions upon Employer's Liability from 2018/2019

Assumption	Duration of Individual Employee Liability (Years)			
	Less than 10	10 to 15	15 to 20	Greater than 20
Effect of change in discount rate on employer's liability	Increase of 6%	Increase of 8%	Increase of 11%	Increase of 13%
Change in inflation on employer's liability	Decrease of 3%	Decrease of 2%	Decrease of 3%	Decrease of 5%
Overall impact	Increase of 4%	Increase of 8%	Increase of 10%	Increase of 13%

Supreme Court ruling in McCloud/Sargeant case

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) ruled in favour of the claimants whilst the second (Sargeant) was ruled against. Both rulings were appealed and subsequently linked by the Court of Appeal. In December 2018 the Court of Appeal ruled the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination.

On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the case. As yet a remedy has not been agreed and applied so it is not yet clear how this judgement may affect the Local Government Pension Scheme (LGPS) members' past or future service benefits. It has however been noted by Government that it expects to have to amend all public service scheme, including the LGPS. An adjustment to reflect the decision of the Supreme Court was made in Broxtowe's accounts for 2018/19.