

Gedling Borough Council

Nottinghamshire County Council Pension Fund

Pension accounting disclosure as at 31 March 2017
Prepared in accordance with IAS19

13 April 2017

Contents

1.	Introduction.....	3
2.	Characteristics of defined benefit plans and associated risks.....	4
3.	Valuation data	5
	Data sources	5
	Employer membership statistics.....	5
	Scheduled contributions.....	6
	Early retirements	6
	Assets	6
4.	Actuarial methods and assumptions.....	9
	Valuation approach.....	9
	Demographic/Statistical assumptions.....	9
	Financial assumptions.....	10
	Past service costs/gains.....	11
	Curtailments.....	11
	Settlements	11
5.	Results and disclosures.....	12
Appendix 1	Statement of financial position as at 31 March 2017.....	13
Appendix 2	Statement of profit and loss for the year to 31 March 2017	14
Appendix 3	Asset and benefit obligation reconciliation for the year to 31 March 2017	15
Appendix 4	Sensitivity analysis.....	17
Appendix 5	Re-measurements in other comprehensive income.....	18
Appendix 6	Projected pension expense for the year to 31 March 2018.....	19

1. Introduction

We have been instructed by Nottinghamshire County Council, the administering authority to the Nottinghamshire County Council Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to employees of Gedling Borough Council (the Employer) as at 31 March 2017.

This report is addressed to the Employer and its advisers; in particular, this report is likely to be of relevance to the Employer's auditor.

These figures are prepared in accordance with our understanding of International Accounting Standard 19 (IAS19).

This advice complies with all Generic Technical Actuarial Standards (TASs) and the Pensions TAS.

The figures quoted will form the basis of the balance sheet and funding status disclosures to be made by the Employer as at 31 March 2017 in respect of its pension obligations under the LGPS. The projected pension expense calculations for the year to 31 March 2018 may be used for the purpose of any interim financial reporting during the year to 31 March 2018. However, it may subsequently be necessary to adjust these projections following the occurrence of any material events such as curtailments, settlements or the discontinuance of the Employer's participation in the Fund.

Please note we have not made any allowance for IFRIC14 in our calculations. We would be happy to speak to the Employer or their auditor if more information is required.

IAS19 also requires the disclosure of any other employer provided pension benefits which are not paid from the Fund itself: examples include additional pensions paid on retirement under the Discretionary Payment Regulations. We have only valued such additional liabilities, which would not be covered in the formal LGPS valuation, to the extent that they have been notified to us and are as disclosed in Section 3 of this report.

2. Characteristics of defined benefit plans and associated risks

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings.

The administering authority for the Fund is Nottinghamshire County Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering authority. Where appropriate some functions are delegated to the Fund's professional advisers.

As administering authority to the Fund, Nottinghamshire County Council, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Investment Strategy Statement. These should be amended when appropriate based on the Fund's performance and funding.

Contributions are set every three years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2019 and will set contributions for the period from 1 April 2020 to 31 March 2023. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

On the Employer's withdrawal from the Fund, a cessation valuation will be carried out in accordance with Regulation 64 of the LGPS Regulations 2013 which will determine the termination contribution due by the Employer, on a set of assumptions deemed appropriate by the Fund Actuary.

In general, participating in a defined benefit pension scheme means that the Employer is exposed to a number of risks:

- Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges;
- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way;
- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation; and
- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Nottinghamshire County Council Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Employer e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

3. Valuation data

Data sources

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from Nottinghamshire County Council:

- The results of the valuation as at 31 March 2016 which was carried out for funding purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2017;
- Estimated Fund returns based on Fund asset statements provided (or estimated where necessary) as at 31 March 2016 and 31 December 2016, Fund income and expenditure as noted above, and estimated market returns thereafter for the period to 31 March 2017;
- Estimated Fund income and expenditure in respect of the Employer for the period to 31 March 2017; and
- Details of any new early retirements for the period to 31 March 2017 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data.

Employer membership statistics

The table below summarises the membership data, as at 31 March 2016 for members receiving funded benefits, and as at 31 March 2016 for any members receiving unfunded benefits.

Member data summary	Number	Salaries/Pensions	Average age
		£000s	
Actives	439	7,965	47
Deferred pensioners	525	863	44
Pensioners	530	2,444	73
Unfunded pensioners	95	136	78

The service cost for the year ending 31 March 2017 is calculated using an estimate of the total pensionable payroll during the year. The estimated total pensionable payroll during the year is £8,525,000, as advised by the Employer. The projected service cost for the year ending 31 March 2018 has been calculated assuming the payroll remains at this level over the year.

Scheduled contributions

The table below summarises the minimum employer contributions due from Gedling Borough Council to the Fund over this inter-valuation period. The calculated cost of accrual of future benefits is 15.1% of payroll p.a.

Minimum employer contributions due for the period beginning	1 Apr 2017	1 Apr 2018	1 Apr 2019
Percent of payroll	15.1%	15.1%	15.1%
plus monetary amount (£000s)	575	588	602

However, Gedling Borough Council have agreed with the Administering Authority that they will prepay their monetary contributions for the three years to 31 March 2020 by making a single lump sum payment of £1,674,767 by 30 April 2017. This lump sum payment has received an actuarially equivalent discount to the monetary rates above and Gedling Borough Council have been notified separately of this amount. If they don't make this lump sum payment by 30 April 2017, the contribution rates set out above will apply as normal.

Gedling Borough Council may pay further amounts at any time and future periodic contributions, or the timing of contributions may be adjusted on a basis approved by us.

Early retirements

We requested data on any early retirements in respect of the Employer from the administering authority for the year ending 31 March 2017.

We have been notified of three new early retirements during the year which were not allowed for at the previous accounting date. The total annual pension that came into payment was £29,200.

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2017 is estimated to be 23%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for Gedling Borough Council as at 31 March 2017 is as follows:

Asset breakdown	31 Mar 2017		31 Mar 2016	
	£000s	%	£000s	%
Equities	50,479	70%	41,304	70%
Gilts	2,206	3%	1,846	3%
Other bonds	4,354	6%	4,058	7%
Property	8,024	11%	7,494	13%
Cash	3,631	5%	2,405	4%
Inflation-linked pooled fund	1,802	2%	1,670	3%
Infrastructure	1,677	2%	550	1%
Total	72,173	100%	59,327	100%

We have estimated the bid values where necessary. Please note that the individual percentages shown are to the nearest percentage point for each asset class and may not sum to 100%. The final asset allocation of the Fund assets as at 31 March 2017 is likely to be different from that shown due to estimation techniques.

Based on the above, the Employer's share of the assets of the Fund is approximately 1%.

We received the following information from the administering authority regarding the detail of their assets as at 31 December 2016, representing the percentages of the total Fund held in each asset class (split by those that have a quoted market price in an active market, and those that do not).

Asset breakdown		31 Dec 2016	
		% Quoted	% Unquoted
Fixed Interest Government Securities			
	UK	3.1%	-
	Overseas	-	-
Corporate Bonds			
	UK	5.8%	-
	Overseas	0.3%	-
Equities			
	UK	29.8%	0.1%
	Overseas	38.4%	-
Property			
	All	-	11.1%
Others			
	Private Equity	-	1.6%
	Infrastructure	-	2.3%
	Inflation linked	-	2.5%
	Cash/Temporary Investments	-	5.0%
Total		77.3%	22.7%

We do not have any further detail on the current asset allocation of the Fund; we suggest that if further information is required the administering authority is contacted in the first instance. Please note that as above, no adjustments for presentational purposes have been made to the percentages shown.

4. Actuarial methods and assumptions

Valuation approach

To assess the value of the Employer's liabilities at 31 March 2017, we have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2016, using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated value of liabilities as at 31 March 2017 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2017 should not introduce any material distortions in the results provided that the actual experience of the Employer and the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

To calculate the asset share we have rolled forward the assets allocated to the Employer at 31 March 2016 allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the Fund by and in respect of the Employer and its employees.

Demographic/Statistical assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2016. These assumptions have been updated from those adopted at the last accounting date. The post retirement mortality tables adopted are the S2PA tables with a multiplier of 100% for males and 90% for females. These base tables are then projected using the CMI 2015 Model, allowing for a long-term rate of improvement of 1.5% p.a.

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)		31 Mar 2017	31 Mar 2016
Retiring today			
	Males	22.5	22.1
	Females	25.5	25.3
Retiring in 20 years			
	Males	24.7	24.4
	Females	27.8	27.7

We have also assumed that:

- Members will exchange half of their commutable pension for cash at retirement;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

Financial assumptions

The financial assumptions used to calculate the results are as follows:

Assumptions as at	31 Mar 2017	31 Mar 2016	31 Mar 2015
	% p.a.	% p.a.	% p.a.
Discount rate	2.7%	3.6%	3.3%
Pension increases	2.7%	2.3%	2.4%
Salary increases	4.2%	4.1%	4.2%

These assumptions are set with reference to market conditions at 31 March 2017.

Our estimate of the duration of the Employer's liabilities is 19 years.

The discount rate is the annualised yield at the 19 year point on the Merrill Lynch AA-rated corporate bond yield curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Employer's liabilities. This is consistent with the approach used at the last accounting date.

The Retail Prices Index (RPI) increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England (BoE), specifically the 19 year point on the BoE market implied inflation curve. The RPI assumption is therefore 3.6% p.a. This is consistent with the approach used at the last accounting date.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.9% p.a. below RPI i.e. 2.7% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts. This is consistent with the approach used at the last accounting date.

Salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale. However, we have allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI.

Past service costs/gains

Past service costs/gains arise as a result of introduction or withdrawal of, or changes to, member benefits. For example, an award of additional discretionary benefits to a member such as added years by a member would be considered a past service cost.

We are not aware of any additional benefits which were granted over the year ending 31 March 2017.

Curtailments

We have calculated the cost of curtailments arising as a result of the payment of unreduced pensions on early retirement. The Employer may also have to account for non-pension related costs (e.g. lump sum payments on redundancy) but for the avoidance of doubt, we have only calculated the cost of curtailments which affect the Employer's LGPS pension liabilities.

We calculate the cost of curtailments at the point of exit, with interest applied to the accounting date accounted for separately.

Over the year, we understand that three former employees became entitled to unreduced early retirement benefits.

The capitalised cost of the additional benefits on IAS19 compliant assumptions is calculated at £326,000. This figure has been included within the service cost in the statement of profit or loss.

Settlements

We are not aware of any liabilities being settled at a cost materially different to the accounting reserve during the year.

5. Results and disclosures

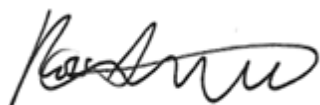
We estimate that the value of the net liability as at 31 March 2017 is a liability of £52,366,000.

The results of our calculations for the year ended 31 March 2017 are set out in the appendices below:

- Appendix 1 sets out the Statement of financial position as at 31 March 2017;
- Appendix 2 sets out the Statement of profit and loss for the year ended 31 March 2017;
- Appendix 3 details a reconciliation of assets and liabilities during the year;
- Appendix 4 shows a sensitivity analysis on the major assumptions;
- Appendix 5 shows the Re-measurements in other comprehensive income for the year;
- Appendix 6 contains our estimates of the projected profit and loss account costs for the year ending 31 March 2018. Please note that no allowance has been made for the costs of any early retirements or augmentations which may occur over the year and whose additional capitalised costs would be included in the value of liabilities. It is only an estimate so actual experience over the year is likely to differ. We have not provided balance sheet projections on the basis that they will depend upon market conditions and the asset value of the Fund at the end of the following year.

The figures presented in this report are prepared only for the purposes of IAS19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

We would be pleased to answer any questions arising from this report.



Ross Anderson FFA
Actuary

Appendix 1 Statement of financial position as at 31 March 2017

Net pension asset as at	31 Mar 2017	31 Mar 2016	31 Mar 2015
	£000s	£000s	£000s
Present value of the defined benefit obligation	122,512	98,144	102,219
Fair value of Fund assets (bid value)	72,173	59,327	60,581
Deficit / (Surplus)	50,339	38,817	41,638
Present value of unfunded obligation	2,027	1,851	1,992
Unrecognised past service cost	-	-	-
Impact of asset ceiling	-	-	-
Net defined benefit liability / (asset)	52,366	40,668	43,630

Appendix 2 Statement of profit and loss for the year to 31 March 2017

The amounts recognised in the profit and loss statement are:	Year to	Year to
	31 Mar 2017	31 Mar 2016
	£000s	£000s
Service cost	2,491	2,259
Net interest on the defined liability (asset)	1,429	1,413
Administration expenses	21	1
Total loss (profit)	3,941	3,673

Appendix 3 Asset and benefit obligation reconciliation for the year to 31 March 2017

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to	Year to
	31 Mar 2017	31 Mar 2016
	£000s	£000s
Opening defined benefit obligation	99,995	104,211
Current service cost	2,165	2,259
Interest cost	3,558	3,399
Change in financial assumptions	24,839	(7,411)
Change in demographic assumptions	414	-
Experience loss/(gain) on defined benefit obligation	(4,406)	(3)
Liabilities assumed / (extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	(2,769)	(2,831)
Past service costs, including curtailments	326	-
Contributions by Scheme participants and other employers	541	501
Unfunded pension payments	(124)	(130)
Closing defined benefit obligation	124,539	99,995

Reconciliation of opening & closing balances of the fair value of Fund assets	Year to	Year to
	31 Mar 2017	31 Mar 2016
	£000s	£000s
Opening fair value of Fund assets	59,327	60,581
Interest on assets	2,129	1,986
Return on assets less interest	11,452	(2,455)
Other actuarial gains/(losses)	(308)	-
Administration expenses	(21)	(1)
Contributions by employer including unfunded	1,946	1,676
Contributions by Scheme participants and other employers	541	501
Estimated benefits paid plus unfunded net of transfers in	(2,893)	(2,961)
Settlement prices received / (paid)	-	-
Closing Fair value of Fund assets	72,173	59,327

The total return on the fund assets for the year to 31 March 2017 is £13,581,000.

Appendix 4 Sensitivity analysis

Sensitivity analysis	£000s	£000s	£000s
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	122,237	124,539	126,888
Projected service cost	3,349	3,432	3,517
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	124,889	124,539	124,193
Projected service cost	3,432	3,432	3,432
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	126,536	124,539	122,581
Projected service cost	3,517	3,432	3,349
Adjustment to life expectancy assumptions	+1 Year	None	- 1 Year
Present value of total obligation	129,211	124,539	120,042
Projected service cost	3,541	3,432	3,326

Appendix 5 Re-measurements in other comprehensive income

Remeasurement of the net assets / (defined liability)	Year to 31 Mar 2017 £000s	Year to 31 Mar 2016 £000s
Return on Fund assets in excess of interest	11,452	(2,455)
Other actuarial gains/(losses) on assets	(308)	-
Change in financial assumptions	(24,839)	7,411
Change in demographic assumptions	(414)	-
Experience gain/(loss) on defined benefit obligation	4,406	3
Changes in effect of asset ceiling	-	-
Remeasurement of the net assets / (defined liability)	(9,703)	4,959

Appendix 6 Projected pension expense for the year to 31 March 2018

Projections for the year to 31 March 2018	Year to 31 Mar 2018 £000s
Service cost	3,432
Net interest on the defined liability (asset)	1,387
Administration expenses	26
Total loss (profit)	4,845
Employer contributions	1,862

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31 March 2017. These projections are based on the assumptions as at 31 March 2017, as described in the main body of this report.