Gedling Borough Council

Nottinghamshire County Council Pension Fund

Pension accounting disclosure as at 31 March 2020

Prepared in accordance with IAS19

Barnett Waddingham LLP

21 May 2020

Contents

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 2020. We have taken account of current LGPS Regulations, as amended, as at the date of this report.

We previously provided a report, dated 30 April 2020, based on fund asset information as at 31 December 2019. This report has been updated with fund asset information as at 31 March 2020.

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 Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100).

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 2020 in respect of its pension obligations under the LGPS. The projected pension expense calculations for the year to 31 March 2021 may be used for the purpose of any interim financial reporting during the year to 31 March 2021. 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.

Further information relating to our treatment of GMP is included on page 9 of this disclosure.

Please note that an allowance was made for the potential impact of the McCloud & Sargeant judgement in the results provided to the Employer at the last accounting date and therefore is already included in the starting position for this report. This allowance is therefore incorporated in the roll forward approach and is remeasured at the accounting date along with the normal LGPS liabilities.

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 the Valuation data section of this report.

Amendments to the IAS19 standard now requires that, when determining any past service cost or gain or loss on settlement, the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. The amendment does, however, note that the extra remeasurement does not need to be applied where the application of that remeasurement is immaterial. We have treated 3 events, which occurred over the accounting period, as material 'special events'.

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. Full details of the benefits being valued are as set out in the Regulations as amended and summarised on the LGPS website and the Fund's membership booklet.

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 2022 and will set contributions for the period from 1 April 2023 to 31 March 2026. 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.

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 2019 which was carried out for funding purposes and the results of the 31 March 2019 IAS19 report which was prepared for accounting purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2020;
- Estimated Fund returns based on Fund asset statements provided (or estimated where necessary) as at 31 March 2019 and 31 March 2020 and Fund income and expenditure as noted above;
- Estimated Fund income and expenditure in respect of the Employer for the period to 31 March 2020;
- Details of any new early retirements for the period to 31 March 2020 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost; and
- Details of any settlements for the period to 31 March 2020.

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. The data has been checked for reasonableness and we are happy that the data is sufficient for the purposes of this advice.

Employer membership statistics

The table below summarises the membership data, as at 31 March 2019 for members receiving funded benefits.

Member data summary	Number	Salaries/Pensions £000s	Average age
Actives	451	9,452	47
Deferred pensioners	574	995	46
Pensioners	573	2,887	73
Unfunded pensioners	75	130	80

The service cost for the year ending 31 March 2020 is calculated using an estimate of the total pensionable payroll during the year. The estimated total pensionable payroll during the year is £9,766,000, as advised by the Employer. The projected service cost for the year ending 31 March 2021 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 18.2% of payroll p.a.

Minimum employer contributions due for the period beginning	**1 Apr 2020**	**1 Apr 2021**	**1 Apr 2022**
Percent of payroll	18.2%	18.2%	18.2%
plus monetary amount (£000s)	413	428	443

However, Gedling Borough Council have agreed with the administering authority that they will prepay their monetary contributions for the three years to 31 March 2023 by making lump sum payments of £403,000, and £831,000 by 30 April 2020 and 30 April 2021 respectively. These lump sum payments have received an actuarially equivalent discount to the monetary rates above and Gedling Borough Council have been notified separately of these amounts. If they don't make these lump sum payments by 30 April each year, 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 2020.

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 £56,900.

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Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2020 is estimated to be -7%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for Gedling Borough Council as at 31 March 2020 is as follows:

Asset breakdown	**31 Mar 2020**		**31 Mar 2019**	
	£000s	**%**	**£000s**	**%**
Equities	42,608	58%	49,773	62%
Gilts	3,068	4%	2,612	3%
Other bonds	6,784	9%	7,431	9%
Property	11,008	15%	10,852	14%
Cash	3,009	4%	1,938	2%
Inflation-linked pooled fund	2,758	4%	2,914	4%
Infrastructure	4,593	6%	3,861	5%
Unit trust	0	n/a	813	1%
Total	**73,828**	**100%**	**80,194**	**100%**

Note that unit trust assets are now included in equities.

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 2020 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 March 2020, 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 Mar 2020	
		% Quoted	% Unquoted
Fixed Interest Government Securities			
	UK	4.2%	-
Corporate Bonds			
	UK	3.5%	-
	Overseas	5.7%	-
Equities			
	UK	21.6%	0.1%
	Overseas	31.7%	-
Property			
	All	-	14.9%
Others			
	Private Equity	-	3.1%
	Infrastructure	-	6.2%
	Unit trust	-	1.2%
	Inflation-linked pooled fund	-	3.7%
	Credit	-	1.0%
	Cash/Temporary Investments	-	3.0%
Total		**66.7%**	**33.3%**

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.

Actuarial methods and assumptions

Valuation approach

Valuation of the Employer's liabilities

To assess the value of the Employer's liabilities at 31 March 2020, we have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2019, 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 2020 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2020 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.

Valuation of the Employer's assets

To calculate the asset share we have rolled forward the assets allocated to the Employer at 31 March 2019 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.

Experience items allowed for since the previous accounting date

As a result of allowing for actual experience, which may be different from that assumed previously, an experience item may be observed in the reconciliation to 31 March 2020. The effect of allowing for the actual experience is shown in Appendix 3.

Guaranteed Minimum Pension (GMP) Equalisation

As a result of the High Court's recent Lloyds ruling on the equalisation of GMPs between genders, a number of pension schemes have made adjustments to accounting disclosures to reflect the effect this ruling has on the value of pension liabilities. It is our understanding that HM Treasury have confirmed that the judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes". More information on the current method of equalisation of public service pension schemes can be found here.

On 22 January 2018, the Government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. HM Treasury published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found here.

Our valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that the Fund will be required to pay the entire inflationary increase. Therefore we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome.

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 2019. The post retirement mortality tables adopted are the S3PA tables with a multiplier of 110% for males and 105% for females. These base tables are then projected using the CMI_2018 Model, allowing for a long-term rate of improvement of 1.25% p.a., smoothing parameter of 7.5 and an initial addition to improvements of 0.5% p.a.

This has been updated since the last accounting date where the demographic assumptions were based on those adopted for the Fund's 31 March 2016 valuation, other than updating mortality improvement projections in line with CMI_2018 at the previous accounting date. The impact of updating the demographic assumptions is set out in the Change in demographic assumptions figure in Table 1 of Appendix 3.

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)		31 Mar 2020	31 Mar 2019
Retiring today			
	Males	21.8	21.6
	Females	24.4	24.4
Retiring in 20 years			
	Males	23.2	23.3
	Females	25.8	26.2

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 2020	31 Mar 2019	31 Mar 2018
	% p.a.	% p.a.	% p.a.
Discount rate	2.35%	2.40%	2.55%
Pension increases	1.90%	2.40%	2.30%
Salary increases	2.90%	3.90%	3.80%

These assumptions are set with reference to market conditions at 31 March 2020.

Our estimate of the Employer's past service liability duration is 21 years. This has been calculated based on membership data provided for the most recent full valuation of the Employer's liabilities at 31 March 2019. This may differ from the estimated duration at the previous accounting date.

An estimate of the Employer's future cashflows is made using notional cashflows based on the estimated duration above. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). This is consistent with the approach used at the previous accounting date.

Similar to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows described above. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. This is consistent with the approach used at the previous 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 0.8% p.a. below RPI i.e. 1.9% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods, recent independent forecasts and the duration of the Employer's liabilities. The difference between RPI and CPI is less than assumed at the previous accounting date. This reflects the movement in market implied RPI inflation that occurred following the UK Statistics Authority's proposal to change how RPI is calculated and subsequent announcements from the Chancellor on the issue.

Salaries are assumed to increase at 1.0% p.a. above CPI. This differs from the salary increase assumption at the previous accounting date and has been updated in line with the most recent funding valuation.

Special events dates

As mentioned above, we have allowed for a number of 'special events' over the accounting period. The net defined benefit liability has been remeasured at each of these event dates using market statistics and the fair value of plan assets at the time of the event.

The below table sets out the dates of these 'special events' and the financial assumptions adopted for each period of remeasurement. The assumptions have been derived consistently with the previous accounting date. However, for dates after 3 September 2019 we have adopted a slightly lower RPI/CPI gap of 0.8%, consistent with the approach set out above.

Event date	Discount rate	Pension increases	Real discount rate
31/03/2019	2.40%	2.40%	0.00%
30/11/2019	2.00%	2.25%	-0.25%
31/03/2020	2.35%	1.90%	0.45%

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 2020.

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 £285,000. This figure has been included within the service cost in the statement of profit and loss.

Unless confirmed to us by the Employer as not material, the cost of each curtailment is calculated using assumptions derived based on market conditions at the date of exit. If not material, then the cost is calculated based on the assumptions applicable at the previous material 'special event' date (or at the previous accounting date if there are no previous material 'special events'). The below table shows the capitalised cost of each of the curtailment events allowed for and the financial assumptions used to calculate this cost. We have also indicated whether the event has been allowed for as a 'special event'. Details of the financial assumptions adopted at each 'special event' date are set out above in the Financial assumptions section.

NI number	Date of curtailment	Curtailment cost £000s	Discount rate	Pension increases	Treated as special Event?
WK782929B	30 November 2019	102	2.00%	2.25%	Yes
WL929397B	30 November 2019	149	2.00%	2.25%	Yes
WK473561D	30 November 2019	34	2.00%	2.25%	Yes

Settlements

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

Results and disclosures

We estimate that the value of the net liability as at 31 March 2020 is a liability of £49,181,000.

The results of our calculations for the year ended 31 March 2020 are set out in the appendices below:

- Appendix 1 sets out the Statement of financial position as at 31 March 2020;
- Appendix 2 sets out the Statement of profit and loss for the year ended 31 March 2020;
- 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 Remeasurements 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 2021. 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.

Julie Baillie

Julie Baillie FFA
Actuary

Appendix 1 Statement of financial position as at 31 March 2020

Net pension asset as at	31 Mar 2020	31 Mar 2019	31 Mar 2018
	£000s	£000s	£000s
Present value of the defined benefit obligation	121,476	125,402	121,554
Fair value of Fund assets (bid value)	73,828	80,194	74,855
Deficit / (Surplus)	**47,648**	**45,208**	**46,699**
Present value of unfunded obligation	1,533	1,777	1,909
Unrecognised past service cost	-	-	-
Impact of asset ceiling	-	-	-
Net defined benefit liability / (asset)	**49,181**	**46,985**	**48,608**

Appendix 2 Statement of profit and loss for the year to 31 March 2020

The amounts recognised in the profit and loss statement are:	Year to 31 Mar 2020 £000s	Year to 31 Mar 2019 £000s
Service cost	4,107	4,398
Net interest on the defined liability (asset)	1,092	1,220
Administration expenses	32	31
Total loss (profit)	**5,231**	**5,649**

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Appendix 3 Asset and benefit obligation reconciliation for the year to 31 March 2020

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to 31 Mar 2020 £000s	Year to 31 Mar 2019 £000s
Opening defined benefit obligation	**127,179**	**123,463**
Current service cost	3,822	3,439
Interest cost	2,903	3,116
Change in financial assumptions	(12,895)	5,963
Change in demographic assumptions	(2,377)	(7,207)
Experience loss/(gain) on defined benefit obligation	6,333	-
Liabilities assumed / (extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	(2,751)	(3,020)
Past service costs, including curtailments	285	959
Contributions by Scheme participants and other employers	631	591
Unfunded pension payments	(121)	(125)
Closing defined benefit obligation	**123,009**	**127,179**

Reconciliation of opening & closing balances of the fair value of Fund assets	Year to 31 Mar 2020 £000s	Year to 31 Mar 2019 £000s
Opening fair value of Fund assets	**80,194**	**74,855**
Interest on assets	1,811	1,896
Return on assets less interest	(7,240)	4,515
Other actuarial gains/(losses)	(416)	-
Administration expenses	(32)	(31)
Contributions by employer including unfunded	1,752	1,513
Contributions by Scheme participants and other employers	631	591
Estimated benefits paid plus unfunded net of transfers in	(2,872)	(3,145)
Settlement prices received / (paid)	-	-
Closing Fair value of Fund assets	**73,828**	**80,194**

The total return on the fund assets for the year to 31 March 2020 is (£5,429,000).

Appendix 4 Sensitivity analysis

Sensitivity analysis	£000s	£000s	£000s
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	120,555	123,009	125,516
Projected service cost	3,302	3,391	3,482
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	123,257	123,009	122,764
Projected service cost	3,393	3,391	3,389
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	125,277	123,009	120,787
Projected service cost	3,481	3,391	3,304
Adjustment to life expectancy assumptions	+1 Year	None	- 1 Year
Present value of total obligation	128,106	123,009	118,132
Projected service cost	3,495	3,391	3,290

Appendix 5 Remeasurements in other comprehensive income

Remeasurement of the net assets / (defined liability)	**Year to 31 Mar 2020 £000s**	**Year to 31 Mar 2019 £000s**
Return on Fund assets in excess of interest	(7,240)	4,515
Other actuarial gains/(losses) on assets	(416)	-
Change in financial assumptions	12,895	(5,963)
Change in demographic assumptions	2,377	7,207
Experience gain/(loss) on defined benefit obligation	(6,333)	-
Changes in effect of asset ceiling	-	-
Remeasurement of the net assets / (defined liability)	**1,283**	**5,759**

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Appendix 6 Projected pension expense for the year to 31 March 2021

Projections for the year to 31 March 2021	Year to 31 Mar 2021 £000s
Service cost	3,391
Net interest on the defined liability (asset)	1,134
Administration expenses	30
Total loss (profit)	**4,555**
Employer contributions	1,777

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31 March 2020. These projections are based on the assumptions as at 31 March 2020, as described in the main body of this report.