

11 February 2016

**Item 5**

**TITLE OF REPORT: Proposed Increase in the LGPS Superannuation Rates**

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**Purpose of the Report**

To provide Schools Forum with the latest information regarding the proposed increase in the Local Government Pension Scheme (LGPS) Superannuation rates from 2016/17.

**Background**

Every three years the Council's (including maintained school members) superannuation contributions to the LGPS undergo a triennial review.

The Council is a Scheduled Body member of the LGPS which is administered in Tyne and Wear by South Tyneside Council. As a Scheduled Body member, the Council is charged a comparatively lower contribution rate than other organisations on the basis that there is no separate rate for different parts of the Council which includes maintained schools.

**Outcome of the Review**

The latest triennial review set the deficiency payment at £10.9m for Gateshead. This amount increased by 3.9% in 2015/16 to £11.33m and will increase to £11.77m in 2016/17.

This requires an increased contribution from maintained schools of approximately £64k in 2016/17. As a result there will be an increase in employer's contributions from 29.1% to 29.5% effective from 1<sup>st</sup> April 2016. A more detailed report is included at appendix 1.

A breakdown of the 2016/17 charges to individual schools is attached at appendix 2 for information.

**Proposal**

The Schools Forum notes the decision to increase Superannuation Rates from 1<sup>st</sup> April 2016, and the estimated impact on schools budgets for 2016/17 is £64k.

## **Recommendations**

Schools Forum:-

- Notes the increase in superannuation rates from 1<sup>st</sup> April 2016

For the following reason(s):

- To enable schools to set budgets for 2016/17 using the updated rate
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## **Appendix 1**

### **Pensions and Accounting for Superannuation**

#### **Introduction**

1. The purpose of this note is to explain the impact of the latest triennial review on the superannuation contributions made by the Council. The accounting treatment of these contributions has been agreed previously, this note sets out the financial implications for 2016/17 and the potential impact for the following year.
2. The cost of pensions is a key issue for the Council and, given the financial scale, needs to be carefully considered in the context of medium term financial planning and carefully monitored throughout the year.

#### **Background**

3. The Council is a Scheduled Body member of the Local Government Pension Scheme (LGPS) which is administered in Tyne and Wear by South Tyneside Council. As a Scheduled Body member, the Council is charged a comparatively lower contribution rate than other organisation's on the basis that there is no separate rate for different parts of the Council which includes maintained schools.
4. Both employees' and employers' contribution rates are paid to the LGPS and these are invested by the Tyne and Wear fund. The fund is valued on a triennial basis and contributions rates are then set by the Actuary for all employers who are members of the fund, (which includes schools non-teaching staff).
5. The fund has been reviewed for the year commencing 1<sup>st</sup> April 2016 with the outcome impacting on budgets for 2016/17.
6. Employee rates are a cost to the individual (by payroll deduction) and do not represent a cost to the employer.
7. Employers' contribution rates vary according to the performance of the fund and actuarial assumptions and have a direct impact on the budgets. In the broadest sense, the prime determinants of employer contribution rates are the financial and demographic experience of the Fund. The Fund's assets and liabilities move relative to one another as investment returns fluctuate, economic conditions vary and the membership profile changes.
8. There are three elements to the employers' contributions to the fund:
  - employers' standards contribution rate (Future Service Rate)
  - unfunded pensions
  - pension deficiency.

## **Employers' Contributions**

9. The first element is the employers' standard contribution rate which represents the amount which the employer must pay to the pension fund for every employee who is a member of the scheme. This is known as the Future Service Rate and will remain at 15.7% during 2016/17.
10. Unfunded pensions are charged as a lump sum where, in the past, employees received discretionary benefits. These discretionary payments are not the same as Strain on the Fund costs which represent the cost to the fund of an employee retiring early in terms of lost contribution and interest received. The current annual cost of unfunded pensions is approximately £2.1m, a slight decrease since the last review.
11. The third element of employers' contributions is the annual deficiency contribution. This is a lump sum which needs to be paid across to the pension fund on an annual basis to try to address the shortfall of pension assets against liabilities i.e. the shortfall on the fund. The deficiency payment is historic. A measure of the financial health of the fund is its "funding level" which is the ratio between its assets and liabilities. A pension fund that holds sufficient assets to meet all its projected liabilities would have a funding level of 100%. A funding level of below 100% is described as being in deficit. The Tyne and Wear Pension Fund has been in deficit since 1992. Further information can be found in the Full Annual Reports and Accounts 2013/14 and in the Funding Strategy Statement at [www.twpf.info](http://www.twpf.info).
12. The latest triennial review set the deficiency payment at £10.9m for Gateshead. This amount increased by 3.9% in 2015/16 to £11.33m and will increase to £11.77m in 2016/17. This reflects the annual recovery rate increase assumption used in the valuation.

## **Budgeting and Accounting for Employers' Contributions**

### **Methodology Since 2012/13**

13. Since 2012, the employers' contribution rate for every employee in the Tyne and Wear Pension Fund has been based on recovering all three elements of the employers' contribution to the fund. This means that all elements of pension payments are recovered from all parties responsible for employees who are members of the fund.
14. This methodology is in accordance with CIPFA's definition of 'total cost', it is more transparent to recover the full cost of local government pensions including the deficiency element thus reflecting more accurately the true cost of employing staff.
15. When preparing salary budgets, school budget for employers' superannuation costs are increased to recover the unfunded pensions and the budgeted lump sum. This was set at 29.1% in 2015/16, the basis of which is set out in paragraph 17.
16. This higher rate is then applied in the payroll system to ensure that employers' contributions are deducted at the higher rate. This means that the unfunded pensions and lump sum payment are effectively spread across all eligible employees.

17. The calculation for 2015/16 was as follows:

Description	£'000	Notes
Assumed salary base	100,111	Estimated Salary base for employees in the LGPS adjusted for assumed workforce changes
Future Service Rate 15.7%	15,717	Notified by actuary
Unfunded Pensions	2,097	Estimate based on current years payments
Deficiency Payment	11,325	Notified by actuary
Total Amount to be recovered	29,139	
Required recovery rate	<b>29.1%</b>	Budget guidance 2015/16

18. The 2016/17 budget has been calculated using the revised rate of 29.5%. This takes into account all three elements of the contributions to the fund made by employers and assumes a decrease to the salary base as employees leave the organisation for varying reasons.

The calculation for 2016/17 is as follows:

Description	£'000	Notes
Assumed salary base	100,378	Estimated Salary base for employees in the LGPS adjusted for assumed workforce changes
Future Service Rate 15.7%	15,759	Notified by actuary
Unfunded Pensions	2,092	Estimate based on current years payments
Deficiency Payment	11,767	Notified by actuary
Total Amount to be recovered	29,618	
Required recovery rate	<b>29.5%</b>	Budget guidance 2016/17

## Appendix 2

Bensham Grove Nursery School	305
Pupil Referral Unit	861
Carr Hill Primary	1,087
Kelvin Grove School	1,170
South Street School	1,105
Bede Primary	593
Oakfield Junior School	515
Larkspur School	710
Oakfield Infant School	433
Ravensworth Terrace Primary	575
Portobello Primary	601
Birtley East Primary	989
Dunston Hill School	1,359
Emmaville Primary	765
High Spen Primary	625
Swalwell Primary	864
Winlaton West Lane Primary	1,530
Greenside Primary	701
Blaydon West Primary	561
Front Street School	1,334
Highfield Com Primary School	492
Ryton Community Infant School	617
Ryton Community Junior School	455
Washingwell Primary	729
Bill Quay Primary	851
Falla Park School	999
Brandling Primary	671
Lingey House Primary	1,145
The Drive School	731
White Mere School	297
Clover Hill School	532
Crookhill School	548
Brighton Avenue Primary	1,393
Lobley Hill Primary	1,272
Wardley Primary	782
Glynwood School	1,036
Barley Mow Primary	742
Windy Nook Primary	741
Colegate School	817
Roman Road Primary	607
Fellside School	505
Fell Dyke School	1,120
Caedmon Primary	827
Kells Lane Primary	866
Chopwell Primary	750

Parkhead School	1,119
St Aidans Primary	880
Harlow Green Primary School	814
Rowlands Gill Primary School	927
Whickham Parochial	473
Corpus Christi RCP	372
St Josephs RCP Gateshead	856
St Oswalds RCP	794
St Peters RCP	530
St Annes RCP	408
St Josephs Catholic Jnr Birtley	436
St Josephs Catholic Inf Birtley	358
St Agnes RCP	374
St Josephs RCP Highfield	276
St Mary and StThomas RCP	649
St Philip Neri RCP	504
St Josephs RCP Blaydon	611
St Marys RCP	618
St Albans RCP	604
St Augustines RCP	1,069
St. Wilfrids RCP	444
Heworth Grange School	2,215
Kingsmeadow School	1,784
Furrowfield School	2,513
Gibside School	3,664
Hill Top School	1,603
Dryden School	1,160
Eslington School	1,248
<b>TOTAL</b>	<b>63,511</b>