

Item 4**TITLE OF REPORT: Proposed Increase in the LGPS Superannuation Rates**

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 2018/19.

Background

The Council is a Scheduled Body member of the LGPS which is administered in Tyne and Wear by South Tyneside Council.

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

Outcome of the Review

The latest triennial review set the deficiency payment at £9.51m for Gateshead in 2017/18. This amount will increase by 3.5% in 2018/19 to £9.842m and will increase a further 3.5% to £10.186m in 2019/20.

As a result there will be an increase in employer's contributions from 29.5% to 30.15% effective from 1 April 2018. This requires an increased contribution from maintained schools of approximately £0.109m in 2018/19. A more detailed report is included at appendix 1.

A breakdown of the 2018/19 charges to individual schools is attached at appendix 2 for information.

Proposal

The Schools Forum note the decision to increase Superannuation Rates from 1 April 2018, and the estimated impact on schools budgets for 2018/19 is £0.109m.

Recommendations

Schools Forum:-

- Note the increase in superannuation rates from 1 April 2018

For the following reason(s):

- To enable schools to set budgets for 2018/19 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 2018/19 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. 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).
4. The fund has been reviewed for the year commencing 1st April 2018 with the outcome impacting on budgets for 2018/19.
5. Employee rates are a cost to the individual (by payroll deduction) and do not represent a cost to the employer.
6. 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.
7. There are three elements to the employers' contributions to the fund:
 - employers' standards contribution rate (Future Service Rate)
 - unfunded pensions
 - pension deficiency.

Employers' Contributions

8. 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. This increased from 15.7% to 18.2% and will remain at this level during 2018/19 and 2019/20.
9. 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 £2.0m, a slight decrease since the last review.
10. 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 2016/17 and in the Funding Strategy Statement at www.twpf.info.
11. The latest triennial review set the deficiency payment at £9.51m for Gateshead in 2017/18. This was a reduction from the 2016/17 deficiency payment of £11.77m. This was in part due to good performance of the fund but also the Council's decision to make an upfront annual payment in April 2017 rather than monthly instalments. The £9.51m will increase by 3.5% in 2018/19 to £9.842m and will increase a further 3.5% to £10.186m in 2019/20.
12. The total contribution rate in 2017/18 was held at 29.5% because it was expected that the reduction in the deficiency payment would be offset by the increased future service rate.

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 29.5% in 2016/17 and 2017/18, 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 2016/17 was 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	29.50%	Budget guidance 2016/17

18. The 2019/18 budget has been calculated using the revised rate of 30.15%. 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 2018/19 is as follows:

Description	£'000	Notes
Assumed salary base	96,366	Estimated Salary base for employees in the LGPS adjusted for assumed workforce changes
Future Service Rate 18.2%	17,539	Notified by actuary
Unfunded Pensions	2,043	Estimate based on current years payments
Deficiency Payment	9,462	Notified by actuary
Total Amount to be recovered	29,044	
Required recovery rate	30.15%	Budget guidance 2018/19

Appendix 2

School	Increase
Barley Mow Primary	1,181
Bede Primary	1,863
Bensham Grove Nursery School	830
Bill Quay Primary	1,117
Birtley East Primary	1,746
Blaydon West Primary	989
Brandling Primary	1,180
Brighton Avenue Primary	2,554
Caedmon Primary	1,551
Carr Hill Primary	2,524
Chopwell Primary	1,694
Clover Hill School	778
Colegate School	1,050
Corpus Christi RCP	937
Crookhill School	1,062
Dryden School	2,694
Dunston Hill School	2,230
Emmaville Primary	2,089
Eslington School	2,762
Falla Park School	1,832
Fell Dyke School	2,044
Fellside School	912
Front Street School	2,088
Furrowfield School	3,848
Gateshead 3-7 SCITT	410
Gibside School	7,078
Glynwood School	2,659
Greenside Primary	1,321
Harlow Green Primary School	1,759
High Spen Primary	1,247
Highfield Com Primary School	771
Hill Top School	2,783
Kells Lane Primary	1,443
Kelvin Grove School	2,162
Kingsmeadow School	3,057
Larkspur School	1,360
Lingey House Primary	2,233
Lobley Hill Primary	1,974
Oakfield Infant School	798
Oakfield Junior School	874
Parkhead School	2,017
Portobello Primary	1,082
Ravensworth Terrace Primary	1,150
Roman Road Primary	1,105

Rowlands Gill Primary School	1,455
Ryton Community Infant School	626
Ryton Community Junior School	777
South Street School	1,991
St Agnes RCP	678
St Aidans Primary	1,504
St Albans RCP	1,096
St Annes RCP	268
St Augustines RCP	1,382
St Josephs Catholic Inf Birtley	707
St Josephs Catholic Jnr Birtley	746
St Josephs RCP Blaydon	1,092
St Josephs RCP Gateshead	1,359
St Josephs RCP Highfield	540
St Mary and St Thomas RCP	990
St Marys RCP	983
St Oswalds RCP	1,355
St Peters RCP	909
St Philip Neri RCP	1,127
St. Wilfrids RCP	834
Swalwell Primary	1,433
The Drive School	1,186
Wardley Primary	1,244
Washingwell Primary	742
Whickham Parochial	783
White Mere School	662
Windy Nook Primary	1,508
Winlaton West Lane Primary	2,039
Total	108,854