

Meeting:	Audit and governance committee
Meeting date:	4 July 2017
Title of report:	Accounting policy update
Report by:	Chief finance officer

Classification

Open

Key decision

This is not an executive decision.

Wards affected

Countywide

Purpose

To agree a change to the council's accounting policy in the 2016/17 financial statements in relation to the pension deficit included therein.

Recommendation

THAT:

- (a) the accounting policy in relation to pension deficit valuation be amended to reflect a single valuation for Herefordshire Council and Hoople Ltd, and take effect in the 2016/17 financial statements.**

Alternative options

- 1 To do nothing. This is not recommended as it would not resolve the issue of the council and Hoople Ltd financial statements not accurately reporting their respective pension deficit liabilities.

Reasons for recommendations

- 2 The constitution provides that the audit and governance committee will review and approve the financial statements, the external auditor’s opinion and reports to members and oversee management action in response to the issues raised by external audit. The recommendation of this report supports the committee in fulfilling this role.
- 3 The accounting policy change will remove the need for separate actuarial calculations for Hoople Ltd and the council, reducing the pension scheme administration costs incurred.

Key considerations

- 4 On commencement of Hoople Ltd existing council staff transferred to their new employer with their associated defined benefit pension obligations under the local government pension scheme (LGPS) on a fully funded basis via an admission agreement. This scheme is a defined benefit scheme administered by Worcestershire County Council and valued by Mercer. Hoople Ltd closed the LGPS to new entrants with all new employees having access to an alternate Standard Life pension scheme.
- 5 The 2016/17 financial statements accounting policy update includes a revised pension deficit with the admission of Hoople Ltd based on the actuarial valuation assumptions as at 31 March 2016. The purpose of this change is to accurately state the council’s total pension deficit liability as guarantor and majority shareholder of Hoople Ltd. The impact of this change is as follows:

	2013 valuation (excludes Hoople Ltd)	2016 valuation (inclusive of Hoople Ltd)	Change
Pension deficit	£137.7m	£118.2m	(£19.5m) reduction
% of deficit funded	65%	70%	5% improvement
Recovery period	21 years	18 years	3 years reduction

- 6 In previous financial years Hoople Ltd’s pension deficit has been split by the actuarial valuers and the council’s financial statements excluded Hoople Ltd’s liability. The proposed change in accounting policy would remove the need for this additional calculation, with all pension deficit/surplus being allocated to Herefordshire council at each triannual valuation.
- 7 The Hoople Ltd 2013 pension deficit totalled £760k and an actual pension deficit contribution of £28,700 was made in 2016/17. Hoople Ltd’s future in-service pension contribution rate has been set at 15.2% for 2017/18; this will be adjusted to incorporate a fixed deficit contribution to ensure compliance with the admission

agreement which states that Hoople Ltd shall pay all sums due in respect of any pension liabilities arising to fully fund the cost of eligible employees transferred. The fixed uplifted contribution rate will ensure clarity of cost to Hoople and provide a capped limit to their annual pension cost.

Community impact

- 8 To ensure clear and transparent processes are in place to govern how resources of the council are effectively managed and supports the council's corporate plan objective to manage finances effectively and to demonstrate one of the council's values, namely to be open, transparent and accountable.

Equality duty

- 9 Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

- 10 The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this is a decision on back office functions, we do not believe that it will have an impact on our equality duty.

Financial implications

- 11 This accounting policy update does not impact on either the council or Hoople Ltd pre-existing financial liabilities in relation to each party's pension costs.
- 12 Actual pension deficit costs will continue to be incurred by both Hoople Ltd and Herefordshire Council as stated in the admission agreement. These costs are reflected in each organisations' budget assumptions. The fixed contribution rate payable by Hoople will ensure the risk of additional pension costs falling to the council will be minimised.
- 13 The pension deficit valuation note reflected in the council's 2016/17 financial statements will include re-measurements on pension assets of £58.3m, this includes two elements:
- a) £62.9m gain due to the pension fund investment returns being higher than the IAS19 interest on plan assets over the year and;
 - b) £4.6m loss due to experience items from the incorporation of the 2016 triennial valuation results. This includes fully funding Hoople Ltd at the 31 March 2016 actuarial valuation and other items of experience that emerge

following an actuarial valuation not allowed for in the accounting calculations over the inter-valuation period.

- 14 Each actuarial valuation costs approximately £2,500, therefore by reducing the need for a separate valuation for Hoople Ltd there will be a triannual administration saving of approximately £2,500.

Legal implications

- 15 Section 62 of the local government pension scheme regulations 2013 requires the council to obtain an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards. One valuation where there is an admitted body and a separate fund is possible because of the liability that the council holds as guarantor of the scheme.

Risk management

- 16 This accounting policy change does not result in new additional risks, the pension deficit valuation will continue to fluctuate based on the underlying assumptions used at each triannual valuation point.

Consultees

- 17 Hoople Ltd board have been consulted and are supportive of this update.

Appendices

None

Background papers

None