Actuarial Valuation as at 31 March 2021 for Accounting Purposes

Covering report to accompany the Results Schedule

April 2021

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1 Introduction and how to contact us

Scope and Purpose

1 Hymans Robertson have been instructed by the Employer named in the accompanying Results Schedule to undertake pension expense calculations for the purpose of complying with the Accounting Standard stated in the accompanying Results Schedule for the period ending 31 March 2021 (“the Accounting Date”). Where the Employer has not instructed us directly, the Administering Authority to the Fund has instructed us to undertake these calculations on the Employer’s behalf. The instruction is set out in the Terms of Engagement letter (see Results Schedule for date of signature).

2 The accounting calculations and disclosures relate principally to the Employer's participation in the Fund named on the cover of the Results Schedule ("the Fund") which is part of the Local Government Pension Scheme ("the LGPS").

3 The information set out in the Results Schedule and this report should be included in a disclosure note in the Employer’s report and accounts.

4 The purpose of this accompanying covering report is to help Auditors and Employers understand the methodology, data and assumptions used in preparing the accompanying Results Schedule.

Employer and auditor questions

5 If there are any queries on the approach taken to derive the accounting disclosure information, please first consider the information set out in this report as it will often answer these. In particular, see the sections below on approach, data, assumptions and recent court cases (such as the Lloyds’ judgement on GMP, McCloud, Goodwin etc). Section 8 gives a results commentary including consideration of COVID-19.

Further assistance and how to contact us

6 Employers can request an additional summary paper explaining the key movements of their own organisation’s specific accounting position to further aid understanding of the figures, help with audit questions and assist with presentations to committee members / directors on their results.

7 With increased audit requirements, we also continue to anticipate an increase in audit queries this year. In general, it should be quicker and more cost effective to arrange a three-way call with your auditor and ourselves to answer any questions they may have beyond those already answered in this report or the Results Schedule.

To request a summary paper, and/or arrange a call between an LGPS accounting specialist and your organisation/auditor, please contact us on LGPSCentralAccountingTeam@hymans.co.uk.

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2 Auditor information – What approach has been taken?

Unless otherwise instructed by the Employer and stated in the Results Schedule, below is a description of the approach taken for the accounting disclosure calculations.

Accounting Valuation Methodology

1 As required under the Accounting Standard we have used the projected unit credit method of valuation.

2 We have projected the valuation results of the latest formal funding valuation date (or date Employer joined the Fund if later) forward to the Accounting Date using approximate methods. The roll-forward allows for any changes in financial and demographic assumptions, additional benefit accrual, actual pension increase orders and estimated cash flows over the period. It also allows for any transfers, business combinations, settlements etc as shown in the Results Schedule.

3 In calculating the asset share as at the Accounting Date, we have rolled forward the Employer's share of the assets calculated at the latest formal valuation date (or date the Employer joined the Fund if later), allowing for investment returns (estimated where necessary), the effect of contributions paid into (estimated where necessary), and estimated benefits paid from, the Fund by the Employer and its employees.

4 In calculating the value of the Employer's past service liabilities (obligations) in the Fund as at the Accounting Date, we have rolled forward the value of the Employer's obligations calculated at the latest formal valuation date (or date the Employer joined the Fund if later), allowing for the different financial assumptions required under the Accounting Standard at the Accounting Date. This value includes the effect of benefit accrual in, and benefits paid from, the Fund estimated in respect of the Employer's Fund members. In calculating the Current Service Cost we have allowed for changes in the Employer's pensionable payroll (derived from the contribution information provided to us).

5 In preparing the balance sheet at the Accounting Date and the revenue account to the Accounting Date, no allowance is made for the effect of changes in the membership profile since the latest formal valuation date (or date the Employer joined the Fund if later). The principal reason for this is that insufficient information is available to allow us to make any such adjustment. However, for most employers, the effect is likely to be immaterial in actuarial terms. If there have been significant changes, the Employer should discuss with its auditor whether an investigation into the effect on the balance sheet and revenue account are required.

6 It is not possible to assess the accuracy of the estimated rolled-forward obligations shown in the Results Schedule without conducting a full valuation using updated individual membership data. Such a valuation is generally not practical in the time available to meet the Employer's reporting requirements. The estimated rolled-forward obligations as at the Accounting Date will therefore not reflect differences in demographic experience from that assumed (e.g. member longevity), the impact of differences between aggregate changes in salaries or changes for specific individuals (e.g. individual member transfers in/out of an Employer)

7 Whilst we have no reason to believe that the approximations used in rolling forward the valuation to the Accounting Date will introduce any undue distortion in the results, the Employer and its auditors may wish to consider the size of the assets and obligations in relation to the Employer's materiality limits.

8 For employers whose separate membership of the Fund started in the last 12 months and where a first time accounting report has been provided:

- The Results Schedule relates to the period from date of joining to the Accounting Date.

- The initial asset allocation used for accounting purposes will be based on final opening position membership data and may differ from any initial asset allocation previously quoted (if it used estimated transferring membership data or estimated financial market conditions).
- The obligation value reported in the Results Schedule will differ from the past service liability in any previous actuarial reports related to the Employer's opening funding position. This is due to the different assumptions adopted under the Accounting Standard compared to the funding assumptions.

9 Whilst the obligations calculated under the Accounting Standard include an allowance for some premature retirements on grounds of ill-health, there is no allowance for early retirements on grounds of redundancy or efficiency other than those actual cases of which we have been notified (and summarised in the Results Schedule).

10 Expenses (expressed as a percentage of pensionable payroll) are allowed for within the Current Service Cost and stated under the main Balance Sheet table in the Results Schedule.

11 For information on how we have allowed for issues such as GMP indexation, McCloud, Goodwin etc in the accounting results, please see the separate section below on Recent Court Cases.

Key differences between funding and accounting valuations

12 The purpose of the formal funding valuation, which is carried out every three years, is to assess the ongoing financial position of the Fund and to determine the cash contribution rates at which the employing bodies participating in the Fund should contribute in the future. The aim of the funding valuation is to ensure that the existing assets alongside future expected investment returns and contributions will be sufficient to meet future benefit payments from the Fund.

13 In terms of the above cash contributions that need to be paid into the Fund, an Employer's accounting valuation position has no effect. Under the Accounting Standards (IAS19 and FRS102), the purpose is to facilitate consistent comparison of pension positions between employers. The accounting calculations are carried out using a prescribed method and a number of the assumptions are also largely prescribed (see Section 4 on Assumptions for more details).

14 Importantly, as the method and assumptions underlying the funding and accounting calculations are different, the accounting calculations can produce significantly different results from the formal funding valuation calculations. In particular, the accounting valuation Net Liability/Asset position could be significantly different from any funding valuation deficit/surplus position.

3 Auditor information – What data has been used?

Unless otherwise instructed by the Employer and stated in the Results Schedule, below is a description of the data used for the calculations and disclosed in the Results Schedule.

Data sources

1 Our calculations are based on the following data provided by the Administering Authority (and summarised in the Results Schedule):

- member data as at the latest formal funding valuation date (or date Employer joined the Fund if later) – see 6 below;
- employer and employee contributions for the accounting period (estimated for the most recent month(s) where applicable);
- estimated benefit payment data produced at the latest formal funding valuation date (or date Employer joined the Fund if later) – see 8 below;
- the actual Fund returns provided up to the latest available date;
- the split of Fund assets by major categories as at the latest available date, to derive estimated Fund returns where necessary;
- any new early retirements to the latest available date on unreduced pensions which are not anticipated in the normal employer service cost (e.g. non ill-health retirements before the earliest retirement age at which all the member's benefits can be taken unreduced); and
- the individual pensioner member data in respect of LGPS and Teachers' unfunded pensions.

Data checks

2 We carry out reasonable checks to establish whether the source data provided is complete, consistent with the previous year and fit for purpose of the accounting valuation. However, these checks are necessarily limited by the scope of the information provided and by time constraints. Ultimate responsibility for the accuracy of the data shown in the Employer's accounts rests with the Employer. Where the actual data is materially different to that shown in Results Schedule, the Employer should provide notification to us as the calculations may need reviewed and a revised Results Schedule produced.

Assets and investment returns

3 Details of the investment return on the Fund over the accounting period used in our calculations is set out in Section 1 of the Results Schedule.

4 For Funds with multiple investment strategies, the investment return stated in the Results Schedule will be the return for the individual investment strategy in which the Employer's assets are invested by the Fund.

5 In accordance with the Accounting Standard, the Results Schedule shows the Employer's fair value of plan assets as a proportion of the Whole Fund's assets. It is important to note that this rounded proportion figure has no impact on the rest of the calculations in the Results Schedule as the Employer's assets are rolled forward from the Employer's own latest funding valuation position (as set out in 2.3 above). Further, dividing the Employer's closing fair value of plan assets by the rounded proportion figure will only give a limited check against the Whole Fund asset total due to the rounding involved.

Membership numbers

6 The starting position for the accounting figures is the latest funding valuation position for the Employer (either the latest triennial formal valuation or the opening position at the date Employer joined the Fund if later). The total number of members as at this most recent funding valuation are shown in Section 1 of the Results Schedule.

7 Where the membership of an Employer has significantly changed since the most recent funding valuation, the figures calculated under the Accounting Standard may not be an accurate representation of the actual assets and obligations of the Employer. Where significant membership movements have occurred, the Employer and its auditor should consider instructing a full valuation as at the Accounting Date (using updated detailed individual membership data) in order to correctly allow for the significant change in the Employer's membership profile.

Benefits paid

8 At the funding valuation we made future assumptions about people retiring, leaving, commuting pension etc which are built into the assessed liabilities (obligations) and forms the starting point for the accounting rollforward calculations. For consistency with the starting point of the rollforward calculations, the benefits paid figures used in the accounting calculations are estimates based on annual projected cashflows calculated at the latest funding valuation. The benefits paid figures are a combination of the pension amounts which are expected to be paid to members who were pensioners at the funding valuation and pension amounts/lump sums to be paid to members who were active/deferred at the funding valuation based on when they are expected to retire.

Additional comments on data

9 Any specific comments on the data provided in respect of the Employer are set out in the Results Schedule. For example, this will include if there is any material uncertainty in the data used and any limitations on the accounting information shown in the Results Schedule where assumptions have had to been made in respect of incomplete or unreliable data.

4 Auditor information – Which assumptions have been used and how have they been derived?

The financial and demographic accounting assumptions adopted in an Employer's accounts are ultimately the responsibility of the directors (or equivalent) based on actuarial advice.

Unless otherwise instructed by the Employer and stated in the Results Schedule in Section 2, below is a description of the assumptions used for the accounting disclosure calculations at the Accounting Date and how they have been derived.

The Accounting Standard requires the assumptions to be determined on a 'best estimate' basis. For the purpose of setting the standard assumptions, we have interpreted best estimate to mean that the proposed assumptions are 'neutral': there is in our opinion an equal chance of actual experience being better or worse than the assumptions proposed.

Derivation of financial assumptions

Discount rate

1 The Accounting Standards state that the discount rate used to place a value on the obligations should be determined by reference to market yields on high quality corporate bonds at the reporting date. In addition, the currency and term of the high quality corporate bonds used to set the discount rate should be consistent with the currency and term of the obligations.

Corporate bond yield curve

2 Government bond yield curves are updated and available on a daily basis from the Bank of England. It is therefore relatively easy to identify a spot yield on Government bonds at any duration and at any date. Unfortunately, a similarly accessible corporate bond yield curve is not so readily available. We have adopted an approach to setting the discount rate whereby a "Hymans Robertson" corporate bond yield curve is constructed based on the constituents of the iBoxx AA corporate bond index. The complex construction details of the yield curve are beyond the scope of this report but further details are available on request if necessary.

Weighted average duration

3 The discount rate should reflect the 'term' of the benefit obligation. We have interpreted 'term' to be the weighted average duration of the benefit obligation.

Our standard assumption setting approach relies upon the calculation of the weighted average duration for each employer. There are a number of different ways to calculate an employer's duration and our default approach is to use the calculated duration figure on an accounting basis from the most recent actuarial valuation. This duration figure is then categorised as either short, medium or long and the employer is assigned the short, medium or long standard assumptions as below:

Weighted average duration at most recent actuarial valuation	Duration category
Less than 17 years	Short
Between 17 and 23 years	Medium
More than 23 years	Long

Retail Price Inflation (RPI)

4 This assumption is typically derived from yields available on fixed interest and index linked government bonds and should be consistent with the derivation of the discount rate. We use a market implied inflation curve over a range of maturities. Cashflow weighted single RPI rates are derived from the market implied

inflation curve that recognise the weighted average duration of each corresponding duration category defined above.

The inflation assumption derivations have changed since the previous year's Accounting Date as a result of RPI reform announcements.

Our RPI assumption allows for an Inflation Risk Premium (IRP) of 0bps pre-2030 and a post-2030 IRP of 30bps, giving an average IRP of 15bps over short durations; and 20bps over medium and long durations.

Consumer Price Inflation (CPI) – Pension Increases

5 The pension increases assumption is set in line with our default Consumer Prices Index (CPI) assumption. As a market in CPI linked bonds does not exist, we need to estimate the long-term wedge between RPI and CPI to derive a CPI assumption for accounting purposes. Our estimate is based on analysis of past and emerging future trends in the gap between these indices.

Our CPI assumption allows for a wedge of 100bps pre-2030 and a wedge of 10bps post-2030 relative to RPI. The former reflects differences between RPI and CPI and the latter reflects differences between CPI and CPIH. The resulting average RPI/CPI gap is 0.50% over short durations, 0.45% over medium durations and 0.40% over long durations.

Salary Increases

6 Our standard proposed assumption for salary growth is set relative to the derived CPI assumption at the Accounting Date using the same methodology as the Fund's most recent funding valuation. Further details on the salary growth assumption can be found in the Fund's formal valuation report.

Proposed financial assumptions for the Accounting Date

7 The financial assumptions used to calculate the components of the pension expense (service cost and net interest) for the period to the Accounting Date were those from the beginning of the period (as set out in Section 2 of the Results Schedule) and have not been changed during the period. The standard proposed assumptions for disclosure of the funded status under the Accounting Standard as at the Accounting Date are summarised below.

	Weighted Average Duration At Most Recent Actuarial Valuation		
	Short	Medium	Long
Accounting Date - 31 March 2021	% p.a.	% p.a.	% p.a.
Discount Rate	1.95%	2.00%	2.05%
Retail Price Inflation (RPI)	3.35%	3.30%	3.20%
Consumer Price Inflation (CPI) - Pension Increase Rate	2.85%	2.85%	2.80%

Demographic assumptions

Longevity - baseline

8 The baseline longevity assumption is based on analysis carried out by longevity experts Club Vita and will be consistent with the assumptions used at the Fund's recent formal Funding valuation.

Longevity – future improvements

9 Our standard proposed assumption is for future longevity improvements to be line with the latest Continuous Mortality Investigation (CMI) results, namely the CMI 2020 model with a 0% weighting of 2020 data, smoothing parameter Sk = 7, initial adjustment A0 = 0.5 and a long-term rate of 1.5% p.a. for both females and males.

Other demographic assumptions

10 The other default demographic assumptions which we recommend are adopted (e.g. commutation, withdrawal, ill-health early retirements etc) are the same as those used for the latest formal funding

valuation. These other demographic assumptions were considered to be best estimate when assessed at the funding valuation. Full details of these assumptions are set out in the Fund's formal valuation report.

Reasonableness of assumptions

11 There is a range of actuarial assumptions which are acceptable under the requirements of the Accounting Standard. We consider that the assumptions above are within the acceptable range and are thus consistent with the requirements of the Accounting Standard. Where we have been instructed by the Employer to use different assumptions, these are shown in the Results Schedule: it is possible that these fall outside the range which we consider to be acceptable, in which case we will have noted this on the Results Schedule.

Sensitivity to assumptions

12 Under accounting guidance, employers are expected to disclose the sensitivity of the accounting valuation to key assumptions. Details of the effect on the obligations of changes to the key assumptions are displayed in the Sensitivity Analysis section of the Results Schedule.

13 The assumptions under the Accounting Standard are largely prescribed at any point and reflect market conditions at the reporting date. Changes in market conditions that result in changes in the net discount rate (essentially the difference between the discount rate and the assumed rates of increase of salaries/deferred pension revaluation/pension increases in payment), can have a significant effect on the value of the obligations reported.

- A reduction in the net discount rate will increase the assessed value of obligations, as a higher value is placed on benefits paid in the future.
- A rise in the net discount rate will have an opposite effect of similar magnitude.

14 There is also uncertainty around life expectancy, and the value of current and future pension benefits will depend on how long pensions are assumed to be in payment. The disclosures have been prepared using the longevity assumptions stated in the Results Schedule. Using these longevity assumptions, average life expectancies at Whole Fund level (in years from age 65) are also stated in the Results Schedule.

15 Details of the effect on the obligations of changes to the above assumptions are displayed in the Results Schedule in the Sensitivity Analysis section.

Risks and uncertainties in relation to the assumptions

16 There are risks and uncertainties associated with whatever assumptions are adopted. The assumptions are in effect projections of future investment returns and demographic experience many years into the future; there is inevitably a great deal of uncertainty inherent in what constitutes 'best estimate' with such projections.

17 It is important to note that the Accounting Standard requires the discount rate to be set with reference to the yields on high quality corporate bonds irrespective of the actual investment strategy of the Fund. As such, the figures illustrated in the Results Schedule are unlikely to reflect either the actual eventual cost of providing the benefits or the likely level of cash contributions required to fund the Employer's obligations to the Fund.

18 A major risk to the Employer is that it determines assumptions that are more prudent (for example a lower net discount rate or higher longevity) than its peers, leading to a relatively poorer reported financial position. The Employer therefore needs to take into account both the requirement for a 'best estimate' set of assumptions and the commercial need not to overstate the pension obligations.

19 Conversely, there is also the risk that the Employer determines assumptions which are less prudent than its peers. Analysts and other users of the accounts may take a view that the Employer is understating its pension obligations if it uses weaker assumptions and this may have adverse consequences.

5 Auditor information – recent court cases

Unless otherwise instructed by the Employer and stated in the Results Schedule (or last year's Results Schedule), the below approach has been taken to allow for recent legal judgements or otherwise.

GMP equalisation / indexation treatment (Lloyds' ruling)

1 We allowed for the impact of full GMP indexation in the calculation of 31 March 2019 funding valuation results. The Employer's valuation results position is used as the starting point for the accounting rollforward calculations and therefore an allowance for full GMP indexation was included within the closing balance sheet position of last year's Accounting Date.

Further details on GMP equalisation / indexation can be found in our separate Sixty Seconds Summary here.

GMP equalisation – historical transfers (Further Lloyd's ruling)

2 It is our understanding that this further ruling is unlikely to be significant in terms of impact on the pension obligations of a typical Employer. Further, the historic individual member data in order to assess such an impact at Employer is not readily available. As a result, we have not made any allowance for this within our calculations at the Accounting Date.

McCloud treatment

3 Where an Employer made an allowance for McCloud in last year's Results Schedule, no further adjustment has been made within this year's Result Schedule. The previous allowance within the balance sheet will simply be rolled forward and therefore included within the closing position at the Accounting Date.

No explicit additional adjustment for McCloud has been added to the current service cost for 2020/21 (or the projected service cost for 2021/22).

Goodwin treatment

4 Whilst there is still uncertainty surrounding the potential remedy to the Goodwin judgement, we have carried out some approximate analysis across our LGPS clients to understand the potential impact of implementing a solution to correct the past underpayment of spouses' benefits. The approximate impact of this is very small for a typical Fund (c0.1-0.2% of obligations). We therefore do not believe there are sufficient grounds to apply an additional adjustment to account for this in a standard Results Schedule, given the level of additional work and fees that would be involved for the Employer (and indeed the highly approximate nature of applying an unknown remedy).

Other court cases

5 We are also aware of the following court cases, which may also impact LGPS benefits in the future:

- Walker;
- O'Brien;

It is our understanding these are unlikely to be significant judgements in terms of impact on the pension obligations of a typical Employer. As a result, and until further guidance is released from the relevant governing bodies in the LGPS, we have not make any allowance for the potential remedies to these judgements or applied any changes to the existing LGPS benefits structure in our calculations at the Accounting Date.

6 Auditor information – IAS19 Amendments and other considerations

IAS19 Amendments

1 On 7 February 2018, the IASB issued changes to the IAS19 standard for plan amendments, curtailments and settlements ("special events"). This potentially affects any IAS19 employers with events such as bulk transfers (e.g. academy conversions or outsourcings) or redundancies over the year. CIPFA have now incorporated this amendment into their guidance such that the amendments are applicable for disclosures at the Accounting Date.

2 Where an Employer reports under IAS19 and has had any early retirements or bulk transfers of staff over the accounting period, we will give details of these events, and state whether we deem these events to be significant or not, in an Appendix to the Results Schedule.

3 Where the event is not deemed to be significant, we have not remeasured the Profit and Loss account in the Results Schedule. In the absence of any instruction, we have measured significance based on 5% of active membership being affected by any one event. If an alternative measure of significance were to apply, and/or if we were instructed to treat one or more event as material for these purposes, changes may be required to our calculations and disclosures, however the closing balance sheet position would remain unchanged.

4 Where any event(s) are deemed to be significant, we will have issued details of the events to the Employer and followed instructions on how to produce the Results Schedule with regards to any remeasurements. The approach taken to any such remeasurements will be noted in the Results Schedule.

Other considerations

Cost cap valuation

5 There is an ongoing national cost management ("Cost Cap") valuation currently being undertaken by the Government to assess the costs of public sector pension provision in England, Scotland and Wales. Once the results of the Cost Cap valuations are known, there is the potential for changes to the LGPS benefit structure. At the time of preparing the Results Schedule, the results of the Cost Cap valuations are still unknown and as a result no allowance for any potential changes to the LGPS benefits have been made in our accounting calculations at the Accounting Date.

Past service costs (including curtailments)

6 Past service costs can arise from the Employer awarding discretionary benefits e.g. added years augmentation or allowing LGPS employees to retire on unreduced benefits before attaining their "Rule of 85" age (subject to a minimum of age 60 and a maximum age of 65) on grounds of efficiency.

7 Details of any such retirements are summarised the Results Schedule and any Past Service Costs are set out in the Revenue Account figures of the Results Schedule. These represent the difference between an active member reserve and the actual early retirement reserve both calculated at the time of early retirement based on the Accounting Date assumptions. Note that these costs relate only to LGPS benefits and not other elements such as redundancy lump sums.

Settlements

8 Our calculations do not take account of any obligations being settled at a cost materially different to the Accounting Standard reserve during the period, other than as set out in the Results Schedule.

Bulk transfers

9 Our calculations do not take account of any bulk transfers (in or out) since the Employer's previous Accounting Standard valuation (or following the date of joining for employers receiving a first time Accounting Standard valuation) other than as set out in the Results Schedule. Where a bulk transfer has been allowed for, this will be stated in the Appendix to the Results Schedule, detailing the date(s) of transfer and the employer(s) involved.

Recognition of surplus (Net asset) or deficit (Net liability)

10 The Accounting Standard imposes a limit on the maximum amount of surplus which can be recognised on the Employer's balance sheet. Where this situation may apply, this is indicated on the front page of the Results Schedule and further calculations may be required before publishing the results in the Employer's formal accounts.

11 Our understanding is that the Employer has a "constructive obligation" to fund any deficit allocated to its share of the Fund and it should therefore fully recognise the whole of any accounting deficit (Net liability).

7 Auditor information – Professional qualifications of signing actuaries

Professional qualifications

1 All signing actuaries preparing FRS102 or IAS19 accounting disclosures for Hymans Robertson are qualified members of the Institute and Faculty of Actuaries (IFoA).

2 An Actuary preparing a Results Schedule under the Accounting Standard will either be a Fellow of the IFoA (FFA or FIA) or an Associate of the IFoA (AFA or AIA).

3 The Actuary preparing the Results Schedule will have a minimum of three years' experience in their relevant field of work. This will qualify the Actuary to sign out the Results Schedule in compliance with their professional obligations to the IFoA.

4 Details of the named signing Actuary and their relevant qualification can be found on page 1 of the Results Schedule.

Independence from Employer

5 All signing Actuaries who produce a Results Schedule for an Employer have no financial dependence on the Employer, other than in a professional capacity via Hymans Robertson's appointment by the Employer.

Peer review process

6 Our approach to preparing FRS102 and IAS19 disclosures for employers in LGPS funds has been developed over many years by a number of experienced actuaries and has been subject to rigorous peer review at each stage. The Results Schedule for the Employer was prepared using this approach and has been checked before being reviewed and signed off by the signing actuary noted in the Results Schedule.

Pensions administration internal controls

7 Hymans Robertson, as actuaries to the LGPS Funds we advise, have no involvement in the day-to-day administration functions of said Funds. As a result, we make no reference to the internal controls for pension administration services (AAF 01/06 and ISAE 3402) when producing our LGPS accounting reports.

8 Results Commentary

Results commentary – assets

1 In the period to the Accounting Date, investment returns have been significantly greater than expected (compared to last year's accounting discount rate assumption). All else being equal, this will lead to a large positive item in 'Return on assets excluding amounts included in net interest' line within the Balance Sheet of the Results Schedule.

Results commentary – obligations

2 The remeasurements in the obligations rollforward are split into three separate parts to differentiate between 'Changes in financial assumptions', 'Changes in demographic assumptions' and 'Other experience'.

- As at the Accounting Date, the real discount rate (discount rate net of inflation) has fallen compared to the previous year's Accounting Date. This is due to the combination of a lower discount rate assumption and a significantly higher CPI assumption. In isolation, this will result in a significant loss on the Employer's balance sheet as at the Accounting Date, shown in the 'Changes in financial assumptions' within the Balance Sheet of the Results Schedule. For a typical employer, this could be of the order of 25% of obligations.
- Using a more up-to-date longevity assumption at the Accounting Date (section 4.9 above), leads to a small loss on the obligations. Whilst the actual impact of this change will be Employer-specific (due to the individual membership profile of each Employer), on average this could lead to an increase in obligations of the order of 1-1.5% under 'Changes in demographic assumptions'.
- The 'Other experience' item captures the positive impact of applying the actual Pensions Increases Order for April 2021 of 0.5%, as it is lower than the pension increase rate assumption built into the obligations at the start of the accounting period.

Results commentary – Profit & Loss account

3 The charge to Profit & Loss (P&L) shown in the Results Schedule on is based on financial conditions at the start of the year (i.e. assumptions as at last year's Accounting Date). The Current Service Cost and net interest cost for this year should be broadly in line with the projections made in our report at last year's Accounting Date.

4 The projected charge to P&L for next year is likely to significantly increase compared to the charge for this year, as a result of the significantly lower real discount rate at the Accounting Date.

Results commentary – COVID-19

5 The main impacts of the COVID-19 pandemic, and subsequent lockdowns, on these accounting figures can be summarised as follows:

- Asset returns and values have followed the market movements prompted by the pandemic and lockdowns, among other factors, which will therefore affect the asset share value;
- Bond yields and inflation expectations have also followed market movements, which will therefore affect the obligations value;
- Life expectancy assumptions have not been updated:

  (a) we have not updated our baseline longevity tables due to the lack of relevant mortality data and analysis from the period of the pandemic for the Fund or Employer;

(b) we have not amended our future longevity trends assumption for COVID-19 specifically (as per paragraph 4.9, we have applied a 0% weighting to 2020 data within the CMI model) as the data is not yet available to make an evidence-based assessment on the pandemic’s impact on longer term expectations.

9 Reliances and limitations

Reliances and limitations

1 This report (including the accompanying Results Schedule) is provided to the Employer solely for the purpose of complying with the Accounting Standard for the period ending the Accounting Date. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. Importantly however, a copy of this report should be passed to the Employer's auditor to be used solely for the purpose of their audit.

2 We accept no liability to any third party unless we have expressly accepted such liability in writing.

3 Note that the methodology of the Accounting Standard, in conjunction with the Fund's investment strategy, means that the accounting Net Liability can vary significantly over short periods of time. This means that the results set out in the accompanying Results Schedule should not be taken as being applicable at any date other than the Accounting Date.

4 The figures presented in this report are prepared only for the purposes of the Accounting Standard and have no validity in other circumstances. In particular, they are not relevant for calculations undertaken for funding purposes, for accounting under any other standard than named in the Results Schedule, for bulk transfers or for other statutory purposes under LGPS Regulations.

5 The data with which we have been provided with and relied upon for this exercise is summarised in Section 3 and set out in the Results Schedule.

6 The projected pension expense calculations shown in the Results Schedule may be used for the purpose of any interim financial reporting for the next accounting year. However, subsequent adjustments may be necessary to take account of certain events which are set out below the projected pension expense calculations in the Results Schedule.

7 This report and the Results Schedule deal principally with pension benefits provided via the LGPS. However, the Accounting Standard may require the disclosure of any additional obligations, for example, those in respect of compensatory added years pensions ("Unfunded Benefits"). We have only valued such additional obligations, which would not be covered in the formal LGPS funding valuation, to the extent that they have been notified to us and are summarised in the Results Schedule.

8 We have not been notified by the auditor to the Employer of the materiality limits which apply to the Employer and we have therefore prepared these figures using methods which are as accurate as is feasible using the data made available to us and the timescale within which the report is required.

9 These figures are prepared in accordance with our understanding of the latest version of the Accounting Standard. Our calculations and advice, in this report and the accompanying Results Schedule, have been carried out in accordance with Technical Actuarial Standard 100: Principles for Technical Actuarial Work, which came into force on 1 July 2017. This report does not constitute an audit opinion in relation to the Fund.

10 Our advice to the Employer on the assumptions (and resulting disclosures) which may be adopted for the purpose of the Accounting Standard is compliant with Technical Actuarial Standard 100. This report and the accompanying Results Schedule comprise the totality of our advice on the standard assumptions.

Appendices

Appendix 1 – Glossary of technical terms

Actuarial gains/losses (Remeasurements)	Over a reporting period, these consist of: - experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred (e.g. known investment returns, actual pension increase orders, reflection of any funding valuation which has taken place since the last report etc); and - the effects of changes in actuarial assumptions (split between financial and demographic)
Current service cost	The increase in the present value of the defined benefit obligation resulting from employee service in the current period. This is based on the employer's "service cost" rate which accounts for the cost to the employer of benefits accruing over the period calculated on the financial assumptions at the beginning of the accounting period. This could differ significantly from what the employer is currently paying in cash contributions based on the certified rates from the latest formal funding valuation.
Inflation Risk Premium	A margin to compensate (or a premium paid by) investors against future uncertainty relating to inflation.
Net Liability	The present value of the defined benefit obligation less the fair value of the plan assets.

Past service cost	The change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by the plan).
Present value of defined benefit obligation (present value of funded and unfunded obligations)	The present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.
Settlement	Occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan, for example, when a lump-sum cash payment is made to, or on behalf of, plan participants in exchange for their rights to receive specified post-employment benefits.
Total net interest	The change during the period in the net defined benefit liability that arises from the passage of time. This includes allowance for interest on the current service cost.
Weighted average duration	The weighted average time until payment of all expected future discounted cashflows, determined based on membership as at the most recent actuarial valuation. The shorter the duration, the more 'mature' the employer.