

	PAPER NO: AC.55(12)	
Board/Committee:	Audit Committee	
Date:	30 October 2012	
Paper title:	Assumptions used for the LSBU FRS17 report at 31/7/12	
Author:	Richard Flatman, Executive Director of Finance	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommend that the committee approves the assumptions made by the LPFA scheme actuaries, Barnet Waddington, for FRS17 disclosures.	
Aspect of the Corporate Plan to which this will help deliver?	Statutory financial reporting.	
Matter previously considered by:	Audit Committee	Annually. Draft assumptions for 11/12 reviewed on 27 September 2012.
Further approval required?	n/a	n/a
Communications – who should be made aware of the decision?	N/A	

Executive summary

This paper is being presented to Committee because the assumptions used by the actuaries in respect of the LGPS have a significant impact on the reported financial result including the reported scheme deficit. It is important therefore that the assumptions are reviewed and approved.

Key LSBU Financial assumptions are as follows:

	31/7/12	31/7/11
RPI increases	2.6%	3.5%
CPI increases	1.8%	2.7%
Salary increases	3.5%	4.5%
Pension increases	1.8%	2.7%
Discount rate	3.9%	5.3%

These assumptions were reported to the September meeting of Audit Committee and were approved subject to further consideration of the inflation increase. Final approval was deferred pending review of the benchmarking analysis provided each year by Grant Thornton.

The benchmarking analysis is now attached as Appendix A. Our inflation increase does look low, although close to the lower end of the scale. However, the discount rate is similarly low. The real discount rate of 2.1%, which is the net of these two and which ultimately drives the value of the liabilities, is therefore within the range. In fact it is very close to the mean of 2.06%, as it was last year.

All other figures look reasonable and Committee is asked to approve the assumptions.

FRS17 Assumptions

Results of Grant Thornton FRS17 benchmarking for HE institutions based on the FRS17 reports they have received so far.

	Mean	Range		LSBU
		High	Low	
Assumptions:				
Price increases	2.10%	2.20%	1.90%	1.80%
Salary increases	2.52%	4.00%	1.90%	3.50%
Pension Increases	2.10%	2.20%	1.90%	1.80%
Discount Rate	4.16%	4.30%	4.10%	3.90%
Real Discount Rate	2.06%	2.40%	1.90%	2.10%
2011				
Discount rate	5.40%	5.80%	5.30%	5.30%
Price increases	2.76%	3.00%	2.70%	2.70%
Real discount rate	2.64%	2.80%	2.60%	2.60%
Return on assets:				
Equities	5.54%	5.60%	5.50%	5.60% (71% of total fund ass
Other bonds	3.33%	3.40%	3.30%	n/a
Property	3.70%	3.70%	3.70%	n/a
Cash	2.34%	2.80%	0.50%	0.50%
Target return portfolio	-	-	-	4.30%
Alternative assets	-	-	-	4.60%
Mortality:				
Male - current pensioner	21.0	22.1	20.1	20.8
Female - current pensioner	23.7	25.1	22.9	23.8
Male - future pensioner	22.9	23.5	22.5	22.8
Female - future pensioner	25.5	26.1	25.0	25.7