

Dorset County Pension Fund 2016 valuation Employers' results

Background

As part of the 2016 actuarial valuation of the Dorset County Pension Fund, we have provided short results schedules for the individual employers.

This note is made up of two parts.

It first summarises the approach that we have taken in a few specific complicated cases and outlines the next steps that we feel would be appropriate for future exercises.

It then summarises which employers we have produced results schedules for and groups them according to the employer type and the effect of the new rates. For example, we have separated those that we have proposed stepping for and those that we have proposed immediate changes for.

Part 1 – Complicated employers

Partnership

In 2011, West Dorset District Council (WDDC) and Weymouth & Portland Borough Council (W&PDC) agreed to form a partnership which we understand involved all staff from the two councils working for the partnership. In 2015, we understand that a new partnership was entered between the above two councils along with North Dorset District Council (NDDC).

From discussions with Jason Vaughan of the Dorset Councils Partnership in March 2016, we further understand that:

- Both the 2011 and 2015 partnerships started with no deficit so the individual councils retain their own deficit;
- Any surplus or deficit accrued on the 2011 Partnership should be split 53% for WDDC and 47% for W&PDC;
- Any surplus or deficit accrued on the 2015 Partnership should be split 42% for WDDC, 37% for W&PDC and 21% for NDDC.

In these types of situations, to allow the different elements to be tracked, the members and cashflows would normally be coded on the administration and cashflow systems using new employer codes i.e. one for the 2010 partnership and one for the 2015 partnership. This then allows us to accurately apportion any surplus/deficit to the original councils.

Currently, the partnership members are all included under the Weymouth & Portland District Council code.

Our approach

We have taken the membership data for the three councils and made the following assumptions:

- All active members are assumed to be part of the 2015 Partnership.
- All non-active members that were active at 31 March 2013 and coded under either WDDC or W&PDC are assumed to be part of the 2011 Partnership. This means that members that left service between the start of the 2011 Partnership and 31 March 2013 will not be included on the 2011 Partnership code, although they should be. We have made this approximation to be consistent with the previous treatment at the 2013 valuation, until we receive full split membership data.
- All other non-active members are left on their original council code.

For the assets, we have taken the following approach:

- 2011 Partnership assumed to be fully funded at 31 March 2013.
- Cashflows for WDDC and W&PDC have been approximately split between the two councils and the 2011 Partnership for 2013/14 and 2014/15.
- Cashflows for WDDC, W&PDC and NDDC have been approximately split between the three councils, the 2011 Partnership and the 2015 Partnership for 2015/16.
- The transfer of assets from NDDC to the 2015 Partnership when the active members transferred has been calculated using membership data.
- The transfer of assets from the 2011 Partnership to the 2015 Partnership when the active members transferred has been assumed to be such that the 2015 Partnership was fully funded at 31 March 2016 on assumptions consistent with those used at the 2013 valuation.

Results

The 2011 and 2015 Partnerships are well-funded at 99% and 94% respectively. This reflects the broadly fully funded nature of the transfers made to them. The calculated deficit for each council is as set out below:

Deficit for each council	West Dorset	Weymouth & Portland	North Dorset
Own deficit	£5,798k	£7,007k	£1,984k
Share of 2011 Partnership	£68k	£61k	-
Share of 2015 Partnership	£1,215k	£1,070k	£608k
Total	£7,082k	£8,139k	£2,592k

Next steps

Although we believe that the above results are appropriate based on the data provided, the size of the transfers of staff mean that the results for each element above could be quite different. However, the total deficit across all bodies would be expected to be unchanged.

Given the uncertainty, we propose that all contributions from the councils are credited to their own section only until the data is resolved. This means that although the total contributions are based on the total deficit, in the short term, it will only be each council's own deficit that improves.

The data changes we require for more accurate results are:

- Members to be recoded to two new Partnership codes.
- Future cashflows to be allocated across all five codes.

The data changes that are not essential but would make the overall tidy-up process easier to complete and more accurate are:

- Extracts (with the new codings) at each transfer date.
- All cashflows since the start of the 2011 Partnership to be allocated across the five separate codes.

We appreciate that the historic cashflow work in particular is likely to be difficult and time-consuming but we believe that we can make reasonable estimates once we have clarity on which members should be on each code.

Tricuro

In 2015, Dorset County Council, the Borough of Poole and Bournemouth Borough Council formed a Local Authority Trading Company called Tricuro.

During the summer of 2016, as part of preparing the accounting disclosures for Tricuro, we had a number of discussions about the risk-apportionment between Tricuro and the three councils.

We understand that part of this involved the arrangements being updated and our current understanding is that

- Tricuro have no responsibility for any deficit (or surplus) that builds up in the Tricuro section.
- The contribution rate that Tricuro pay will therefore only be in respect of future service. This rate will be reviewed at each actuarial valuation.
- Any deficit (or surplus) that does form on the Tricuro section will be split between the three councils. This will be based on the councils' former members.

Our approach

This last point was only confirmed recently and, to fully allow for it, we would need more detailed data so we will have a discussion with the Administering Authority about the most appropriate approach. For the time being, we propose to split the surplus/(deficit) between the councils in proportion to the amount of liability that transferred originally.

Results

The Tricuro section has a surplus so it actually has a positive effect on the contributions for the three councils. The future service contribution rate for Tricuro is 17.7% of pensionable salaries and so this is the amount that Tricuro will need to pay from 1 April 2017.

As we understand that Tricuro are closed to new entrants, we would expect the membership to age and so the contribution rate for the cost of new benefits is likely to increase at future valuations.

The effect on the councils is shown in the next section.

Next steps

We discuss the cashflows for future exercises with the Administering Authority.

Pre-organisation liabilities

There are historic liabilities stored under employer code 990 and we understand that Dorset County Council, the Borough of Poole and Bournemouth Borough Council have 80%, 10% and 10% responsibility for these respectively.

The benefit payments for these members are currently recorded against Dorset County Council which means that, without any adjustments, Dorset County Council would end up having more assets taken off them than is absolutely correct. As the annual payroll for the pre-organisation liabilities is about £11m, this means that they were having the full £11m deducted rather than just their share, which would have been more like £9m so a difference of £2m each year. Similarly, this means that Bournemouth and Poole's assets would each be overstated by about £1m each year.

For this valuation, we have allocated the 2013 to 2016 cashflows for the pre-organisation liabilities between the councils in the 80%, 10% and 10% proportions. We have not carried out or allowed for any adjustments before 31 March 2013 at this stage and we suggest that we pick this up in January 2017.

Results

	Dorset	Poole	Bournemouth
<u>Excluding Tricuro</u>			
Assets	£656.1m	£308.6m	£360.3m
Liabilities (pre-organisation)	£105.8m	£13.2m	£13.2m
Liabilities (other)	£731.4m	£341.7m	£453.2m
Deficit	£181.2m	£46.3m	£106.2m
Tricuro surplus	£3.6m	£1.4m	£0.3m
Total deficit	£177.6m	£44.9m	£105.9m

Next steps

We think that it would be worthwhile revisiting previous valuation results to establish where the pre-organisation cashflows have been applied. As the councils are likely to step their contribution rate from their current level, it's unlikely that any adjustments would affect the final certified rates. We would be happy to discuss any of the approaches outlined in this paper and the follow-up actions that we have suggested.

Part 2 - The treatment of different employers at the 2016 valuation

For the below, we have generally only included employers with active members. Employers without actives should either now be the responsibility of another employer or part of the overall orphan section of the Fund.

As at previous valuations, we have ensured that the orphan section is fully funded by topping up the assets. This had the effect of reducing each active employer's assets by 0.01%.

Unitaries

Stepped

For the below councils, the contribution rate was due to increase by more than 1% in the first year. For Dorset County Council, a particular stepping approach had already been discussed and for the others, we assumed that the steps should be no more than 1% of pensionable payroll each year.

- (993) Dorset County Council (and the connected employers 814, 924, 930, 968 and 974)
- (900) Bournemouth Borough Council (and the connected employers 858 and 972)
- (907) Borough of Poole Council (and the connected employer 927)

Immediate change (no stepping)

For the first three below, we have not tried to step as the Partnership agreements mean that they are all linked so it's preferable for a consistent approach to be taken for all. For the others, it's because the contribution increase is less than 1% of payroll.

- (905) West Dorset District Council
- (906) Weymouth & Portland Borough Council
- (902) North Devon District Council
- (907) East Devon District Council
- (901) Christchurch Borough Council
- (904) Purbeck District Council

Bodies connected to unitaries that are not directly responsible for any deficit

We have presented the total contributions for the Partnership arrangement between West Dorset, Weymouth & Portland and North Dorset as contributions payable by the three councils. For the avoidance of doubt, the contribution rate payable in respect of the active members is 15.3% of payroll.

As set out in this paper, the rate for Tricuro is 17.7% of pensionable salaries.

Other taxpayer-backed bodies

Immediate change (no stepping)

For these, the rates in our schedules assume that the employers will move straight to the higher rates. In some cases the increases are significant and we would be happy to provide alternative scenarios.

- (890) Dorset Police and Crime Commissioners
- (976) Dorset Fire Authority

Colleges

For all of the colleges, we have assumed that the employers will move straight to the higher rates. In some cases the increases are significant and we would be happy to provide alternative scenarios (as we have done already for Bournemouth University).

Immediate change (no stepping)

- (922) Bournemouth University
- (942) Bournemouth & Poole College of Further Education
- (941) Arts University College at Bournemouth
- (943) Kingston Maurward College
- (970) Anglo-European College of Chiropractices
- (820) Weyco Services
- (944) Weymouth College

Admission bodies

Where rates need to increase, we have assumed an immediate change in all cases for admission bodies. In some cases the increases are significant and we would be happy to provide alternative scenarios.

Immediate change (no stepping)

The below employers have a deficit and the calculated total rate is higher than they are currently paying.

- (837) Care Quality Commission. It appears that the 2013 contributions did not target all of the deficit and this is likely to be because the connected employer's deficit was omitted by us from the deficit calculations.
- (805) Spectrum Housing
- (998) Synergy Housing Group
- (959) Magna Housing Association
- (982) Magna Housing Group
- (958) Care South
- (996) Poole Housing Partnership
- (961) Ansbury
- (957) Sovereign Housing Association
- (825) Mack Trading
- (933) Raglan Housing Association
- (836) Healthy Living Wessex

The below employer has a surplus. If it was a limited-term contract, we would look to pass this surplus back to the employer but as we do not currently know the length or if the transfer of staff was permanent, we have maintained the rate at the current level.

- (840) BH Live

Rates maintained

The below employer still has a deficit but the current contributions (with future increase) are projected to allow the deficit to be paid slightly under 22 years so we have maintained the rates.

- (800) Bournemouth Transport

Rate reduced

The below employer has a small surplus and their future service rate has come down (due to a change in the average age in their membership)

- (402) Wessex Education Shared Services

No rate provided yet

In the first batch below, we will send further queries.

- (815), (816), (817), (826), (827), (847) Various SLM contracts
- (846) Mouchel
- (813) Care UK
- (874) 1610 Ltd
- (864) Poole & Bournemouth Adult Learning
- (865) Action for Children
- (828) South Dorset Community Sports Trust
- (434) Dorset Arts Development
- (415) East Boro Housing Trust
- (438), (439) Millbrook Healthcare
- (408) Children's Society
- (486) Nviro
- (424) Colliton Club
- (413) Stour Valley and Partnership

In the following batch, the employer seems to have ceased although we have not carried out a cessation valuation.

- (809) etc. All Churchill contracts
- (804) Places for People
- (879) AQS Homecare
- (818) Dorset Lighting
- (892) Blue Ribbon
- (407) Barnardos
- (409) Churchill

Small admitted bodies pool

All of these employers are currently pooled and pay the same effective rate, although, as noted, one appears to have ceased since the last valuation.

We have proposed one fundamental change from the last valuation which is to express the deficit contributions as a percentage of payroll. Collecting contributions as monetary amounts is, overall, our preferred default approach for single employers as it means that the same total deficit contributions are collected regardless of changes in payroll. In a pool, however, the total deficit needs to be divided between the employers in some way when setting contributions. The most common approach is to work out the total contributions needed then divide it between the employers based on their payroll. At the 2013 valuation, we did this, then converted the amounts into lump sums. The potential problem with this approach is that the split of payroll might change significantly between valuation dates and the intended payroll split is no longer maintained.

Immediate change (no stepping)

We have produced a single schedule for all of the below employers.

- (925) Age Concern Bournemouth
- (948) Dorset Association of Town and Parish Councils
- (952) Dorset County Museum

No rate provided yet

The below employer seems to have ceased although we have not carried out a cessation valuation.

- (988) Bridport Museum Trust

Small scheduled bodies pool

These are the town and parish councils. They are pooled and pay the same effective rate.

For the small admission bodies pool, we discussed why we were proposing rates as a percentage of payroll for those employers. The same logic applies here and, in addition, the deficit lump sum amounts would be very small in some cases so we suspect that it would also be easier administratively to collect as a percentage of payroll.

We have not listed all of the employers in this pool here and have produced a single schedule for all town and parish councils.

Academies pool

There were nearly 100 academies at the 2016 valuation. They are pooled and pay the same rate.

We have not listed all of the employers in this pool here and have produced a single schedule for all academies. This is also the rate that will be paid by new academies that form between now and the next valuation.

We would be happy to discuss these results in more detail and provide alternative scenarios for various cases if it was helpful.



Mark Norquay FFA
Associate, Barnett Waddingham