

Our ref: NC/SMH

Ask for: Nick Bennett

Your ref:

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Mr Darren Millar, AM  
Chair of the Public Accounts Committee  
National Assembly for Wales  
Cardiff Bay  
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Dear Chair

**Public Accounts Committee – 7 October 2014**  
**Item 4 – Scrutiny of Public Services Ombudsman for Wales’s Accounts 2013-14**

Thank you for the opportunity to give evidence to the Committee on the Public Services Ombudsman for Wales’s Accounts for 2013-14. My colleagues and I welcomed being able to discuss and expand on the detail on these. I hope that Committee Members found this useful.

At the evidence session, we gave an undertaking to provide Committee Members with further details concerning the provisions for pension arrangements and an explanation of the basis for historic pension deficits. A note on these aspects is attached.

Yours sincerely



Nick Bennett  
Ombudsman

## Public Services Ombudsman for Wales – Pension Arrangements

Despite being a relatively small organisation with around 50 staff, PSOW has complex pensions arrangements. Two schemes operate on behalf of current staff - Civil Service Pensions and the Cardiff and Vale Local Government Pension. There is an ongoing liability to fund the pensions of three former Ombudsmen. There is a significant difference between the way the schemes work:

- **Unfunded** – the money people pay in is paid out straightaway to current pensioners with any shortfall being met by the taxpayer. No funds are invested to meet future pension payments. Most public sector pension schemes, with the exception of Local Government, are unfunded with liabilities currently estimated at almost £1 trillion
- **Funded** – the pensions are paid for by the money people pay in being invested into a fund so that there is enough money to pay pensions over a period of time. Most private sector pensions fall into this category as well as the Local Government Scheme. However, many schemes are in deficit. The 2013 triennial Local Government scheme valuations show an aggregate deficit of £45 billion with Cardiff valued at a deficit of £120 million.

### **Civil Service Pensions**

*An unfunded scheme similar to Teachers, NHS, Armed Forces and Police*

For the majority of staff pensions are provided through Civil Service pension arrangements, either one of the defined benefit schemes based on final salary (closed to new employees) or a whole of career scheme NUVOS where pension builds up each year at 2.3% of pensionable earnings. Employee contributions are salary related and range from 3.5% to 8.25% with employer contributions, currently 16.7% to 24.3% determined centrally.

The liability for this scheme ultimately lies with the Treasury but increases in employee and employer contributions to reduce the liability have been recommended by the scheme actuary and will be implemented in April 2015.

### **Local Government Pension Scheme**

*A funded scheme with Cardiff valued at a total deficit of £120 million in 2013*

When the office of the Public Services Ombudsman for Wales was established in 2006, a number of members of staff formerly employed by the Commission for Local Administration in Wales were entitled to remain in the Local Government Pension Scheme.

The Scheme is administered by Cardiff County Council through the Cardiff and Vale of Glamorgan Pension Fund and is a funded defined benefit final salary scheme with 3 active members, 6 deferred and 8 pensions in payment.

In the triennial review in 2010, the Scheme Actuary estimated the closure liability would be £1,565k. Following discussion between the Ombudsman, Cardiff County Council as administrators of the scheme and AON Hewitt as the Actuary to the Scheme, the following payments to extinguish the deficit, as identified at the 31 March 2010 valuation, were included within the second supplementary estimate for 2011-12:

2011-12	NIL
2012-13	£231k
2013-14	£242k
2014-15	£254k
2015-16	£266k
2016-17	£279k
2017-18	£293k
<b>Total</b>	<b>£1,565k</b>

The latest actuarial valuation has identified the PSOW element of the Cardiff scheme to be a deficit of £720k as at 31 March 2014.

We received a statement from the Pensions Manager of the Fund on 12 September 2014:

"In their 2013 valuation report, the Cardiff & Vale of Glamorgan Pension Fund's actuaries certified a contribution rate and schedule of additional payments to target 100% funding of PSOW's LGPS liabilities on a low risk basis by February 2018 when the youngest active member reaches the age of 60. Provided this target is met, no further deficit contributions will be due after that date. Progress towards the target will be reviewed at the 2016 valuation or earlier if requested by either PSOW or the Fund's administrators."

**Pensions for Former Ombudsmen**

*An unfunded scheme with no active members and three pensions in payment*

The office of the Public Services Ombudsman for Wales was established on 1 April 2006 under the Public Services Ombudsman (Wales) Act 2005. On that date the staff of the predecessor bodies (Welsh Administration Ombudsman, Commissioner for Local Administration in Wales and Health Service Commissioner for Wales) transferred to the PSOW's employment. The pensions of three previous Local Government Commissioners remain the responsibility of PSOW and costs are met locally through net expenditure - £82k was paid in 2013-14. Pensions are uplifted annually as set out in the annual Pensions Increase Review Order and provisions updated annually using life expectancy tables and discount rates.

The provision (liability) fell £14k to £521k at 31 March 2014 with the life expectancy profiles estimating that the liability to fund these pensions would end in 2023-24.

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