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ASHFIELD DISTRICT COUNCIL

Council Offices,
Urban Road,
Kirkby in Ashfield
Nottingham
NG17 8DA

Agenda

Audit Committee

Date:	**Wednesday, 29th April, 2020**
Time:	**10.00 am**
Venue:	**Ashfield District Council's YouTube Channel**

For any further information please contact:

Lynn Cain

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01623 457317

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AUDIT COMMITTEE

Membership

Chairman: Councillor Dave Shaw

Councillors:

John Baird	Jim Blagden
Christian Chapman	Arnie Hankin
Kevin Rostance	David Walters

FILMING/AUDIO RECORDING NOTICE

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SUMMONS

You are hereby requested to attend a virtual meeting of the Audit Committee to be held at the time/place and on the date mentioned above for the purpose of transacting the business set out below.

Carol Cooper-Smith
Chief Executive

	AGENDA	**Page**
1.	**To receive apologies for absence, if any.**	
2.	**Declarations of Disclosable Pecuniary or Personal Interests and Non Disclosable Pecuniary/Other Interests.**	
3.	**To receive and approve as a correct record the minutes of the meeting of the Committee held on 10 February 2020.**	5 - 8
4.	**Accounting Policies for 2019/20 and other Statement of Accounts Matters.**	9 - 30
5.	**Pension Assumptions for 2019/20 Statement of Accounts.**	31 - 70

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AUDIT COMMITTEE

Meeting held in the Committee Room, Council Offices, Urban Road, Kirkby-in-Ashfield,

on Monday, 10th February, 2020 at 10.00 am

Present: Councillor Dave Shaw in the Chair;

Councillors John Baird, Christian Chapman, Arnie Hankin, Kevin Rostance and David Walters.

Officers Present: Bev Bull, Lynn Cain, Ruth Dennis and Peter Hudson.

In Attendance: Hannah McDonald (CMAP), Mandy Marples (CMAP), Michael Butler (Mazars) and David Hoose (Mazars).

AC.21 Declarations of Disclosable Pecuniary or Personal Interests and Non Disclosable Pecuniary/Other Interests.

No declarations of interest were made.

AC.22 Minutes

RESOLVED
that the minutes of the meeting of the Committee held on 16th December 2019, be received and approved as a correct record.

AC.23 Mazars: Audit Strategy Memorandum

David Hoose, Mazars Engagement Partner, presented the Audit Strategy Memorandum for the year ending 31 March 2020 to Committee.

Members were given an overview of the following:-

- the external audit engagement scope and responsibilities;
- timelines involved for completing the audit review;
- the engagement of management and experts;
- the use of service organisations.

Three significant audit risks in relation to Management Override of Controls, Property, Plant and Equipment Valuation and Defined Benefit Liability Valuation were noted. Three enhanced risks regarding Provision for the Impairment of Doubtful Debts, Business Rate Appeals Provision and Minimum Revenue Provision (MRP) would also be considered as part of the review.

In relation to the Value for Money (VFM) risk assessment, two significant risks had been identified in relation to Financial Sustainability; Sustainable Resource Deployment and Commercialism of Investment Properties Strategy; Informed Decision Making.

Committee were asked to note that Mazars would be carrying out the audit at an increased fee from the previous year. The increase was due to regulatory changes within audit requirements and it was acknowledged that the revised fee would be notified in due course.

RESOLVED
that the Audit Strategy Memorandum for 2019/20, as presented to Committee, be received and noted.

AC.24 Internal Audit Plan 2020-21 and Audit Charter

Mandy Marples, CMAP Audit Manager, presented the report and explained the process for selecting audit reviews, based upon consultation with the Council's Leadership Team (CLT), utilising the Council's risk registers and CMAP's bespoke risk assessment model.

Each risk was assessed against 8 measures (4 impact based and 4 likelihood based) and awarded a suitable rating which formed the overall plan. For 2020/21, the assessment had revealed 10 high risk areas, 69 medium risk areas and 1 low risk area being identified and agreed with the Corporate Leadership Team.

Members considered the proposed Audit Plan for 2020/21 and took the opportunity to ask questions and debate the issues as required. Committee acknowledged that the Plan remained flexible and open to change should any issues arise during the year.

The Audit Charter was also presented which outlined the purpose of the internal audit service, provided by CMAP, to provide independent, objective assurance and consulting services designed to add value and improve the Council's operations.

RESOLVED
that the content of the Audit Plan for 2020/21 and Audit Charter, as presented, be received and approved.

AC.25 Treasury Management Strategy

Committee were asked to consider the Treasury Management Strategy for the 2020/21 financial year, which had been prepared in accordance with the Treasury Management in the Public Services Code of Practice.

RESOLVED that
a) the content of the Treasury Management Strategy (TMS) for 2020/21, as presented, be received and noted;

b) Cabinet be recommended to approve the Treasury Management Policy Statement which incorporated the following:

- Treasury Management Strategy Statement (TMSS)
- Borrowing Strategy
- Annual Investment Strategy
- Minimum Revenue Provision (MRP) Policy;
- Prudential Indicators and Treasury Management Indicators
- Treasury Management Practices: Risk Management.

AC.26 <u>Capital Strategy</u>

Members were requested to consider the Capital Strategy for 2020/21 as presented.

RESOLVED that

a) the contents of the Capital Strategy for 2020/21 including Annexes 1-3; as presented, be received and noted;

b) Cabinet and Council be recommended to approve the Capital Strategy, Commercial Property Investment Strategy and Commercial Property Indicators, as outlined in the report.

AC.27 <u>Corporate Governance Update including Revised Policies and Procedures</u>

The Director of Legal and Governance (and Monitoring Officer), presented Members with a revised and updated framework of policies and procedures (which collectively made up the Council's governance arrangements) for approval. The various policies and procedures set out the Council's approach to preventing, detecting and investigating fraud and corruption.

Committee also acknowledged the operation of the Whistleblowing Policy during 2019, which had given rise to 4 complaints that were all now closed. Improvement actions against the 2018/19 Annual Governance Statement were also considered as part of the update with Members discussing significant actions of interest.

RESOLVED that

a) the following revised policies and procedures be approved:-

- Anti-Fraud and Corruption Strategy
- Anti-Bribery Policy
- Anti-Money Laundering Policy Statement and Procedures
- Fraud Response Plan
- Prosecution Policy
- Whistleblowing Policy
- Local Code of Corporate Governance;

b) details regarding the operation of the Whistleblowing Policy during 2019, be received and noted;

c) progress made in relation to the actions outlined in the 2018-2019 Annual Governance Statement be noted;

d) the proposed process for the preparation of the 2019-2020 Annual Governance Statement, as outlined be noted.

The meeting closed at 10.53 am

Chairman.

Report To:	AUDIT COMMITTEE	Date:	29 APRIL 2020
Heading:	ACCOUNTING POLICIES FOR 2019/20 AND OTHER STATEMENT OF ACCOUNTS MATTERS		
Portfolio Holder:	N/A		
Ward/s:	N/A		
Key Decision:	NO		
Subject to Call-In:	NO		

Purpose of Report

This report requests approval by the Audit Committee of the accounting policies that the Council proposes to adopt for the current financial year in the preparation of the Statement of Accounts 2019/20.

The report also outlines the impact of changes to the Code of Practice on Local Government Accounting on the production of the 2019/20 Statement of Accounts process.

Recommendation(s)

1) Audit Committee approve the Accounting Policies detailed at Appendix A to this report, noting there are no major changes to policies only minor changes to ensure they are worded in line with the latest version of the Code of Practice on Local Government Accounting.

2) Members are requested to note that any proposed amendments or changes to these policies and associated relevant financial implications will be reported back to this Committee.

Reasons for Recommendation(s)

Part 3 of the Annual Accounts and Audit Regulations 2015 (the Regulations) requires the Council to produce an annual Statement of Accounts. In accordance with International Financial Reporting Standards (IFRS), the Statement of Accounts must include a statement of accounting policies.

The Regulations also require a draft of the Statement of Accounts to be prepared and certified by the responsible financial officer by 31 May. In accordance with best practice for local authorities, the draft accounting policies should be reviewed by Audit Committee before the draft 2019/20 Statement of Accounts is produced.

In addition, where IFRS allows a degree of choice, Audit Committee should be aware of and confirm the choices made.

Alternative Options Considered

The preparation and consideration of this report is part of a process intended to ensure that alternative options are given appropriate consideration.

Detailed Information

Introduction

1.1 The Accounting Policies adopted by the Council determine the accounting treatment that is applied to transactions during the financial year and in the preparation of the Statement of Accounts at the year-end. They determine the specific principles, bases, conventions, rules and practices that will be applied by the Council in preparing and presenting its financial statements. The accounting policies are published within the Statement of Accounts in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Government Accounting (the Code of Practice) and incorporate the requirements of International Financial Reporting Standards (IFRS).

1.2 The approval of the accounting policies to be applied by the Council demonstrates that due consideration has been given to the policies to adopt and apply and that those charged with corporate governance are fully informed prior to the commencement of the Statement of Accounts preparation.

Accounting Policies

1.3 The accounting policies are reviewed each year by officers to ensure all accounting policies previously approved are still relevant and are in accordance with the latest version of the Code of Practice and IFRS requirements. Any new requirements are added to the policies and any policies, which are no longer relevant or have no material effect to the Statement of Accounts, are removed.

1.4 The following accounting standards have been adopted by the Code of Practice in 2019/20:

- Amendments to IAS 40 Investment Property: Transfer of Investment Property.
- Annual Improvements to IFRIC Standards 2014-2016 cycle.
- IFRIC 22 Foreign Currency Transactions and Advance Considerations.
- IFRIC 23 Uncertainty over Income Tax Treatments.
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation.

1.5 The application date and initial adoption date of the above standards was 1 April 2019.

1.6 The new standards are currently not applicable to Ashfield District Council and therefore do not result in any changes to the accounting policies.

1.7 Any minor changes to the accounting policies that have been made as part of the review to ensure they are worded in line with the latest version of the code are highlighted in ***bold italics***.

1.8 CIPFA intend to issue an accounting Bulletin giving further guidance on matters for the production of the Statement of Accounts. At the time of this report, the Bulletin has not been issued, once issued it will be taken into account when producing the statements.

Implications

Corporate Plan:
Production of timely and accurate Statement of Accounts is a statutory requirement. Achievement of this reflects sound financial management supporting the Corporate Plan.

Legal:
The agreement of appropriate Accounting Policies is part of the process of ensuring that the Council satisfies its legal obligation to prepare a Statement of Accounts. The report also demonstrates how compliance with the Accounts and Audit Regulations is to be achieved.

Finance:
This report is effective for the Statement of Accounts 2019/20:

Budget Area	Implication
General Fund – Revenue Budget	There are no direct financial implications. The report outlines the policies to be adopted for production of timely and accurate accounts and demonstrates consideration of other legal and accounting issues attributable to their production.
General Fund – Capital Programme	
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation

Human Resources:
There are no human resources impacts.

Environmental/Sustainability
There are no environmental/sustainability impacts.

Equalities:
There are no equalities impacts.

Other Implications:
There are no other impacts.

Reason(s) for Urgency
N/A

Reason(s) for Exemption
N/A

Background Papers
Appendix A – Statement of Accounting Policies.

<u>Report Author and Contact Officer</u>
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Appendix A

Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the financial year 2019/20 and its position at the year-end 31st March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These Regulations require the accounts to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise of the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

- Supplies are recorded as expenditure when they are consumed; where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than one working day.

Cash Equivalents are highly liquid investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the cash flow statement, cash and cash equivalents are shown net of any bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

4. Exceptional Items

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

6. Charges to Revenue for Non-Current Assets

Service revenue accounts, support services and trading accounts are charged with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.

- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserves against which the losses can be written off.
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation, impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

7. Employee Benefits

a. Benefits payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and accumulated flexi time for current employees and are recognised as an expense for the services in the year in which the employees render service to the Council. An accrual is made for the cost of holiday entitlements etc. earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus and Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

b. Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. These are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

c. Post Employment Benefits

Most employees of the Council contribute to the Nottinghamshire Pension Fund, the Local Government Pension Scheme administered by Nottinghamshire County Council. The scheme provides defined benefits (retirement lump sums and pensions) earned as employees work for the Council.

The Nottinghamshire Pension Fund is accounted for as a defined benefit scheme:

- The liabilities of Nottinghamshire Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions including mortality rates, employee turnover rates and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices using a discount rate based on an appropriate rate of return on high quality corporate bonds.

- The assets of the Fund attributable to the Council are included in the Balance Sheet at their fair value.

    a) Quoted securities – current bid price
    b) Unquoted securities – professional estimate
    c) Unitised securities – current bid price
    d) Property – market value

The change in the net pension liability is analysed into the following components:

- Service Cost comprising

    a) Current Service Cost - the increase in liabilities as result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Account to the services for which the employees worked

    b) Past Service cost - the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on Provision of Services in the Comprehensive Income and Expenditure Account as part of Non-Distributed Costs

    c) Net interest on the net defined liability (asset), i.e. the net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments

d) Re-measurement comprising:

- the return on plan assets – excluding amounts included in net interest on the defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- actuarial gains and losses - changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

e) Contributions paid to Nottinghamshire Pension Fund - Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable to the fund but unpaid at the year-end.

The negative balance that arises on the Pensions reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

- **Discretionary Benefits**

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

8. Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified;

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events,

- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts. For the purposes of consideration, Post Balance Sheet events can occur up to approval of the Statements by the Audit Committee.

9. Financial Instruments

a. Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument, which are initially measured at fair value, and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate of interest for each instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally borrowed.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

b. Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The authority’s business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost.

Financial Assets measured at amortised costs

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost.

Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Investments are classed as either long-term assets, if repayable after 12 months or longer, or current assets, if repayable within 12 months. Investments are shown in the Balance Sheet at amortised cost, using the effective interest rate that applies to the individual loans that comprise the total borrowing held by the Council. The amount shown in the Balance Sheet represents the outstanding principal due to be repaid to the Council and the interest that is credited to the Comprehensive Income and Expenditure Statement is the amount receivable in the year under the loan agreement.

c. Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

10. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Non-specific Grants

These are general grants allocated by central government directly to local authorities as additional revenue funding. They are non-ring-fenced and are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement. For example, New Homes Bonus funding.

11. Intangible Assets

Expenditure on assets that do not have a physical substance but are identifiable and controlled by the Council are capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

During 2019/20, no Council assets met the ‘Intangible Assets’ definition.

12. Interests in Companies and Other Entities

The Council has no material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts.

(a) Joint Crematorium Committee

The Council is a constituent member of a joint crematorium committee with neighbouring authorities of Mansfield and Newark and Sherwood District Councils. Current activities are split between all the councils based on the number of residents of each district area cremated. The balance sheet is apportioned based on the current year’s cremations from each area. The Council’s share of running costs and income has been included in the Comprehensive Income and Expenditure Statement and the share of assets included within the Balance Sheet using these apportionments. Due to the nature of the relationship of the Council within the committee, Group Accounts are not required for this entity. Information on the Council's share of the income and expenditure and associated assets and liabilities is shown in note 39 to the Core Financial Statements.

13. Inventories and Long Term Contracts

Inventories are included on the balance sheet at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

14. Investment Properties

The Council does hold properties for investment purposes.

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

15. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant and equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and building elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

a. Operating Leases

The Council as Lessee

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from the use of the leased property plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments, (e.g. there is a rent-free period at the commencement of the lease)

The Council as Lessor

The Council does act in the capacity as lessor for the leases of land and properties it owns. Rents due under operating leases are accounted for on a straight-line basis as they become due. Land and property leased under operating leases are held as non-current assets within the Balance Sheet and valued in accordance with appropriate valuation practices.

b. Finance Leases

The Council as Lessee

Plant and Equipment held under finance leases are recognised on the Balance Sheet at the lower of the fair value of the asset at the lease inception and the present value of the minimum lease payments. The value of the asset is matched by a liability to pay the finance lessor.

The Council does not have any finance leases where it acts as lessee.

The Council as Lessor

The Council does not have any finance leases where it acts as lessor.

16. Overheads and Support Services

The cost of overheads and support services are charged to service segments in accordance with the authority’s arrangements for accountability and financial performance.

17. Property, Plant and Equipment

Assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis are classed as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not extend the previously assessed standard of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

Property, Plant and Equipment may also include assets held under finance leases, which have been capitalised and included in the Balance Sheet at a value reflecting the fair value of the asset.

A de-minimis asset value of £10,000 has been set and expenditure on new assets of less than this amount is charged to the service revenue account as a proxy for depreciation, unless the expenditure forms part of a larger scheme.

Measurement

Assets are initially measured at cost, which comprises all expenditure that is directly attributable to bringing an asset into working condition for its intended use. The Council does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are then carried in the Balance Sheet using the following measurement bases:

Asset Category	Basis of Valuation
Property, Plant and Equipment	Fair value determined in the existing use of the asset
Dwellings	Fair value in the existing use value for social housing
Investment Properties	Fair value to reflect market conditions at the end the reporting period
Infrastructure, community assets and assets under construction	Depreciated historic cost once the asset become operational

Where there is no market based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate for fair value.

Where assets have a short useful life then depreciated historical cost is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are re-valued where there have been material changes in their value, but as a minimum every 5 years. The Council's housing stock is re-valued annually by applying an appropriate housing price index to a series of beacon values at the start of the financial year.

Increases in valuations are matched by a credit to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

Where decreases in value are identified they are accounted for by a debit to the Revaluation Reserve to the extent that an accumulated gain has been recorded against that asset; where there is no balance or an insufficient balance on the revaluation reserve for that asset the write down of the asset value is charged against the relevant service within the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Revaluations are recorded by individual asset. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Costs of dismantling assets such as roofs, windows and heating systems in Council Dwellings are included in the costs paid to the main contractor. The main contractor is responsible for the disposal of the dismantled assets. The dismantled assets have been assessed by the valuer as only having a negligible value.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where there is an indication that there is a material impairment in the value of an asset when compared to the carrying value an impairment loss is recognised. The impairment loss is written down to the revaluation reserve to the extent that any balance for that asset is held within the revaluation reserve. Where there is no balance or an insufficient balance then the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than continued service use then it is reclassified as an asset held for sale. The asset is re-valued immediately before classification and then carried at the lower of this amount or fair value less costs of disposal. Where there is a subsequent decrease in the valuation determined on classification to Asset held for sale then a loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in the fair value of assets held for sale are only recognised to the extent that they reverse a previous loss recognised within the Comprehensive Income and Expenditure Statement. Depreciation is not charged on Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying value of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains relating to the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Capital Receipt Reserve within the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance within the Movement in Reserves Statement.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment over a period of their estimated useful lives; freehold land is determined to have an infinite economic life and is not depreciated, assets under construction are not depreciated until they become operational in providing services. Depreciation is calculated using the straight-line method. Assets are depreciated over the estimated economic life of the asset, which has been assessed as being the following periods:

Council dwellings	40 years
Other HRA assets	10 - 80 years
Other Buildings	10 - 80 years
Vehicles, plant and equipment	3 - 10 years
Infrastructure	10 - 40 years
Community Assets	20 years

Revaluation gains are also depreciated. The difference between the depreciation on the current value and that, which would have been charged on the historic value, is transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Componentisation

The Council allocates the costs of an individual asset to its various components to calculate depreciation charges where the value of the asset exceeds £500K and more than one individual component exceeds 20% of the asset value. The impact on depreciation charges for assets below the threshold is not considered material. The componentisation is based on the following elements of the asset:-

- Boilers, heating and plant systems
- Lifts
- Roofs
- Windows and doors

In terms of Council Dwellings, these assets are collectively valued in excess of £500K. However, when comparing the value of depreciation charged on a component basis compared to the current 40-year life straight-line methodology, the difference is not considered material. Council Dwellings are therefore not currently subject to componentisation but the policy is to be reviewed on an annual basis.

18. Heritage Assets

The Council's Heritage Assets held are Historical Monuments, Statues and Artwork. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, no depreciation is charged on Heritage Assets as they are deemed to have an indeterminate life and have a high residual value.

Historical Monuments
The Council has seven Cenotaphs that are located at various outside locations throughout the District. These monuments are reported in the Balance Sheet on an average replacement cost basis, which has been agreed following discussions with our internal valuer.

Statues and Artwork Collection
The collection includes Statues, Sculptures and Mosaics situated within the local town and village streets throughout the Council. The collection depicts the Council's mining and engineering history to ensure the knowledge, culture and understanding of our heritage is preserved for future generations. An artwork example would be The Flight of Fancy sculpture that represents the Rolls Royce Flying Bedstead thrust measuring machine that was developed to research the use of direct lift. These items are reported in the Balance Sheet on an historic cost basis or on an insurance valuation basis and were mainly purchased from grant funding.

Non Balance Sheet Items
The Council also holds a collection of items that are not recognised on the Balance Sheet as cost information is not readily available and the Council believes that the benefits of obtaining the valuation for these items would not justify the cost. These items are believed to have a value of £10k or less. The majority of the collection is street mosaics, murals and sculptures purchased through grant funding or produced by the public art events. The Council has also received a number of donations including a Knitting machine and a Stocking machine dating back to the 18th and 19th century, both of which are believed to be forerunners to the Spinning Jenny. It is

difficult to obtain a valuation on these two items as there is no comparable item that provides a market value. Most assets are located on public streets, in parks or are on display within public council buildings. A few items are stored securely in the Council's Council Offices and not currently available for public viewing however, ways of making these items more accessible are being developed.

Heritage Assets – General
Heritage Assets are reviewed by the Council for impairments such as where an item has suffered physical deterioration or breakage. Any impairment is measured and recognised within the Revaluation Reserve. The Council works closely with the Ashfield War Memorial Committee to preserve and maintain the local historical monuments. All other Heritage Assets are reviewed and maintained as required. Disposal proceeds are disclosed separately in the notes to the financial statements and accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

19. Provisions, Contingent Liabilities and Contingent Assets

a. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year; where it becomes more likely than not that a transfer of economic benefits will not be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

b. Contingent Liabilities

A Contingent Liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent Liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent Liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

c. Contingent Assets

A Contingent Asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent Assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

20. Reserves

The Council sets aside specific amounts as reserves for future policy purposes, or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate revenue account in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

The level of reserves and balances is reviewed annually to ensure they are appropriate. The General Fund Balance, Earmarked Reserve and Reserves arising from Capital Receipts together with Capital Grants Unapplied are deemed to be usable reserves in that they may be used to fund future expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments retirement benefits and employee benefits; these are termed unusable reserves and are not available to be used to fund future expenditure.

21. Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of non-current assets has been charged as expenditure to the relevant service in the Comprehensive Statement of Income and Expenditure in the year. Where the Council has decided to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account reverses out the amounts so that there is no impact on the level of council tax.

22. Value Added Tax

Value Added Tax (VAT) is excluded from all income and expenditure received and paid by the Council except where it is classed as irrecoverable by HM Revenue and Customs.

23. The Collection Fund

i) Council Tax

The Council includes its share of the accrued Council Tax due for the year within its Comprehensive Income and Expenditure Statement. The difference between this sum and the local precept for Council and parish activities is reversed through the General Fund Balance to ensure only the level of Council Tax required to pay for Council activities is credited to the General Fund in the year. The balance is taken to the Collection Fund Adjustment Account, within the Balance Sheet.

Amounts collected on behalf of the other preceptors of Nottinghamshire County Council, Nottinghamshire Police Authority and Nottinghamshire Fire Authority are treated as either debtors or creditors depending upon the respective share of the Collection Fund attributable to these bodies at 31st March.

ii) Business Rates

The Council includes its share of accrued Business Rates due for the year within its Comprehensive Income and Expenditure Statement. The difference between this sum and the forecast amount due to the Council is reversed through the General Fund Balance to ensure only the level of Business Rates required to pay for Council activities is credited to the General Fund in the year. The balance is taken to the Collection Fund Adjustment Account, within the Balance Sheet.

Amounts collected on behalf of the other partners of the pool (Central Government, Nottinghamshire County Council and Nottinghamshire Fire Authority) are treated as either debtors or creditors depending upon the respective share of the Collection Fund attributable to these bodies at 31st March.

24. Fair Value Measurement

The authority measures some of its non-financial assets such as investment properties and potentially some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

- Level 3 – unobservable inputs for the asset or liability.

ASHFIELD DISTRICT COUNCIL

Report To:	**AUDIT COMMITTEE**	**Date:**	**29TH APRIL 2020**
Heading:	**PENSION ASSUMPTIONS FOR 2019/20 STATEMENT OF ACCOUNTS**		
Portfolio Holder:	**N/A**		
Ward/s:	**N/A**		
Key Decision:	**NO**		
Subject to Call-In:	**NO**		

Purpose of Report

The report is to allow members to consider the proposed assumptions to be used by the Pension Fund Actuary in preparing the International Accounting Standard (IAS) 19 – Employee Benefits figures to be reported in the Council's Annual Statement of Accounts for 2019/20.

Recommendation(s)

Members are asked to consider the Actuary's briefing note attached as Appendix A and the proposed IAS 19 assumptions detailed within it, and to agree the assumptions as the basis for the calculation of the pension figures required for the 2019/20 Statement of Accounts.

Reasons for Recommendation(s)

It is best practice that the actuarial assumptions intended to be used in preparing the IAS 19 figures in the Statement of Accounts are considered prior to their application and use in the compilation of the Actuary's report. As such, this report delivers the Council's obligations as part of the closure of the 2019/20 Statement of Accounts.

Alternative Options Considered

Members could recommend that a bespoke report be used for the calculation of the Council's figures. This would incur an additional cost and require reasoning for the departure from the proposed assumptions.

Detailed Information

1.1 IAS 19 - Employee Benefits, is one of the financial reporting standards that the Council must comply with when producing its annual Statement of Accounts. IAS 19's basic requirement is that an organisation should account for retirement benefits when it is committed to give them, irrespective of when they are paid out.

1.2 To calculate the cost of earned benefits for inclusion in the Statement of Accounts, the Nottinghamshire County Council Pension Fund schemes Actuary, Barnett Waddingham, use certain assumptions to reflect expected future events, which may affect those costs. The assumptions used are designed to lead to the best estimate of the future cash flows that will arise under the scheme liabilities. Any assumptions that are affected by economic conditions should reflect market expectations at the balance sheet date.

1.3 The calculated costs and the underlying assumptions, based upon the advice of the Actuary and the administering authority, Nottinghamshire County Council will be used in preparing the Council's 2019/20 Accounts.

1.4 Ashfield District Council's net pension liability (the difference between the assets held and projected liabilities) as at 31 March 2019 was calculated at £94.738m. This is a material component of the Council's balance sheet, and therefore its net worth. As such it is important that the Council is supportive of the assumptions being made by the actuary in their calculations. This year's net position will be affected by the assumptions used.

1.6 The results of the overall valuation can be volatile from year to year as the fund's investments are in a range of asset types whose performance will vary from year to year while liabilities are assessed on the basis of corporate bond yields. The results to some degree reflect the relative movements in these financial instruments.

1.7 The responsibility for setting the assumptions rests with the employer and alternative assumptions can be used by the Actuary. However, the Actuary would impose additional fees for this work. The accounting requirements of IAS 19 do not require that every individual estimate is a "best estimate". Directors (or equivalent) of the organisation should be satisfied that the combined effect of the assumptions as a whole is reasonable.

1.8 The value of the Pension Fund's assets and liabilities are heavily dependent on the underpinning assumptions. The Employer is ultimately responsible for the assumptions used, and this year's proposed assumptions are listed below and detailed in the Actuary's briefing note at Appendix A.

1.9 The proposed financial assumptions for 2019/20 are detailed below:

- **Expected Return on Assets.** The Actuary anticipates that a typical local Government Pension Fund might achieve a return of around -2% to 31 March 2020. Although this may vary depending on the individual funds investment strategy. Asset performance has been volatile over the year, particularly in recent months due to the COVID-19 crisis.
- **Discount Rate.** The discount rate is applied to the employer's liabilities to calculate their future values. This discount rate applied by the Actuary is derived by reference to market yields on high quality corporate bonds and by calculating a Single Equivalent Discount Rate (SEDR). The rates used are those that match the duration of the employer's liability. This is consistent with the approach proposed by the Actuary and adopted by Ashfield District Council last year.
- **Inflation Expectations.** The increases in pensions in the Local Government Pension are based on the Consumer Prices Index (CPI). As there is limited information on CPI- linked assets the Actuary derives an implied Retail Prices Inflation (RPI) assumption and adjusts for the differences between RPI and CPI. The levels of future Retail Prices Inflation (RPI) are assessed based on the yields on fixed interest and index linked government securities over the period of the duration of the liabilities by calculating a Single Equivalent Inflation Rate

(SEIR). The Actuary has assessed the gap between RPI and CPI going forward to be a reduction of between 0.8% and 0.9%. This is a reduction from the previous year's assumption of a difference of 1%. This is due to UK Statistical Authority proposing changes to how RPI is calculated, which is expected to reduce the gap and although the changes has not come in yet the market has already stared to react.

- **Salary Increases** – The Actuary has proposed to use the assumption that salary increases are in line with CPI plus 1.0% p.a. This is updated from last year assumption of CPI to 2020, then CPI plus 1.5%.

1.10 The overall impact of the assumptions for an average employer is set out below but it should be noted that individual employer's circumstances vary, in particular the average age of their overall liabilities and therefore the results for Ashfield may be different from the assessment below.

Estimated effect of changes in Actuary's assumptions on employers liability in 2019/20

Assumption	**Duration of Individual Employee Liability (Years)**			
	10	**15**	**20**	**25**
Discount Rate (SEDR)	Decrease of 1%	No change	Increase of 1%	Increase of 2%
Inflation (SEIR)	Decrease of 6%	Decrease of 7%	Decrease of 9%	Decrease of 13%
Overall Expected Impact	Decrease of 7%	Decrease of 7%	Decrease of 8%	Decrease of 10%

1.11 It should be noted that the assumptions are based on the post accounting date pension briefing note, provided by the Actuary on the 6th April 2020 and it is based on market information to 31 March 2020. The market conditions at 31 March 2020 take into the account the impact of the UK exiting the EU on 31 January 2020 and the Covid-19 pandemic.

Supreme Court ruling in McCloud/Sargeant case

1.12 Two employment tribunal cases were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015.

1.13 The first case (McCloud) was ruled in favour of the claimants, while the second case (Sargeant) ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination.

1.14 On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the case. We still have to wait for a remedy to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS. An adjustment to reflect the decision of the Supreme Court was made in Ashfield's accounts for 2018/19.

Implications

Corporate Plan:

There is no impact to the Long Term Outcomes and Corporate Priorities.

Legal:
There are no legal implications.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	There are no direct financial implications as a result of this report. It sets out assumptions that the Actuary uses to calculate the pension position for the Council under IAS 19 to show the estimated net value of the Council's portion of the pension fund (assets less liabilities). Changes in assumptions will affect the net position, but this has a nil overall change in the resources available to the Council on the balance sheet as any changes to the income and expenditure statement are reversed through statutory accounting entries.
General Fund – Capital Programme	None
Housing Revenue Account – Revenue Budget	As above in General Fund
Housing Revenue Account – Capital Programme	None

Risk:

Risk	Mitigation
Employee Benefits figures reported in the Council's Annual Statement of Accounts for 2019/20 are misstated.	Assumptions are as advised by the Pension Fund Actuary. The assumptions are considered by Audit Committee.

Human Resources:
There are no human resources impacts

Equalities:
There are no equalities impacts

Environment/Sustainability:
There are no environmental or sustainability issues.

Other Implications:
None

Reason(s) for Urgency
N/A

Background Papers

Appendix A – Barnet Waddington Briefing Note including Glossary and FAQ's.

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FRS102/IAS19 Glossary and FAQs

The purpose of this note is to provide LGPS Fund employers and their advisers with some further explanatory details about the reports we produce in accordance with Financial Reporting Standard 102 (FRS102) and International Accounting Standard 19 (IAS19).

It is divided into a glossary of terms followed by some frequently asked questions (FAQs). Where certain terms are explained in more detail in the glossary these are highlighted in **bold**.

A topical briefing note discussing assumptions and an indication of the likely trend in results is also issued after each of the main accounting dates. In contrast, this briefing note describes the fundamentals of the accounting standards and is only expected to be updated occasionally (e.g. when the standards change). Please get in touch if you would like a copy of any of these notes.

If you have any questions please get in touch with the Fund in the first instance.

Background

Sponsors of defined benefit pension schemes are required to account for the cost of providing retirement benefits and reserve for any outstanding liabilities associated with the schemes they sponsor. They are also required to make certain disclosures about these schemes in the notes to their accounts.

FRS102 and IAS19 are accounting standards that set out the accounting treatment for retirement benefits. For UK listed companies and local authorities IAS19 applies; for other UK entities FRS102 applies. Companies with overseas parents may need to make disclosures under other standards.

A key feature of both standards is the requirement for liabilities to be valued using a discount rate assumption set with reference to yields on “high quality” corporate bonds.

It should be noted that the actual contribution rates required by employers for each Fund are calculated every three years following a triennial actuarial valuation and these are calculated using assumptions set by the Fund Actuary. The discount rate assumption in particular is generally set with reference to expected future investment returns of the Fund unlike the accounting standards which value the liabilities using solely the yields on corporate bonds.

Therefore, the contribution rates paid by employers are not affected by the accounting results.

Glossary of terms

Included in this section:

- Actuarial gains & losses
- Administration expenses
- Change in demographic assumptions
- Change in financial assumptions
- Contributions by employer including unfunded
- Current service cost
- Curtailment
- Defined benefit obligation
- Demographic assumptions
- Discount rate
- Duration
- Interest cost
- Interest on assets
- Net interest on defined liability
- Past service cost
- Present value of defined benefit obligation
- Re-measurements
- Return on assets less interest/ Return on Fund assets in excess of interest
- Service cost
- Settlement
- Term
- Unfunded benefits

Actuarial gains & losses

This item reflects the extent to which the movements of the assets and liabilities over the accounting year have not been as assumed at the previous accounting date, and also the effect on the liabilities of changes to the assumptions used to value them.

The components of the actuarial gain or loss on assets are:

- the difference between the actual investment return on the assets over the year, and the interest on assets, plus
- an experience item, if applicable.

The components of the actuarial loss on liabilities are:

- the effect of the change in assumptions used to value the liabilities compared to the previous year, plus
- an experience item, if applicable.

There is a requirement to split the change of assumptions into those of a financial nature (discount rate, assumed future inflation growth etc.) and those of a demographic nature (future mortality rates etc.).

For more details on experience items, please see the "Gains and Losses" section of the FAQs.

Administration expenses

Both accounting standards require the administration expenses to be recognised when the administration services are provided and to be reported as a separate item in the Profit and Loss (P&L) statement.

Change in demographic assumptions

This shows the impact on the value of the liabilities of any changes in the demographic assumptions since the previous accounting date. More detail is provided on what is included in demographic assumptions is detailed in the Demographic assumptions section.

The same demographic assumptions may be adopted between triennial funding valuations and so there may not be a change in demographic assumptions item each year.

The demographic assumption which is most likely to have an effect on the value of liabilities are the assumptions in relation to mortality i.e. how long members will live.

For example, when changes in mortality assumptions results in a decrease in the life expectancy of members this will result in a decrease in the value of liabilities. This is because the term that members are expected to live in retirement would be shorter so less benefits will be paid.

Change in financial assumptions

This shows the impact on the value of the liabilities of any changes in the financial assumptions since the previous accounting date.

Financial assumptions reflect market conditions at the accounting date and so are likely to change each year.

The assumptions which have the most significant impact on the value of liabilities are the discount rate and the assumed rate of pension increases.

If the assumed discount rate is higher than at the previous accounting date this will result in a decrease in the value of liabilities. Conversely, if the assumed rate of pension increases is higher than at the previous accounting date this will result in an increase in the value of liabilities.

Contributions by employer including unfunded

This is the total value of the contributions paid by the employer to the Fund including the normal contributions in respect of benefit accrual by active members, contributions towards any deficit and any early retirement strain contributions. If **unfunded benefits** (usually pensions in payment) are paid through the Fund and are to be included in the accounting report, then payments in respect of unfunded benefits are included here as well.

For more information on the inclusion of **unfunded benefits**, please see the "Do I need to include unfunded benefits on my balance sheet?" section of the FAQs.

Current service cost

The **current service cost** represents the cost to the employer of the benefits earned by active members during the accounting year calculated on an FRS102/IAS19 basis. This is added to the liabilities and is not the same figure as the employer contributions paid to meet these 'new' benefits. It is calculated using assumptions at the start of the accounting year which means that it is not a fixed percentage of payroll and it is expected to vary from year to year as assumptions change.

Under both standards this is a component of the **Service cost** in the P&L.

Curtailment

These will typically be the FRS102/IAS19 equivalent of early retirement costs. The actual strain payments to the Fund are calculated by the administering authority using a different set of assumptions and so the calculation of this amount under FRS102/IAS19 is unlikely to be the same as the strain payment cash amounts.

Under both standards the loss on these is a component of the **Service cost** in the P&L.

Defined benefit obligation

This is the value of the past service liabilities, calculated using service to the accounting date (estimated where necessary) and allows for several assumptions such as future increases to salaries, future mortality rates, future inflation rates etc. The key assumption used to calculate these liabilities is the discount rate.

Discount rate

Pensions and lump sums will be paid at some point in the future and so a rate known as the **discount rate** is used in order to express these expected future payments as a single current value.

It is analogous to a rate of interest; to illustrate this, if we put £100 into a savings account today, it is expected to grow with interest every year to become a higher amount in the future. Similarly, if we are aiming to have £100 at a future date then we only need deposit a smaller amount now which will accumulate with interest to give £100 later.

A higher **discount rate** means that the future payments have a smaller value now i.e. a lower pension liability.

The accounting standards prescribe that the **discount rate** should be based on market yields at the reporting date of a 'high-quality corporate bond' of equivalent currency and **term** to the scheme liabilities.

The discount rate can be derived using a number of different approaches. The current Barnett Waddingham approach is to use the Single Equivalent Discount Rate (SEDR) method which replaced the spot rate approach. For more information please see the "What is the difference between the Single Equivalent Discount Rate (SEDR) and Spot rate approach for deriving the discount rate?" section of the FAQs.

Duration

When we talk about the **duration** of the liabilities we mean the average time to payment of benefits. This is used interchangeably with the **term** of the liabilities.

Demographic assumptions

These are the assumptions used to generally provide estimates of the likelihood of benefits and contributions being paid and for how long. This consists of all the non-financial assumptions used to value the liabilities including the mortality assumptions (i.e. how long members are likely to live for), the rates of members retiring early and the rate at which members exchange pension for cash at retirement.

The same demographic assumptions may be adopted between triennial funding valuations, however, if there are changes in an employers' membership, or the population as a whole, it may be appropriate to review demographic assumptions.

Interest cost

Over the accounting year the existing pension benefits come closer to payment than they were at the start, and so the value of the liabilities increases as a year's worth of interest is added on. This forms part of the **net interest on defined liability** (in the P&L).

Interest on assets

The expected return on assets has been replaced with an interest on assets item which is calculated with reference to the **discount rate.** It is therefore based solely on the expected returns on corporate bonds. This forms part of the **net interest on defined liability** (in the P&L).

Liabilities

These are also referred to as the **defined benefit obligation**.

Net interest on defined liability

The accounting standards assume that assets increase in line with the **discount rate**. This is combined with the **interest cost** on liabilities to form the net interest on the defined liability which is a component of the P&L.

Past service cost

Additional benefits granted during the accounting year give rise to a **past service cost**, for example, an employer decision to award additional service to a retiring employee.

Under both standards this is a component of the **Service cost** in the P&L.

Present value of defined benefit obligations

This is also referred to as the past service liabilities. This is the value of the benefits accrued by all members to date, calculated using service to the accounting date and allows for several assumptions such as future increases to salaries, future mortality rates, future inflation rates etc. The key assumption used to calculate the value of these liabilities is the **discount rate**.

Re-measurements

Re-measurements are recognised in Other Comprehensive Income and is effectively the total of the **actuarial gains and losses** from the changes in the assets and liabilities over the accounting period. This will include the investment return on the assets in excess of interest, change in assumptions (financial and demographic) as well as any experience adjustments. More detail about this is in the "Gains and Losses" section of the FAQs.

Return on assets less interest/ Return on Fund assets in excess of interest

This item is the investment return on Fund assets above (or below) that which was assumed at the previous accounting date. Under IAS19 and FRS102 the interest/assumed return on assets is the discount rate assumed at the previous accounting date.

Therefore, if returns on Fund assets (provided in the 'Assets' section of your report) is higher than the discount rate assumed at the previous accounting date this will result in an actuarial gain. Conversely, if lower than the discount rate this will result in an actuarial loss.

The magnitude of this item will be dependent on how much the actual return on Fund assets differs from the discount rate at the previous accounting date.

Service cost

Service cost is a component of the P&L and includes current service cost, past service cost and any actuarial gains or losses on settlements and curtailments.

Settlement

A **settlement** will generally occur where there is a bulk transfer of members in to or out of the Fund or an employer's share of the Fund. The **settlement** loss or gain reflects the difference between transferred asset share, and the value of the transferred liabilities when calculated on an FRS102/IAS19 basis. This value may be different when compared to figures calculated for non-accounting purposes due to different assumptions being used.

Under both standards this is a component of the **Service cost** in the P&L.

Term

Please see definition of **duration** above.

Unfunded benefits

Unfunded benefits are pensions arising from additional service awarded on a discretionary basis e.g. Compensatory Added Years (CAY) pensions. Such benefits are usually charged to the employer as they are paid. Other **unfunded benefits** include gratuities and enhanced teacher's pensions which are recharged to the employer, and pensions in respect of some other public sector pension schemes.

This is in contrast to funded pensions, which are paid for out of the assets of the Fund, and which the employer has responsibility for funding by paying contributions to the Fund.

Frequently asked questions (FAQs)

Included in this section:

- How are my assets calculated?
- What is the Defined Benefit Obligation and how is this calculated?
- Do I need to include unfunded benefits on my balance sheet?
- What is the difference between assumptions for an ongoing funding valuation and an accounting valuation?
- What is the difference between the Single Equivalent Discount Rate (SEDR) and Spot rate approach for deriving the discount rate?
- Why is the inflation assumption different to current inflation levels?
- How much scope is there for 'tweaking' the assumptions?
- Why is the current service cost different from the contributions paid?
- Why is the current service cost different from the previous year?
- What if the reported contributions paid are different to the actual contributions paid?
- How are settlements/curtailments/past service costs treated under IAS19?
- What is an experience gain or loss?
- What does actual less expected return on Fund assets mean?
- Why is there an experience gain or loss on the assets?
- Why is there an experience gain or loss on the liabilities?
- What is the change in assumptions?
- What is the impact of the recent GMP equalisation ruling?
- Does the McCloud judgement have any impact on LGPS liabilities?
- Is the Projected unit method being used?
- How are Investment expenses allowed for?
- What checks are carried out on the data underlying the calculations?

Balance sheet

How are my assets calculated?

The assets shown are an estimate of the employer's notional share of the total Fund assets at the accounting date. A full assessment of each employer's asset share is made at each triennial valuation. For interim FRS102/IAS19 reporting the approach is to take the asset share at the start of the accounting year and roll this forward to allow for the employer's own cashflows to and from the Fund during the year and actual (or estimated) Fund returns.

Thus, the employer's asset share is not a fixed percentage of the Fund and is expected to vary over time.

The assets will change from year to year: increasing with contributions paid into the Fund and investment returns earned; and decreasing as benefits (such as lump sums and pensions) are paid out of the Fund.

More details on how we calculate employers' assets can be found in the below Appendix

What is the Defined Benefit Obligation and how is this calculated?

The Defined Benefit Obligation is the accounting label for what is usually known as the value of the pension liabilities of the employer. The pension liabilities are the promised benefit payments (e.g. pensions, lump sums) due in the future from the Fund to its members. The Defined Benefit Obligation is the value of these liabilities calculated using a set of assumptions on an FRS102/IAS19 basis, which includes how these payments will increase over time both before and after retirement, how long they will be paid out for (i.e. how long each member is likely to live for) and the **discount rate** to apply to them to give a current value.

The Defined Benefit Obligation depends on the amount of the benefits so will increase as benefits are accrued and reduce as benefits are paid out. The value will also increase or decrease as the assumptions used to calculate their value change. For example, if the **discount rate** assumption decreases, the Defined Benefit Obligation will increase. Therefore, even if your assets have performed well, if the Defined Benefit Obligation increases at a rate faster than the assets increase, then the deficit on the balance sheet will increase.

Do I need to include unfunded benefits on my balance sheet?

Unfunded benefits may be paid through the Fund and recharged to the employer.

FRS102 and IAS19 both state that all retirement benefits should be accounted for when the member earns the benefit and not when it is paid by an employer. Therefore when a member retired and was awarded **unfunded benefits** the value of all future payments should have been taken into account at the point of retirement. This value would generally be expected to reduce over time as the benefits are paid out.

We can only value unfunded benefits that we are aware of and usually these will be those that are paid via the Fund.

Assumptions

What is the difference between assumptions for an ongoing funding valuation and an accounting valuation?

Contributions payable by employers are derived using the assumptions from the ongoing funding valuation and this is essentially the purpose of the ongoing valuation. An accounting valuation is prepared to meet statutory disclosure requirements and is included in the employer's annual accounts. Therefore, the purposes are different.

The results from the two valuation types can be significantly different due to the different assumptions used.

The assumptions adopted for an ongoing funding valuation are set by the Fund Actuary following discussion with the administering authority and in line with the LGPS Regulations. Broadly, they are set with reference to the long-term expected cost of providing LGPS benefits and take into account the investment strategy of the Fund and the expected return on each asset class that the Fund invests in.

In contrast, FRS102 and IAS19 are fairly prescriptive accounting standards which aim to allow employers' pension obligations to be compared with each other.

Generally, the demographic assumptions used for both valuations are the same and determined every three years as part of the ongoing triennial valuation. The main area where funding valuations for our Funds and accounting valuations differ is in the derivation of the **discount rate**.

For ongoing valuations, the **discount rate** adopted is based on the expected investment return of the assets actually held by the Fund. For FRS102/IAS19, the **discount rate** is required to be determined with reference to the market yield on 'high quality' corporate bonds and with consideration of the **duration** of the employer's liabilities. Generally, corporate bond yields will be lower than the return assumed for an ongoing valuation as the Fund is likely to invest in a mixture of assets include higher return seeking assets such as equities and property. Therefore we would expect that employers' costs and liabilities under FRS102/IAS19 to be higher than those calculated in an ongoing funding valuation if the **discount rate** used is lower.

However, it is important to note that the accounting position has no bearing on the amounts that the employers actually pay into the Fund, this being determined with reference to the ongoing funding position with contributions being reviewed every three years as part of the triennial valuation.

What is the difference between the single equivalent discount rate (SEDR) and spot rate approach for deriving the discount rate?

The spot rate is derived by looking at each employer's projected cashflows and determining the duration of these cashflows – broadly speaking the number of years until the average benefit payment is made. The duration is typically 15-20 years. We would then take the annualised Merrill Lynch AA rated corporate bond yield curve and look up the yield at that duration on the curve.

The single equivalent discount rate or SEDR approach has been developed over the last few years. Under this approach, rather than discount future cashflows with a single **discount rate** equal to the spot rate on the yield curve, this approach estimates the single equivalent rate that would produce the same liability as discounting each individual projected cashflow using a yield curve for AA rated bonds. So we use the 1 year yield to discount cashflows in year 1, the 2 year yield for cashflows in year 2 and so on and then see what liability value is then generated and then work out what single equivalent discount rate gives you the same answer.

Depending on the shape of the yield curve, what curve you use in the first place, the bonds underlying that curve and how you fit the curve to the data points, you are unlikely to get the same discount rate under each approach although the difference should not usually be that significant.

In our view either of these approaches satisfy the requirement of paragraph 85 of IAS19 as indeed would some other alternatives. Given the nature of the wording in IAS19, and as with most assumption setting processes, there is no singularly "correct" approach.

We have taken a similar approach to the derivation of the inflation assumption which we refer to as the single equivalent inflation rate (SEIR). For more information please see "Why is the inflation assumption different to current inflation levels?"

Why is the inflation assumption different to current inflation levels?

The current level of inflation that is widely reported each month is a measure of how prices have increased in the recent past, usually over the last year. However, in order to project cashflows to and from the Fund over the future lifetime of the Fund, we are interested in what inflation will do in the future and therefore we have to make an assumption about expected future levels of inflation over the long term. We do this by using information published by the Bank of England.

Similar to the SEDR approach, the SEIR adopted is such that the single assumed rate of inflation results in the same liability value (when discounted using the yield curve valuation described above) as that resulting from applying the BoE implied inflation curve.

How much scope is there for 'tweaking' the assumptions?

One of the objectives of FRS102 and IAS19 is to ensure that organisations all account for pension costs on a consistent market-related basis so there is not intended to be a huge amount of scope to deviate away from typical market assumptions. We do provide a recommended set of assumptions but the employer is ultimately responsible for the assumptions that are adopted.

One key area in which the employer can exercise more control is the assumption about future levels of pay increases and they will have more knowledge of likely future pay awards for their staff.

Pension costs

Why is the current service cost different from the contributions paid?

Contributions are required from the employer to meet the cost of the benefits being earned by current employees, and to pay off any past service deficit. Minimum contributions are certified when a new employer joins the Fund and then again at each triennial valuation. These certified contributions are calculated using assumptions made at each valuation and reflect, amongst other things, the return assumed to be earned by the assets actually held by the Fund.

The **current service cost** in FRS102/IAS19 only includes the employer cost of benefits being earned by current employees and does not include the cost of paying off any past service deficit. The assumptions used for FRS102/IAS19 are usually different to those used for the triennial valuation. In particular, the **discount rate** is prescribed by FRS102/IAS19 and is unlikely to reflect the Fund's actual asset allocation. This means the **current service cost** calculated for FRS102/IAS19 is likely to be different to the cost covered by the certified minimum contributions.

Why is the current service cost different from the previous year?

The **current service** cost is the cost of benefits accrued over the period based on the assumptions at the start of the period i.e. the assumptions at the previous accounting date.

Therefore this will be affected by:

- the difference in the assumptions adopted at the previous accounting date compared to the assumptions adopted at the accounting date preceding the previous accounting date; and
- the change in payroll over the accounting period compared to that over the previous accounting period.

What if the reported contributions paid are different to the actual contributions paid?

The discrepancy may be because cashflows for less than the full twelve months were provided in order to enable us to produce figures in the timescales required. We can revise the disclosure to take account of the actual contributions paid but we recommend that you agree with your auditor that this is necessary on the grounds of materiality.

How are settlements/curtailments/past service costs treated under IAS19?

On 7 February 2018, the International Accounting Standards Board (IASB) issued amendments to the IAS19 standard which now requires that when determining any past service cost or gain or loss on settlement that the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. This applies for all accounting periods starting on or after 1 January 2019.

Common events for LGPS employers that this amendment may apply to include outsourcings, academy conversions and unreduced early retirements.

The amendment complicates the accounting disclosure as additional calculations are required to determine the cost before and after each event, and to rebase the standard roll forward approach on updated assumptions based on each event date. The amendment does, however, note that the extra remeasurement does not need to be applied where the application of that remeasurement is immaterial. The assessment of materiality will be subject to each employer and auditor's discretion. We can provide additional information to help assess materiality but we cannot conclude whether an event is material or not. If relevant, the employer should also consider any guidance in relation to this set out by The Chartered Institute of Public Finance & Accountancy (CIPFA) in its *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20* note.

Our default approach for IAS19 reports will be to assume that all events are material and therefore will adopt the approach set out in the IAS19 amendment. If the employer does not want to treat all the events in this way then we would strongly recommend the employer reviews the events with their auditor in advance of the preparation of their report.

Please note that there is no explicit requirement to treat events in such a way under the FRS102 standard and therefore our standard approach for FRS102 reports is to not remeasure at each event date but we would be happy to treat differently as required.

Gains and losses

What is an experience gain or loss?

The first accounting report prepared following a triennial valuation includes an experience item. Accounting reports are prepared each year using a number of estimates and approximations in the roll-forward process on both the assets and the liabilities. This experience adjustment is essentially a correction of the estimates made in the previous accounting reports leading up to the triennial valuation.

What does actual less expected return on Fund assets mean?

The "expected" return on the Fund assets for a year is simply based on the **discount rate** assumption at the start of the year. If actual Fund returns have been higher than the **discount rate** assumption this figure will be positive but if they were lower this will be negative.

Why is there an experience gain or loss on the assets?

To determine the employer asset share for an accounting report we are provided with various pieces of financial information, including contributions received, benefits paid and a recent total Fund value. These cashflows may only be for part of the accounting year, and the total Fund value may be at a date earlier than the accounting date. This total Fund value will not be a fully audited number and is unlikely to be exactly accurate. We pro rata the cashflows if necessary to get full year numbers, and roll forward the assets with market returns to get an estimate of the asset value as at the accounting date.

However, at a triennial valuation we do get full cashflow data for each year and actual audited Fund asset values. We then determine each employer's asset share accurately at the triennial valuation date and the experience item emerges as the difference between the three years' worth of estimated rolled-forward assets and the accurate figure. At the triennial valuation we may also adjust employer assets if necessary to take into account any transfers or outsourcings that may not have been resolved in time to be included in the relevant accounting years.

Why is there an experience gain or loss on the liabilities?

To determine the value of the employer liabilities for an accounting report we roll forward the results from the most recent funding valuation, using the financial and demographic assumptions set for accounting purposes.

Therefore, after each triennial valuation we recalculate the accounting liabilities using up to date membership data and results. An experience item emerges as the difference between the actual experience of the members of the Fund, and the experience that had been assumed for them in the previous accounting reports. For example, if members died earlier than assumed this will result in an **actuarial gain** as the liabilities will be lower than estimated in the roll forward, or if members received higher than assumed salary increases then there will be an **actuarial loss** as the liabilities will be higher than estimated.

What is the change in assumptions?

This is a combination of the impact on the value of the liabilities due to any changes in the financial and demographic assumptions since the previous accounting date. See the change in demographic assumptions and change in financial assumptions sections above for more detail.

What is the impact of the recent GMP equalisation ruling?

It is our understanding that HM Treasury have confirmed that the judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes". More information on the current method of equalisation of public service pension schemes can be found here.

On 22 January 2018, the Government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. HM Treasury published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found here.

Our valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that the Fund will be required to pay the entire inflationary increase. Therefore we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome.

Does the McCloud/Sargeant judgement have any impact on LGPS liabilities?

The recent Court of Appeal judgment on the McCloud and Sargeant cases, relate to age discrimination against the age-based transitional provisions put into place when the new judicial pension arrangements were introduced in 2015. The members argued that these transitional provisions were directly discriminatory on grounds of age and indirectly discriminatory on grounds of sex and race, based on the correlation between these two factors reflected in the judicial membership. The Tribunal ruled against the Government, deeming the transitional provisions as not a proportionate means of achieving a legitimate aim.

The Government subsequently applied to the Supreme Court to appeal the judgement but their application was denied on 27 June 2019.

We still have to wait for a remedy to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. However, the Scheme Advisory Board, with the consent of MHCLG, had commissioned GAD to report on the possible impact of the McCloud case on LGPS liabilities – in particular those liabilities to be included in local authorities' accounts under IAS19 as at 31 March 2019. This followed the April 2019 CIPFA briefing note which said that local authorities should consider the materiality of the impact. GAD have now issued their report dated 10 June 2019, which is intended to help authorities assess that materiality.

Based on this analysis carried out by GAD we estimated the impact of the McCloud/Sargeant ruling on a number of employers for whom we produce accounting reports as at 31 March 2019, as requested by auditors, in order to help individual employers to assess the materiality of the potential cost. We anticipate that other employers will also require this information to allow them to discuss with their local auditors whether the cost is deemed material and therefore should be allowed for in the accounts.

The potential cost of the judgement on the liabilities is very much dependent on the membership profile of the employer and assumed future salary increases. For example, for an employer who has a high proportion of active members (and very few deferred and pensioner members), and a salary increase assumption of CPI + 1.5% p.a. the outcome of the McCloud judgement could increase the employer's liabilities by around 3% according to the GAD analysis. However, for an employer with a small proportion of active members and a salary increase assumption equal to (or less than) CPI, the impact of the McCloud judgement is likely to be negligible.

We have taken the view to include an allowance for the McCloud judgement as a default unless an employer chooses to opt out.

Is the Projected unit method being used?

We use the Projected unit method in our calculations.

How are Investment expenses allowed for?

Investment expenses are included in the estimated return on fund assets. Therefore, the 'Return on assets less interest' element of the asset reconciliation and includes allowance for Investment expenses.

This is not included in 'Administration expenses' and are therefore not contained within in the Profit and Loss statement but is included in the Re-measurements in other comprehensive income.

What checks are carried out on the data underlying the liability calculations?

One of the key items of data underlying our calculations is the member data used for the starting point of the liability roll forward. The member data is generally that from the most recent actuarial valuation and therefore has been passed through a vigorous data checking process as part of the valuation. As the member data has been sufficiently cleansed for the purpose of the actuarial valuation, we believe it is also reasonable for the purpose of the accounting roll forward. The key checks carried out on the data include:

- Consistency of static member data items (such as sex and date of birth) to previous valuation
- Consistency of changeable member data items to previous valuation. For example:
    - Reasonable change in salary for active members
    - Reasonable level of accrual for active members
    - Deferred and pensioner member pensions have increased as expected based on LGPS pension increases

- Reconciliation of employer membership to ensure that all previous members accounted for (or no longer in data as expected) and new members look reasonable

Appendix 1 Employer asset allocation

One of the most common questions we are asked by employers is how their asset amount has been calculated. This short paper sets out exactly how we do this and is aimed at both employers and their advisers.

Notional assets

Assets are not separately held for each employer; the Fund holds assets in respect of all the employers in the Fund and each employer has a notional share of these assets. For example, the contributions an employer makes into the Fund are not paid into a separate employer account and invested independently, but are paid into the Whole Fund along with all other employers' contributions and invested as a whole. However, they are taken into account when calculating a notional asset figure for actuarial valuations and employer work.

Asset Calculation – Actuarial Valuations

Assets are fully re-apportioned at each triennial funding valuation. To do this for an employer, we accumulate the notional market value of assets from the previous funding valuation with respect to the Fund's returns from the published accounts. We also allow for the cashflows in respect of the employer which include employer and employee contributions, pensions and retirement lump sums paid, and transfers in and out etc. If we know the exact date of the cashflow then we allow for this in our calculation, otherwise we assume the cashflow occurs halfway through the year. This will include any notional transfers within the Fund between the employers, even though no actual cash has been paid into or out of the Fund.

We also adjust the assets by a smoothing factor to be consistent with our measurement of the liabilities. We essentially look at the asset value over each day for the six month period around the valuation date (based on published market indices) and take the average.

Asset Calculation – Accounting valuations

In order to calculate asset values for accounting valuations, the starting point is the most recent valuation and the process is then similar to the above but may involve approximations. For example, if the Fund's actual returns have not yet been calculated for any period, we will calculate the notional return based on suitable market indices.

We use the estimated market value for FRS102 and IAS19 calculations therefore no smoothing factor is applied.

Auditor views

Auditors continue to look for greater accuracy in the roll forward approach used to calculate employers' results. This includes the approach used to determine each employer's share of fund assets at the accounting date.

Given the tight timescales for employers to submit their final accounts we appreciate that it is not always possible to wait until a fund's net asset statement at the accounting date is available to begin producing accounting disclosures. As a result, we request details of funds' assets at the most recent date available and, for the remaining period, we assume that returns are in line with relevant market indices.

In order to reduce the chance of having to revise any reports we recommend that employers engage with their auditors and the administering authority of the fund as early as possible to ensure they are comfortable with the information being used to calculate results.

Accounting reporting as at 31 March 2020

Employer briefing note post-accounting date

Barnett Waddingham LLP

6 April 2020

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Accounting reporting as at 31 March 2020

Many LGPS employers, in particular local authorities and other public sector employers, prepare accounting disclosures as at 31 March each year and these may be in accordance with the IAS19 or FRS102 standard, depending on the employer.

This note outlines some of the changes to the key financial assumptions that are used in preparing the IAS19 and FRS102 accounting numbers since the last reporting date as well as information on asset performance over the period.

This note complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100).

Unless requested otherwise, we prepare our reports based on our standard approach. We therefore recommend employers discuss this note with their auditors to check that the standard approach is appropriate.

How has the accounting position changed?

Prior to the year-end we provided a note setting out the intended derivation of our assumptions and possible outcomes using market conditions at 31 January 2020. As we have now passed the year-end, we can now provide our final conclusions based on market conditions at 31 March 2020.

As LGPS Funds are usually invested in a range of asset classes, the performance of the assets may be quite different from that of the accounting liabilities (which are linked to corporate bonds, as set out below) and so the results can be very volatile from year to year.

This note discusses our recommended assumptions for the exercise, however the responsibility for setting assumptions ultimately belongs to the employer and therefore if an employer was to request alternative assumptions then we would be happy to use these in producing our report. The assumptions in this report are therefore the standards that we intend to use unless instructed otherwise. We believe that these assumptions are likely to be appropriate for most employers but we have not consulted with each employer in setting these.

The change in the balance sheet position over the year is mainly dependent on the answers to three key questions and this report is split into these three sections:

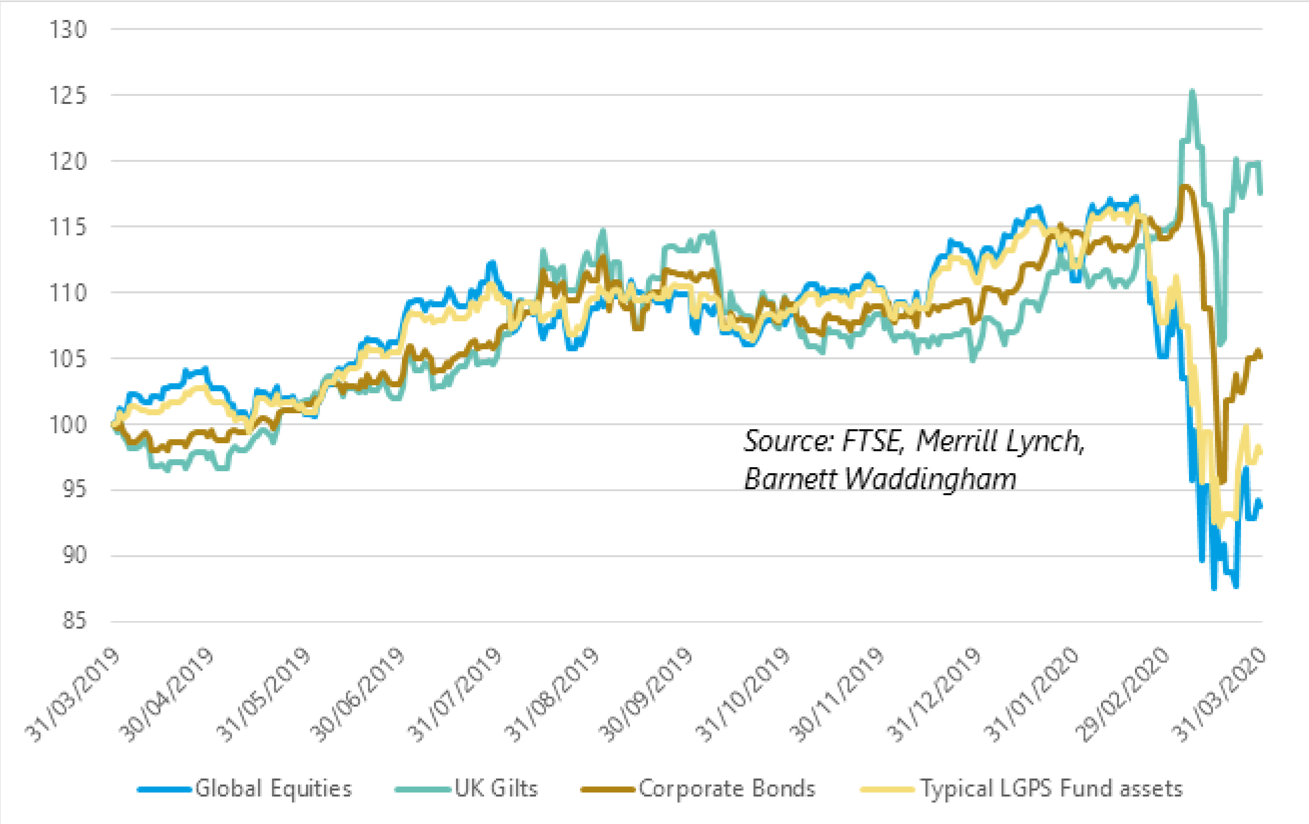
- What were asset returns for the twelve months to 31 March 2020?
- What were corporate bond yields as at 31 March 2020?
- What were market expectations of inflation as at 31 March 2020?

We appreciate that some of the terminology in this report may not be familiar and therefore we would recommend also reading our Glossary and FAQs document for a more detailed explanation on some of the jargon used here. This document has been circulated with this briefing note but please get in touch with the Fund if you would like a copy.

Please let your usual Barnett Waddingham contact know if you have any queries.

Asset returns

The following chart plots returns from the major asset classes since 31 March 2019 alongside the return that would have been achieved by a Fund invested 75% in global equities, 20% in corporate bonds and 5% in gilts.



Asset performance has been volatile over the period to 31 March 2020, particularly in recent months as a result of the current COVID-19 crisis. Based on market indices, and the asset allocation outlined above, a typical LGPS Fund might have achieved a return of around -2% for the year. However, given the level of volatility seen in the markets, this could vary considerably depending on each Fund's investment strategy.

If Fund returns have been around this level, asset returns will have been lower than the discount rate assumed at the previous accounting date and this will lead to an actuarial loss on the assets; increasing the accounting deficit.

However, the overall position is also influenced by the effect of market movements on the assumptions used to place a value on the defined benefit obligation. This is discussed in the next section.

Changes to financial assumptions

The key financial assumptions required for determining the defined benefit obligation under either accounting standard are the discount rate, linked to corporate bond yields, and the rate of future inflation. These assumptions are discussed below.

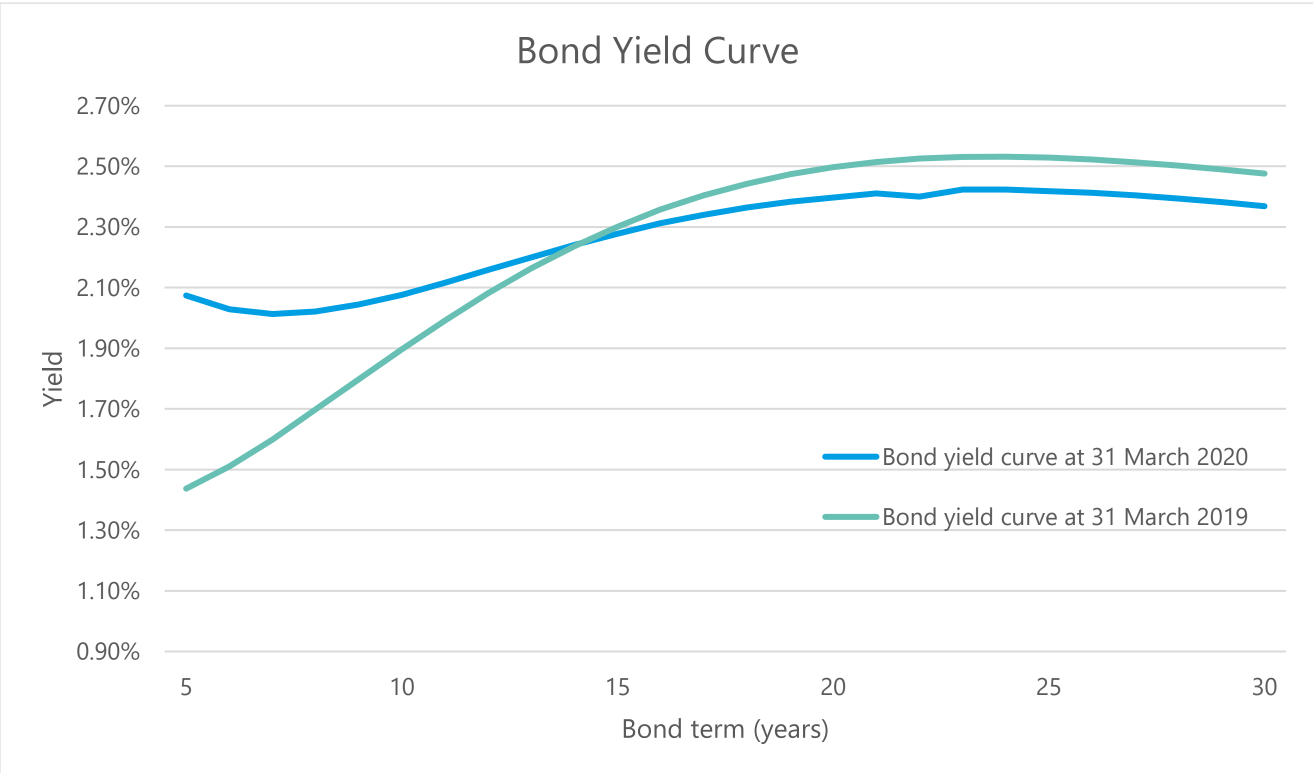
Discount rate

Under both the FRS102 and IAS19 standards the discount rate should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The approach we adopted to derive the appropriate discount rate at the previous accounting date is known as the Single Equivalent Discount Rate (SEDR) methodology. We intend to adopt the same approach for assumptions used for accounting disclosures at 31 March 2020.

We use sample cashflows for employers at each duration year (from 2 to 30 years) and derive the single discount rate which results in the same liability value as that which would be determined using a full yield curve valuation (essentially each year's cashflows has a different discount rate). This discount rate is known as the SEDR. In carrying out this derivation we use the annualised Merrill Lynch AA rated corporate bond yield curve and assume the curve is flat beyond the 30 year point.

The standard assumptions set for an employer will be based on their individual duration. For example, an employer with an estimated liability duration of 13 years will adopt assumptions consistent with those derived using the 13 year cashflows.

The below graph shows the bond yield curve at the last accounting date along with the yield curve at 31 March 2020:



These curves reflect the yields that underlie the SEDR calculations and are not the estimates of the standard discount rate assumption. Sample SEDR assumptions are set out in the table below.

You will see that the bond yield at 31 March 2020 is higher than at 31 March 2019 at earlier terms but slightly lower at longer terms. As a result, the discount rate assumed for employers with lower durations this year may be higher than assumed at the previous accounting date and employers with a longer duration may have a similar or slightly lower assumed discount rate compared to last year. All else being equal, a lower discount rate would result in a higher value being placed on the defined benefit obligation.

Sample SEDRs are set out in the table below based on market conditions at 31 March 2020, with the equivalent 31 March 2019 SEDRs also shown for comparison:

Duration (years)	31 March 2020	31 March 2019
10	2.30%	2.20%
15	2.35%	2.35%
20	2.35%	2.40%
25	2.35%	2.45%

Assumptions are rounded to the nearest 0.05%.

The below table sets out the estimated effect of the change in discount rate assumed based on the same sample durations:

Duration (years)	Estimated effect of change in discount rate on employer's liabilities
10	Decrease of 1%
15	No change
20	Increase of 1%
25	Increase of 2%

The actual effect of the change in the discount rate assumption will depend on each employer's membership and the assumption to be adopted this year compared to last year.

Inflation expectations

Whilst the change in corporate bond yields is an important factor affecting the valuation of the liabilities, so too is the assumed level of future inflation as this determines the rate at which active members' CARE benefits and deferred and pensioner members' benefits increase.

IAS19 suggests that in assessing future levels of long-term inflation we should use assumptions that would result in a best estimate of the ultimate cost of providing benefits whilst also giving consideration to the gilt market (in line with general price levels) to give us an indication of market expectation. FRS102 simply refers to a best estimate of the financial variables used in the liability calculation.

Pension increases in the LGPS are expected to be based on the Consumer Prices Index (CPI). As there is limited market information on CPI-linked assets, to derive our CPI assumption we first make an assumption on the Retail Prices Index (RPI) then make an adjustment.

Retail Prices Index (RPI) assumption

Similar to the SEDR approach described above we intend to adopt a Single Equivalent Inflation Rate (SEIR) approach in deriving an appropriate RPI assumption.

The SEIR adopted is such that the single assumed rate of inflation results in the same liability value (when discounted using the yield curve valuation described above) as that resulting from applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield curve is assumed to be flat beyond the 30 year point and the BoE implied inflation curve is assumed to be flat beyond the 40 year point.

We have made no allowance for an inflation risk premium. This is consistent with that assumed at the previous accounting date.

Consistent with the SEDR approach, assumptions are rounded to the nearest 0.05% and we intend to use sample cashflows for employers at each duration year (from 2 to 30 years) in deriving the assumptions for employers.

Sample SEIRs are set out in the table below based on market conditions at 31 March 2020, with the equivalent 31 March 2019 SEIRs also shown for comparison:

Duration (years)	31 March 2020	31 March 2019
10	2.90%	3.50%
15	2.80%	3.45%
20	2.70%	3.40%
25	2.65%	3.40%

Difference between RPI and CPI

In March 2019, the UK Statistics Authority proposed changing the way that RPI is calculated; specifically that the calculation methodology should be aligned with the CPIH, the Consumer Prices Index including owner occupiers' housing costs. Consent was sought from the government, and in September 2019 the Chancellor responded to say that he was unwilling to introduce such a change any earlier than 2025, and would consult publicly on when between 2025 and 2030 the change should be introduced.

The proposed change to the calculation methodology is likely to reduce future RPI increases as CPIH inflation is generally expected to be lower than RPI. If the proposal goes ahead, RPI will change and therefore so will the gap between RPI and CPI and so we consider this proposed change in our assumption of the difference in RPI and CPI.

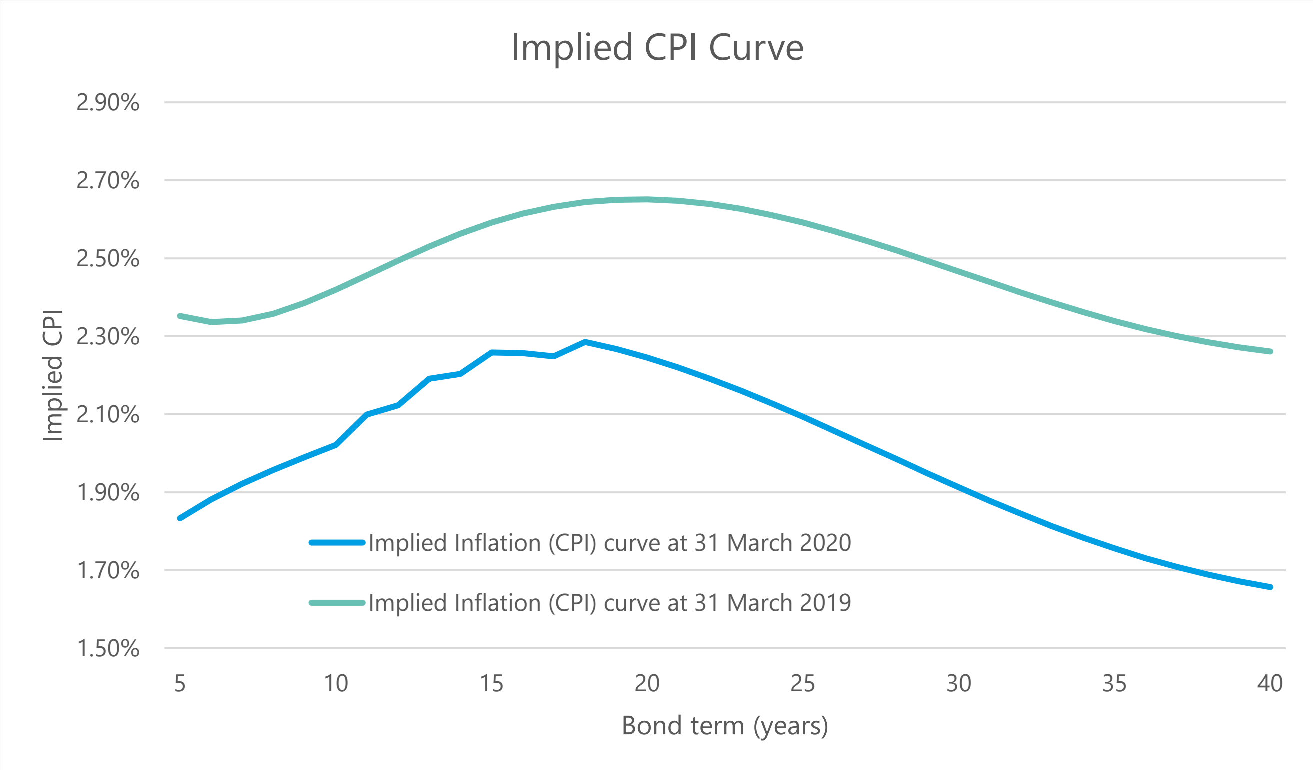
We believe the market has already started to react in that market implied RPI is now lower to reflect the potential change. Market implied inflation fell by around 0.1% p.a. at all terms on 17 January 2019, following the original House of Lords report on the change to RPI. A further fall was then seen on 4 September 2019 at terms above 8 years following the response from the Chancellor on the topic as mentioned above. Overall, we estimate the combined fall in market implied inflation to be between 0.1% - 0.2% for terms between 10 and 30 years at 31 March 2020.

We are therefore reducing our assumption on the difference in RPI and CPI for the purpose of the 31 March 2020 accounting exercise. Based on movements seen in the markets so far, we propose a difference of 0.8% p.a. – 0.9% p.a. for most employers, depending on the duration of the employer's liabilities. For employers with very short durations we will maintain our previous assumed difference of 1.0% p.a.

For most employers, this is a reduction from the previous year's assumption which was a difference of 1.0% p.a. at all durations.

Consumer Prices Index (CPI) assumption

The resulting implied CPI curve at 31 March 2020 is shown below along with the implied CPI curve at the last accounting date for comparison:



These curves reflect the yields that underlie the SEIR calculations and are not the estimates of the standard CPI inflation assumption. Sample SEIR assumptions are set out in the table below.

The irregularity of the 31 March 2020 curve between terms of 10 years to 18 years reflects the duration dependent gap between RPI and CPI being adopted this year.

As shown above, the implied CPI curve at 31 March 2020 is lower than that at 31 March 2019 at all terms. As a result, the level of future pension increases will be lower than that assumed at the previous accounting date. All else being equal, this will result in a decrease in the value of employers' liabilities.

The below tables set out the assumed pension increase assumptions at sample durations, based on market conditions at 31 March 2020, as well as the estimated effects due to the change in the inflation assumption from last year's standard assumption to this year's:

Duration (years)	31 March 2020	31 March 2019
10	1.90%	2.50%
15	1.95%	2.45%
20	1.90%	2.40%
25	1.85%	2.40%

Duration (years)	Estimated effect of change in inflation on employer's liabilities
10	Decrease of 6%
15	Decrease of 7%
20	Decrease of 9%
25	Decrease of 13%

The actual effect of the change in pension increase assumption will depend on the assumption to be adopted this year compared to last year.

Due to the nature of SEDR and SEIR methodology, the assumptions derived are dependent on the sample cashflows used and as a result different cashflows of similar liability durations may result in alternative assumptions. Therefore another actuary replicating the same approach set out above may derive different assumptions from those set out above. Reasonableness checks have been carried out on the cashflows used.

Salary increases

Although future benefits are not linked to final salary, benefits accrued up to 31 March 2014 will continue to be linked to the final salary of each individual member. Therefore we still need to set an appropriate long-term salary increase assumption.

Where an employer has requested a bespoke salary increase assumption last year, if still appropriate, we will continue the same salary increase assumption at 31 March 2020. For all other employers, we will adopt the standard approach set out below.

For English Funds, we intend to use the salary increase assumption from the 2019 actuarial valuation. For all English Funds, this means assuming that salary increases are in line with CPI plus 1.0% p.a with no additional allowance for a promotional salary scale. For the employers adopting our standard salary increase assumption last year, this assumption has been updated from a short term increase in line with CPI for the period to 31 March 2020 and CPI plus 1.5% p.a. thereafter in addition to a promotional salary scale.

For Scottish Funds, our standard approach remains consistent with the 2017 actuarial valuation and is in line with CPI plus 1.0% p.a. in addition to a promotional salary scale. This is consistent with the standard approach last year.

The salary increase assumption is the assumption that employers are most likely to request a specific approach for in line with their own expectations and we are happy to discuss this as required.

Bespoke financial assumptions

As mentioned above, the responsibility for setting assumptions ultimately belongs to the employer and therefore if an employer was to request alternative assumptions then we would be happy to use these in producing our report. The approaches described above are the standard approaches we will adopt to derive financial assumptions, however, we are happy to advise individual employers on the range of assumptions they may be able to adopt.

As part of this advice we are able to provide employers with a deficit modeler which provides an indication of the impact of any changes to their accounting position.

If you would like more information on the options available to employers regarding bespoke assumptions please feel free to contact publicsector@barnett-waddingham.co.uk or your usual Barnett Waddingham contact. However, please be aware that both requesting and receiving advice on bespoke assumptions will incur additional fees.

Mortality assumption

The key demographic assumption is the mortality assumption and there are two main steps in setting this assumption:

- Making a current assumption of members' mortality (the base mortality); and
- Projecting these current mortality rates into the future, allowing for further potential improvements in mortality. Future members' mortality is almost impossible to predict and therefore there is a lot of judgement involved and we naturally have to refine our view on this over time.

The mortality assumptions adopted for our Fund's triennial funding valuations were best estimate assumptions and we will, therefore, be using the same assumptions as standard for accounting. As part of the valuation, analysis was carried out by our specialist longevity team to assess the best estimate mortality assumption based on each Fund's experience and industry knowledge.

For Scottish Funds, our standard approach is to adopt the same assumption as that adopted at the last accounting date. For most employers, this is a base mortality assumption in line with the Fund's 2017 actuarial valuation, projected in line with the CMI_2018 Model published by the Continuous Mortality Investigation (CMI).

For English Funds, our standard approach is to update the mortality assumption to be based on those adopted for the Fund's 2019 actuarial valuation. In most cases, this will mainly be an update to the base mortality assumption and retention of the CMI_2018 projection model that most employers adopted at the last accounting date. The variables underlying the CMI_2018 Model will, however, be updated in line with those adopted for the Fund's 2019 actuarial valuation.

Other levers

2019 valuation update (English Funds)

The results for each employer in English Funds will incorporate the results of the 2019 valuation, which could have a positive or negative effect. The effect will depend on how experience over the intervaluation period has differed from that assumed.

Service accrued over the period

The change in employers' deficits will also be affected by the difference in the cost of benefits accrued over the period and the level of contributions paid by the employer and employees.

The service cost accrued over the year is based on the assumptions at the start of the period, i.e. at the previous accounting date. Employers' contributions may consist of contributions towards funding any deficit as well as funding the cost of benefits being accrued on an ongoing funding basis. These contributions are likely to have been calculated using different assumptions than under IAS19/FRS102 and may therefore differ from the service cost calculated for the period.

Depending on the membership profile of the employer; the cost of benefits accrued over and above the level of contributions paid may have a more significant effect on the level of deficit than the change in financial assumptions and investment performance.

Treatment of settlements and curtailments

Employers accounting under the IAS19 standard

On 7 February 2018, the International Accounting Standards Board (IASB) issued amendments to the IAS19 standard which now requires that when determining any past service cost or gain or loss on settlement that the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. This applies for all accounting periods starting on or after 1 January 2019 and therefore will apply for the year to 31 March 2020 accounts.

Common events for LGPS employers that this amendment may apply to include outsourcings, academy conversions and unreduced early retirements.

The amendment complicates the accounting disclosure as additional calculations are required to determine the cost before and after each event, and to rebase the standard roll forward approach on updated assumptions based on each event date. The amendment does, however, note that the extra remeasurement does not need to be applied where the application of that remeasurement is immaterial. The assessment of materiality will be subject to each employer and auditor's discretion. We can provide additional information to help assess materiality but we cannot conclude whether an event is material or not.

If relevant, the employer should also consider any guidance in relation to this set out by The Chartered Institute of Public Finance & Accountancy (CIPFA) in its *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20* note. In particular, we understand the 2019/20 note may not require the amendment to be adopted this year for those who follow this guidance, but expect it will be included as a requirement in the 2020/21 note.

Our default approach for IAS19 reports, for those employers that do not follow CIPFA, will be to assume that all events are material and therefore will adopt the approach set out in the IAS19 amendment. We will provide each administering authority with a summary of the events we are aware of and these will be communicated to each employer. If the employer does not want to treat all the events in this way then we would strongly recommend the employer reviews these events with their auditor in advance of the preparation of their report.

Unless instructed otherwise we will proceed with our default approach and please note that additional fees will apply, details of which can be provided by the administering authority.

Employers accounting under the FRS102 standard

We note that the FRS102 standard is silent on the treatment of settlements and curtailments, and in particular there is no explicit requirement to adopt a similar approach to that set out above for the IAS19 standard.

Therefore, our default approach for FRS102 reports is to not remeasure the net defined benefit liability at the event date, and this is consistent with the approach at the last accounting date.

We are happy to adopt an approach in line with that set out above for the IAS19 reports if requested by the Employer, but please note that that will incur additional charges.

McCloud/Sargeant judgement

If at the last accounting date allowance was made for McCloud in an employer's IAS19/FRS102 report then no explicit adjustment will be made in our results this year.

If no allowance was made at the last accounting date, then our default approach will be to include an allowance this year based on GAD's analysis (further details can be found in Appendix 3) and the individual assumptions and membership profile of the employer. The effect on the employer's liabilities will be shown as a past service cost.

This will be the default approach unless employers opt out.

In order to reduce the chance of having to revise any reports we recommend that employers engage with their auditors in advance of their year-end to make them aware of our intended approach.

Please contact the administering authority of the Fund to confirm the relevant fees.

Overall expected results

What does this all mean when we bring it all together?

The first caveat is that no employer is average and so any prediction of what might apply to an average employer will not apply to every, or possibly any employer.

The effect of the changes in the financial assumptions on an employer's liabilities are dependent on the assumptions adopted as well as the specific duration of the employer's liabilities. Typically employers with greater liability durations are more sensitive to changes in financial assumptions as benefits will be paid over a longer term. The table below describes the estimated effects for employers at liability durations of exactly 10, 15, 20 and 25 years: based on assumptions derived as at 31 March 2020:

Duration (years)	Estimated effect of change in financial assumptions rate on employer's liabilities
10	Decrease of 7%
15	Decrease of 7%
20	Decrease of 8%
25	Decrease of 10%

Based on market conditions at 31 March 2020, employers would see a decrease in the value of the defined benefit obligation as a result of changes in assumptions. However, the value of liabilities will increase with interest accumulated over the year.

There will be other factors affecting the change in an employer's accounting position including (but not limited to) the effects of:

- For English funds, updating to the 2019 valuation results
- Any updates to the demographic assumptions (in particular for English funds, updating to be in line with those adopted for the 2019 valuation)
- Fund asset performance
- Employer cashflows, in particular the difference in the cost of benefits accrued over the period and the level of contributions paid by employers and employees

Appendix 1 - Auditor views

It should be highlighted that auditors continue to look for greater accuracy in the roll forward approach used to calculate employers' results. This includes the approach used to determine each employer's share of fund assets at the accounting date and roll forward employers' liabilities.

Asset roll forward

Given the tight timescales for employers to submit their final accounts we appreciate that it is not always possible to wait until a fund's net asset statement at the accounting date is available to begin producing accounting disclosures. As a result, we request details of funds' assets at the most recent date available and, for the remaining period, we assume that returns are in line with relevant market indices.

In order to reduce the chance of having to revise any reports we recommend that employers engage with their auditors and the administering authority of the fund as early as possible to ensure they are comfortable with the information being used to calculate results.

Liability roll forward

To calculate the value of employers' liabilities we carry out a full valuation of membership data at least every three years (as part of the triennial valuation). We then 'roll this forward' to each subsequent accounting date, allowing for the actual cashflows paid into and out of the fund in respect of the individual employer.

In addition we allow for any curtailments as a result of unreduced early retirements we are made aware of. Similarly we allow for any settlements we are made aware of such as those resulting from outsourcings or bulk transfers.

We do not, as standard, allow for actual inflation experience between full member valuations. The effect of actual experience compared to what was assumed is typically included within the experience item when full valuations are incorporated into accounting disclosures.

However, if employers wish us to allow for actual inflation experience over the inter-valuation period we would be happy to do so. It should be noted that this does fall outside the scope of what is covered in our standard report fee and will therefore incur additional fees.

BARNETT WADDINGHAM
beyond the expected

Appendix 2 - Adjustments to fees

The Fund will communicate fees to employers however we would like to make you aware that there may be additional fees if there are particular features or events for an employer which need to be taken into account.

As examples of this:

- where an employer chooses their own assumptions;
- if there are additional calculations to be carried out if a surplus is revealed;
- when there are any staff transfers/movements to allow for;
- allowance for actual inflation experience;
- if additional disclosures are required;
- an employer asks to receive their report by a particular deadline; or
- if auditors ask queries following receipt of the report.

Please get in touch with the Fund for further information on fees.

Appendix 3 – Supreme Court ruling in McCloud/Sargeant case

Background

Two employment tribunal cases were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination.

On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the case. We still have to wait for a remedy to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

Government Actuary's Department (GAD) impact analysis

The Scheme Advisory Board, with consent of the Ministry of Housing, Communities and Local Government (MHCLG), commissioned GAD to report on the possible impact of the McCloud/Sargeant judgement on LGPS liabilities, and in particular, those liabilities to be included in local authorities' accounts as at 31 March 2019. This followed an April 2019 CIPFA briefing note which said that local authorities should consider the materiality of the impact. This analysis was to be carried out on a "worst-case" basis, (i.e. what potential remedy would incur the highest increase in costs/liabilities). The results of this analysis are set out in GAD's report dated 10 June 2019.

Although GAD were asked to carry out their analysis on a "worst-case" basis, there are a number of other potential outcomes to the case which would potentially inflict less cost to the Employer. For example, it may be that the underpin is to be applied to all members who were active at 31 March 2012 until their retirement. This would have less impact than GAD's scenario (which also includes any new joiners from 1 April 2012).

IAS19/FRS102 requires us to place a best estimate value on liabilities and costs. Given the current uncertainty about the range of potential remedies, the best estimate is almost impossible to define and would require some judgement.

GAD's analysis compared the cost of the old pre-2014 final salary scheme with the new CARE scheme. The key parameter in assessing this cost is the assumed level of future salary increases in excess of CPI. GAD considered the following two scenarios:

1. Salaries increase at CPI plus 1.5% – on this scenario GAD assessed the average cost of implementing their worst-case scenario to be 3.2% of active liabilities at 31 March 2019 and the impact on service cost (i.e. the cost of benefits accruing) to be 3.0% of active payroll.
2. Salaries increase at CPI plus 0% p.a. – on this scenario GAD assessed the average cost to be less than 0.1% of active liabilities at 31 March 2019 and the impact on service cost to be less than 0.1% of payroll.

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