

6.3 Termination Benefits

10.1.2.132 The SORP did not cover all termination benefits (eg lump sum payments on termination of employment) it only covered termination awarded as an enhancement of pension benefits usually in the form of added years of service. The SORP treated these as a retirement benefit and classified them as one type of 'past service' cost. The Code, in accordance with IAS 19, covers all forms of termination benefits and does not treat them as a 'post employment benefit' but as a separate category of employment benefit. Termination benefits are required to be recognised immediately in Surplus or Deficit on the provision of services.

10.1.2.133 Past service cost may be subject to a vesting period (although this is unusual in local authorities) which would require the obligation to be recognised on a straight-line basis over the vesting period. It would be very unlikely that a grant of 'added years' would have been subject to a vesting period since it would be expected to be awarded on retirement.

10.1.2.134 Unless, very unusually, termination benefits awarded as a pension enhancement are subject to a vesting period no transitional adjustment to the opening IFRS balance sheet at 1 April 2009 will be required. If there are unrecognised past service costs:

It would be very unlikely that a grant of 'added years' would have been subject to a vesting period since it would be expected to be awarded on retirement, as this would have required the employee to have continued in employment for a vesting period. It is therefore expected that no transition adjustments will be required.

Similarly, other termination benefits (such as redundancy pay) would have been recognised immediately under the SORP, and transition adjustments would therefore not be required. In some cases, authorities may have used a capitalisation direction or similar to defer the impact of the redundancy costs on the General Fund; as this transaction is an adjustment to reserve balances rather than an amendment of the amount recognised in the Income and Expenditure Account, again no transition adjustments will be required.

The following steps are included for completeness, but will only apply in exceptional circumstances.

Step 1 – Restate the Opening IFRS balance as at 1 April 2009

10.1.2.135 Any unrecognised past service cost shall be immediately recognised by crediting the defined benefit obligation and debiting the General Fund. In turn the entry to the General Fund shall be reversed by increasing the statutory transfer to the Pension Reserve (ie credit General Fund and debit Pension Reserve).

As the adjustment is only required in the opening IFRS balance sheet, the entries can be combined as follows:

<i>Dr Pension Reserve</i> <i>Cr Defined Benefit Obligation</i>

Step 2 - Restate the Comparative Figures for 2009/10

10.1.2.136 Any past service benefits awarded during 2009/10 in respect of pension enhancements not recognised immediately in the Income and Expenditure Account shall be recognised in Surplus or Deficit on the provision of services and the Defined Benefit Pension Obligation. The increase in the charge to Surplus or Deficit on the provision of services for the year shall in turn require the statutory transfer between the General Fund and the Pension Fund to be increased.

The entries required are as follows:

*Dr Surplus or Deficit on the provision of services
Cr Defined Benefit Obligation*

To recognise the enhancement awarded in the year

*Dr Pension Reserve
Cr General Fund*

To transfer the charge to the Pension Reserve in accordance with statutory requirements; this transfer would be reported in the Movement in Reserves Statement.

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