

## 6 EMPLOYEE BENEFITS

### 6.1 Employee Benefits – Introduction and Definitions

#### 6.1.1 Introduction

6.1.1.1 There are four Code sections related to employee benefits. These are:

- Section 6.2 – benefits payable during employment
- Section 6.3 – termination benefits
- Section 6.4 – postemployment benefits
- Section 6.5 – pension fund accounts.

Sections 6.2 to 6.4 are based on *IAS 19 Employee Benefits*, which covers all types of employee benefits except share-based payment (which is based on IFRS 2). Section 6.5 is based on *IAS 26 Retirement Benefit Plans*. *IPSAS 25 Employee Benefits* is based on IAS 19 and provides additional guidance to public sector bodies. There is no IPSAS standard based on IAS 26.

6.1.1.2 **'Benefits payable during employment'** covers:

- (a) Short-term employee benefits, such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (eg cars) for current employees.
- (b) Benefits earned by current employees but payable twelve months or more after the end of the reporting period such as, long-service leave or jubilee payments and long-term disability benefits.

6.1.1.3 **'Termination benefits'** are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits. They are often lump-sum payments, but also include enhancement of retirement benefits; and salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

6.1.1.4 **'Postemployment benefits'** covers not only pensions but also other benefits payable post-employment such as life insurance and medical care.

6.1.1.5 **Pension Fund Accounts** covers accounting and reporting by Pension Funds to all fund participants as a group rather than being concerned with determination of the cost of retirement benefits in the financial statements of employers.

#### 6.1.2 Definitions

6.1.2.1 A number of definitions are common to all the IAS 19 based sections of the Code. The following terms are used in the Code with meaning below:

***Actuarial gains and losses comprise:***

- (a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and
- (b) the effects of changes in actuarial assumptions.

**Assets held by a long-term employee benefit fund** are assets (other than non-transferable financial instruments issued by the reporting entity) that:

- (a) are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and
- (b) are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in bankruptcy), and cannot be returned to the reporting entity, unless either:
  - (i) the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
  - (ii) the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

**Current service cost** is the increase in the present value of a defined benefit obligation resulting from employee service in the current period.

**Defined benefit plans** are post-employment benefit plans other than defined contribution plans.

**Defined contribution plans** are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**Employee benefits** are all forms of consideration given by an entity in exchange for service rendered by employees.

**Interest cost** is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

**Multi-employer plans** are defined contribution plans (other than state plans) or defined benefit plans (other than state plans) that:

- (a) pool the assets contributed by various entities that are not under common control; and
- (b) use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

**Other long-term employee benefits** are employee benefits (other than post-employment benefits and termination benefits) which do not fall due wholly within twelve months after the end of the period in which the employees render the related service.

**Past service cost** is the increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

**Plan assets** comprise:

- (a) assets held by a long-term employee benefit fund; and
- (b) qualifying insurance policies.

**Post-employment benefits** are employee benefits (other than termination benefits) which are payable after the completion of employment.

**Post-employment benefit plans** are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

The **present value of a defined benefit obligation** is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

A **qualifying insurance policy** is an insurance policy issued by an insurer that is not a related party (as defined in IAS 24 *Related Party Disclosures*) of the reporting entity, if the proceeds of the policy:

- (a) can be used only to pay or fund employee benefits under a defined benefit plan; and
- (b) are not available to the reporting entity's own creditors (even in bankruptcy) and cannot be paid to the reporting entity, unless either:
  - (i) the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
  - (ii) the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

The **return on plan assets** is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan and less any tax payable by the plan itself.

**Short-term employee benefits** are employee benefits (other than termination benefits) that fall due wholly within twelve months after the end of the period in which the employees render the related service.

**Termination benefits** are employee benefits payable as a result of either:

- (a) an entity's decision to terminate an employee's employment before the normal retirement date; or
- (b) an employee's decision to accept voluntary redundancy in exchange for those benefits.

**Vested employee benefits** are employee benefits that are not conditional on future employment.

## **6.2 BENEFITS PAYABLE DURING EMPLOYMENT**

### **6.2.1 Introduction**

6.2.1.1 Authorities shall account for benefits payable during employment in accordance with *IAS 19 Employee Benefits*, except where interpretations or adaptations to fit the public sector are detailed in the Code. *IPSAS 25 Employee Benefits* is based on *IAS 19*, and provides additional guidance for public sector bodies.

6.2.1.2 Benefits payable during employment include:

- (a) 'shorter-term employee benefits;' and
- (b) 'other longer-term employee benefits'.

6.2.1.3 Shorter-term employee benefits are those falling due wholly within 12 months after the end of the period in which the employees render the related service. Other longer-term benefits are those not falling wholly within 12 months of the balance sheet date. The approach to accounting for other longer-term benefits payable during employment is fundamentally different from short-term employee benefits. With certain exceptions other longer-term benefits are accounted for in the same way as defined benefit post employment benefits.

#### *Interpretations for the Public Sector Context*

6.2.1.4 The Code includes the following interpretations:

- (a) *IAS 19* permits alternative approaches to the recognition of actuarial gains and losses. The first is that only those actuarial gains and losses falling outside an agreed corridor are recognised in Surplus or Deficit on provision of services; the second is that all actuarial gains and losses are recognised in reserves (ie in Other Comprehensive Income and Expenditure). Only the second of these approaches is permitted; that is the use of the corridor approach is removed.
- (b) The discount rate to be used to discount liabilities shall be based on yields on high quality corporate bonds in accordance with *IAS 19*. The adaptation contained in *IPSAS 25* to apply a discount rate that reflects the "time value of money" has not been adopted by the Code.
- (c) *IAS 19* requires long-term disability benefit to be accounted for as an 'other long-term benefit'. An *IPSAS 25* interpretation of *IAS 19* requires that in certain circumstance an authority should consider whether some or all long-term disability payments should be accounted for in the same way as defined benefit post employment benefits rather than as 'other long-term benefit'. The *IPSAS 25* interpretation has been adopted by the Code

### **6.2.2 Short-term Employee Benefits**

#### *Introduction*

6.2.2.1 Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the year end of the period in which the employee renders the service. Short-term employee benefits include:

- (a) wages, salaries and social security contributions
- (b) short-term compensated absences
- (c) bonuses and similar payments
- (d) non-monetary benefits.

*Accounting Requirements*

*Wages and salaries and social security contributions*

6.2.2.2 A liability (accrued expense) shall be recognised and an expense (unless the Code requires or permits inclusion in the cost of an asset). If the amount paid in the accounting period exceeds the accrued expense, an asset (prepaid expense) shall be recognised to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

*Short-term compensated absences*

6.2.2.3 Compensated absences are periods during which an employee does not provide services to the employer, but benefits continue to be paid. Compensated absences may be 'accumulating' or 'non-accumulating'. The distinction is important as it determines the timing of recognising an expense.

6.2.2.4 Accumulating absences are those that are carried forward and can be used in future periods if the current period entitlement is not used in full. In local authorities annual leave, flexi-time and time in lieu would usually be accumulating. Accumulating absences may be either vesting or non-vesting. Where vesting, employees who leave are entitled to a cash payment in respect of any unused entitlement; where non-vesting, benefits lapse if an employee leaves before the vesting date.

6.2.2.5 Short-term accumulating compensated absences shall be:

- (a) recognised when employees render services that increases their entitlement to future compensated absences
- (b) measured as the additional amount that the authority expects to pay as a result of unused entitlement that has accumulated at the balance sheet date.

The obligation is recognised even if the compensating absences have not yet vested at the reporting date. The possibility that employees may leave before they use an accumulating non-vesting entitlement and their entitlement lost shall be taken into account in measuring the obligation.

- 6.2.2.6 Non accumulating absences are those that cannot be carried forward for use in future periods if the current period entitlement is not used in full. Sick leave, maternity leave, paternity leave and jury service will usually be non-accumulating. Non-accumulating compensated absences shall be recognised when the absence occurs.

*Bonuses and similar payments*

- 6.2.2.7 Additional remuneration – a ‘bonus’ – may be paid where some measure of performance, whether of the individual, work group or organisation, is achieved. In local authorities such arrangements can take a number of forms including arrangements similar to ‘profit sharing’ in the private sector. The expected cost of bonuses shall be recognised, when, and only when:

- (a) the authority has a present legal or constructive obligation to make such payments as a result of past events; and
- (b) a reliable estimate of the obligation can be made.

A ‘present obligation’ exists when, and only when, the entity has no realistic alternative but to make the payments. An entity can make a reliable estimate of its legal or constructive obligation under a bonus plan when, and only when:

- (a) the formal terms of the plan contain a formula for determining the amount of the benefit;
  - (b) the entity determines the amounts to be paid before the financial statements are authorised for issue; or
  - (c) past practice gives clear evidence of the amount of the entity's constructive obligation.
- 6.2.2.8 Under some arrangements, employees receive their bonus only if they remain employed for a specified period (ie there is a ‘vesting’ period). Such plans create a constructive obligation as employees render service that increases the amount to be paid if they remain in service until the end of the vesting period. The measurement of such constructive obligations shall reflect the possibility that some employees may leave without receiving bonus payments.

*Non-monetary benefits*

- 6.2.2.9 The cost of providing non-monetary benefits (ie ‘benefits in kind’), including housing, cars and free or subsidised goods or services shall be recognised according to the same principles as benefits payable in cash. The amount recognised as a liability and an expense shall be the cost to the employer of providing the benefit.

**6.2.3 Other Long-term Employee Benefits**

*Introduction*

6.2.3.1. Other long-term employee benefits are employee benefits (other than post employment benefits and termination benefits) that do not fall due wholly within twelve months after the end of the period in which the employees render the related services. They would often not be significant at local authorities either because they rarely occur or the sums involved are insignificant; although long-term disability benefit may be significant at some authorities. Other long-term employee benefits include:

- (a) long-term compensated absences such as long service or sabbatical leave
- (b) jubilee or other long-service benefits
- (c) long-term disability benefits
- (d) bonuses payable twelve months or more after the end of the period in which the employees render the related service
- (e) deferred compensation paid twelve months or more after the period in which it is earned.

*Accounting requirements*

6.2.3.2 Other long-term employee benefits are accounted for on similar principles to post retirement benefits but their measurement is not subject to the same degree of uncertainty as the measurement of post-employment benefits and therefore a simplified method of accounting is used. This differs from the accounting required for post-employment benefits in the following ways:

- (a) actuarial gains and losses are recognised immediately in Surplus or Deficit on provision of services; and
- (b) all past service cost is recognised immediately in Surplus or Deficit on provision of services.

6.2.3.3 The amount recognised as a liability for other long-term employee benefits shall be the net total of the following amounts:

- (a) the present value of the defined benefit obligation at the balance sheet date;
- (b) minus the fair value at the balance sheet date of plan assets (including any re-imburement right (if any) out of which the obligations are to be settled directly.

6.2.3.4 The amount recognised as an expense shall be the net total of the following amounts. All of which shall be recognised immediately in Surplus or Deficit on provision of services (unless the Code requires or permits inclusion in the cost of an asset):

- (a) current service cost
- (b) interest cost

- (c) the expected return on any plan assets and on any reimbursement right recognised as an asset
- (d) actuarial gains and losses;
- (e) past service cost; and
- (f) the effect of any curtailments or settlements.

It is possible that the amount to be recognised will be income rather than an expense, in which case the amount to be recognised is the lower of (a) to (f) above and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

#### *Long-term disability benefit*

- 6.2.3.5 Under the Code long-term disability benefits are usually accounted for as an 'other longer-term benefit' since in accordance with *IAS 19* they are presumed not to be subject to the same degree of uncertainty as the measurement of post employment benefits. However, in accordance with *IPSAS 25* this is a 'rebuttable presumption' under the Code; and where this presumption is rebutted an authority shall consider whether some or all long-term disability payments should be accounted for in the same way as defined benefit post employment benefits. This interpretation of *IAS 19* was introduced by *IPSAS 25* because disability benefits related to certain areas of service provision, such as the military, may be financially highly significant and related gains and losses highly volatile. This has been adopted by the Code since similar considerations may apply to certain local authority services such as police forces and fire and rescue services, where long-term disability benefit may be both material and volatile.
- 6.2.3.6 If the level of long-term disability benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes a long-term disability.

#### **6.2.4 Disclosure**

- 6.2.4.1 There are no specific disclosure requirements but other provisions of the Code, may require disclosures, for example, where the expense resulting from such benefits is material.

#### **6.2.5 Statutory accounting and disclosure requirements**

- 6.2.5.1 There are no statutory accounting requirements or disclosure requirements specifically relating to benefits payable during employment.

#### **6.2.6 Changes since SORP 2009**

- 6.2.6.1 Short-term employee benefits were not covered by the SORP. There is no UK accounting standard that deals with short-term employee benefits. As a result, differing accounting treatments of items such as annual leave may have developed. An approach based on *IAS 19* will necessitate a change in accounting policies for many authorities.
- 6.2.6.2 Long-term employee benefits were not covered by the SORP, except for 'long-term disability benefits' (called 'incapacity benefit' in the SORP). Long-term disability benefits are treated as a type of defined benefit pension benefit in the SORP. In the Code they are not classed as a 'post retirement benefits' but rather as 'other long-term employee benefits'. The difference is that under the Code the net total expense is charged to Surplus or deficit on provision of services; whereas under the SORP, the difference between the expected cost and amount actually incurred was treated as an actuarial gain or loss and charged to the STRGL. However, the Code has adopted an IPSAS 25 interpretation that allows long-term disability benefits to be accounted as defined benefit retirement benefits in certain circumstances (see paragraph 6.2.3.5).

### **Transitional arrangements – Benefits payable during employment**

Under *IAS 19* and the Code 'Benefits payable during employment' comprise 'short-term benefits' and 'other long-term employment benefits'. Except for 'long-term disability benefits', the SORP and UK accounting standards do not cover these matters. It is therefore likely that authorities' accounting policies will vary and some authorities may not have followed accounting policies that accord with the requirements of the Code.

The types of short-term employment benefits covered by *IAS 19* and the Code are:

- (a) wages, salaries and social security contributions
- (b) short-term compensated absences
- (c) bonuses and similar payments
- (d) non-monetary benefits.

The Code's requirement in respect of (a), (c) and (d) above follow standard principles for accruing expenditure and it seems unlikely that amounts recognised under most authorities' pre-IFRS accounting policies would be significantly different from those that would have been recognised under the Code's requirements.

In the case of 'short-term compensated absences', however, few, if any, authorities have provided for 'accumulating' short-term absences such as annual leave and flexi-time in accordance with the requirements of the Code, which requires provision to be made for benefits which have accumulated but are untaken at the balance sheet date.

The types of 'other long-term employment benefits' covered by *IAS 19* and the code are:

- (a) long-term compensated absences such as long service or sabbatical leave
- (b) jubilee or other long-service benefits
- (c) long-term disability benefits
- (d) bonuses payable twelve months or more after the end of the period in which the employees render the related service

- (e) deferred compensation paid twelve months or more after the period in which it is earned.

All of the above except 'long-term disability benefit' rarely occur at local authorities or would very rarely involve significant expenditure, where they do occur.

Where an authority incurs significant expenditure on an employee benefit covered by the 'benefits during employment' section of the Code it shall consider whether its accounting policy has resulted in its accounts recognising significantly different amounts from those that would have been recognised if the Code had been in force. Where the amounts are significant, the authority shall:

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

In the case of short-term employee benefits, this will involve recognising provisions for the amount by which the expenditure which would have been recognised had the Code always been in force exceeds the expenditure that was actually recognised in the accounts with the double entry being to debit the General Fund and HRA Reserve as appropriate. Or, if the expenditure actually recognised in the accounts exceeds the expenditure which would have been recognised had the Code always been in force recognising a debit accrual with the double entry being to debit the General Fund and HRA Reserve as appropriate. **(Note:** need for legislation/statutory guidance to ameliorate the effect of recognising accumulating short-term compensated absences is being discussed with stakeholders).

#### **Step 2 - Restate the Comparative Figures for 2009/10**

The short-term employment benefit transactions during 2009/10 will need to be restated in accordance with the Code and the effected 2009/10 comparative statement of accounts restated.

#### *Long-term disability benefits*

Under the 2009 SORP long-term disability benefits (called 'incapacity benefit' in the SORP) were accounted for in the same way as retirement benefits, with any difference between the expected cost included in the actuarial assumptions and the amounts actually incurred treated as an actuarial gain or loss. Following *IAS 19* as interpreted by *IPSAS 25*, under the Code long-term disability benefits are classified as 'other long-term benefits' and consequently, subject to a rebuttable presumption (see paragraphs 6.2.3.5 to 6.2.3.6), that actuarial gains and losses are required to be recognised immediately in Surplus or Deficit on provision of services. Where the presumption is rebutted authorities are required to recognise actuarial gains and losses in Other Comprehensive Income and Expenditure.

Therefore at 1 April 2009 an authority that has granted disability benefit will likely have associated actuarial gains and losses that that have been taken to the STRGL but which (subject to the above 'rebuttable assumption') are required under the Code to have been included in Surplus or Deficit on the provision of services. Where the amounts involved are significant the authority shall:

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

There is no requirement to restate the opening IFRS balance sheet at 1 April 2009 since the transfer between the General Fund and Pension Reserve in respect of actuarial gains and losses not recognised in the Income and Expenditure Account would be exactly offset by the increase in the statutory transfer between the General Fund and Pension Reserve that would in turn be required.

**Step 2 - Restate the Comparative Figures for 2009/10**

The long-term disability benefit transactions during 2009/10 will need to be restated in accordance with the Code and the effected 2009/10 comparative statement of accounts restated.

## **6.3 TERMINATION BENEFITS**

### **6.3.1 Introduction**

6.3.1.1 Authorities shall account for termination benefits in accordance with IAS 19 Employee Benefits, except where interpretations or adaptations to fit the public sector are detailed in the Code. IPSAS 25 *Employee Benefits* is based on IAS 19, and provides additional guidance for public sector bodies. Termination benefits are dealt with separately from other employee benefits because the event which gives rise to an obligation is the termination rather than employee service. Termination benefits are payable as a result of either:

- (a) an employer's decision to terminate an employee's employment before the normal retirement date; or
- (b) an employee's decision to accept voluntary redundancy in exchange for those benefits.

Voluntary early retirement under scheme rules is not a termination benefit since such benefit is a right of all scheme members. They are post employment benefits, rather than termination benefits and shall be accounted for as post employment benefits.

6.3.1.2 Termination benefits are often lump-sum payments, but also include:

- (a) enhancement of retirement benefits; and
- (b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

#### **Interpretations for the public sector context**

6.3.1.3 There are no interpretations for the public sector context.

### **6.3.2 Accounting requirements**

6.3.2.1 Termination benefits shall be recognised as a liability and an expense when, and only when, the entity is demonstrably committed to either:

- (a) terminate the employment of an employee or group of employees before the normal retirement date; or
- (b) provide termination benefits as a result of an offer made in order to encourage voluntary termination of employment.

6.3.2.2 An authority is demonstrably committed to a termination when, and only when, it has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan shall include, as a minimum:

- (a) the location, function, and approximate number of employees whose services are to be terminated;
- (b) the termination benefits for each job classification or function; and
- (c) the time at which the plan will be implemented. Implementation shall begin as soon as possible and the period of time to complete implementation shall be such that material changes to the plan are not likely.

An authority may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on business practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment.

- 6.3.2.3 Termination benefits do not provide an authority with future economic benefits and are recognised in Surplus or Deficit on provision of services immediately. Where termination benefits are recognised, the authority may also have to account for a curtailment of retirement benefits or other employee benefits.
- 6.3.2.4 Where termination benefits fall due more than 12 months after the balance sheet date, they shall be discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality corporate bonds.
- 6.3.2.5 In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

### **6.3.3 Disclosure**

- 6.3.3.1 Where there is uncertainty about the number of employees who will accept an offer of termination benefits, a contingent liability exists. Disclosure of the contingent liability shall be made unless the possibility of an outflow in settlement is remote.
- 6.3.3.2 Termination benefits may need to be disclosed where the nature and amount of an expense is material.

### **6.3.4 Statutory accounting and disclosure requirements**

- 6.3.4.1 There are no statutory accounting requirements or disclosure requirements relating to termination benefits. However, where termination benefits are in the form of pension enhancements (usually in the form of 'added years') they shall be treated as pension costs for the purposes of the statutory transfer between the Pension Reserve and the General Fund of the amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations.

### **6.3.5 Changes since SORP 2009**

6.3.5.1 The SORP did not cover all termination benefits (eg lump sum payments on termination of employment not associated with retirement) it only covered termination benefits 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 benefits' but as a separate category of employment benefit. Under the SORP the 'added years' or other pension enhancement was recognised in the Income and Expenditure Account on a straight-line basis over the period in which the increase in benefit vests. The Code in accordance with *IAS 19* requires termination benefits to be charged to Surplus or Deficit on provision of services immediately whether they vest immediately or not. In practice in local authorities pension enhancements granted for termination of employment would usually vest immediately and so under the SORP would usually have been charged to Income and Expenditure Account immediately.

### **Transitional arrangements – Termination benefits**

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.

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 'added years' would have been subject to a vesting period since it would be expected to be awarded on retirement.

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:

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

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).

#### **Step 2 - Restate the Comparative Figures for 2009/10**

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

## POSTEMPLOYMENT BENEFITS

### 6.4.1 Introduction

6.4.1.1 Authorities shall account for postemployment benefits in accordance with *IAS 19 Employee Benefits*, except where interpretations or adaptations to fit the public sector are detailed in the Code. *IPSAS 25 Employee Benefits* is based on *IAS 19* and provides additional guidance to public sector bodies. Postemployment benefits include not only pensions but also other benefits such as life insurance and medical care that is provided 'postemployment'. The pension plans in which local authority employees participate in effect provide postemployment 'life insurance' in the form of guaranteeing that a minimum of, say, 5 years pension will be paid if the pensioner dies before the end of the guaranteed period. Such minimum payment guarantees do not result any different accounting requirements from other pension benefits.

6.4.1.2 The pension plans in which local authority employees participate do not provide 'medical benefits' or 'free standing' postemployment life insurance, so the matter is not covered in detail by the Code. Where such non-pension postemployment benefits are provided the relevant requirements of *IAS 19* apply.

6.4.1.3 Postemployment benefit plans are classified as either:

- (a) defined contribution plans; or
- (b) defined benefit plans.

If a pension plan does not meet the definition of a defined contribution plan it shall be classified as a defined benefit plan.

6.4.1.4 Under defined contribution plans the employer's obligation is limited to the amount that it has agreed to contribute to the fund. In consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee. Under defined benefit plans the employer bears at least some of the actuarial and investment risks associated with the plan and often bears substantial all of the risk.

### Interpretation for the Public Sector Context

#### *Approach to recognising actuarial gains and losses*

6.4.1.5 *IAS 19* permits alternative approaches to the recognition of actuarial gains and losses. The first is that only those actuarial gains and losses falling outside an agreed 'corridor' are recognised in Surplus or Deficit on the provision of services; the second is that all actuarial gains and losses are recognised in Other Comprehensive Income and Expenditure. Only the second of these alternatives is permitted; that is, the use of the corridor approach is removed.

#### *Classification of schemes*

6.4.1.6 Authorities' pension costs arising from the following schemes shall be accounted for in accordance with the Code's requirements for defined benefit pension plans:

- (a) the Local Government Pension Scheme (in England and Wales), except as allowed for in paragraph 6.4.1.9 (b).
- (b) the Local Government Pension Scheme (in Scotland), except as allowed in paragraph 6.4.1.9 (b).
- (c) the Northern Ireland Local Government Officers Superannuation Scheme.
- (d) the Police and Firefighters' pension schemes.

Termination benefits paid in the form of an enhancement of pension benefits shall be accounted for in accordance with Code section 6.3 on *Termination Benefits*.

6.4.1.7 Where the authority participates in any other material defined benefit pension plans they shall be accounted for in accordance with the Code's requirements for defined benefit pension plans.

6.4.1.8 In certain circumstances an entity whose pension plan provides defined benefit pension benefits to its employees is required to account for the pension plan as if it were a defined contribution plan. The circumstances are where:

- (a) The entity's only obligation is to pay contributions as they fall due and the entity has no obligation to pay future benefits.
- (b) Where an entity is not able to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes. This may occur if:
  - (i) the entity does not have access to information about the plan that satisfies the above requirement; or
  - (ii) the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan.

6.4.1.9 Defined benefits schemes that meet the criteria in paragraph 6.4.1.8 include:

- (a) The Teachers' Pension Scheme administered by the Department for Children, Schools and Families for England and Wales and by the Scottish Government for Scotland.
- (b) LGPS in relation to the participation of minor non-principal authorities (such as Joint Committees, Port Health Authorities and Conservation Boards and other bodies per Appendix A of CLG Circular 03/2006 as updated) that prepare their accounts in accordance with the Code, unless contributions are set on the basis of the authority's specific circumstances.

### *Entity combinations*

- 6.4.1.10 IAS 19 contains provisions concerning accounting by the acquiring entity for pension assets and liabilities assumed on a 'business combination'. IPSAS 25 *Employee Benefits* uses the term 'entity combination' (rather than 'business combination') and this term has been adopted by the Code.

### *Determining the present value of the defined benefit obligations with sufficient regularity*

- 6.4.1.11 The *IAS 19* requirement that the present value of the defined benefit obligations and fair value of any plan assets shall be determined with "sufficient regularity" has been interpreted by the Code to mean "*between the formal actuarial valuations every three years, there shall be approximate assessments in intervening years. Acceptable approximations shall include adjusting full valuation results using latest membership data*" (see paragraph 6.4.3.26).

## **6.4.2 Defined Contribution Plans (and defined benefit plans required to be accounted as if they were defined contribution plans see paragraphs 6.4.1.8 and 6.4.1.9 for details)**

### **Accounting requirement**

- 6.4.2.1 When an employee has rendered service to an entity during a period, the authority shall recognise the contribution payable in exchange for that service:
- (a) as a liability (accrued expense). If the contribution already paid exceeds the contribution due for service before the balance sheet date, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
  - (b) as an expense, unless the Code requires or permits the inclusion of the contribution in the cost of an asset.

An asset or liability is recognised in the period end Balance Sheet only to the extent that there are prepaid or outstanding contributions at the Balance Sheet Date.

### **Statutory Accounting Requirements**

- 6.4.2.2 There are no statutory accounting requirement for defined contribution plans and defined benefit plans required to be accounted as if they were defined contribution plans.

### **Disclosure**

- 6.4.2.3 An authority shall disclose the amount recognised as an expense for defined contribution plans.

6.4.2.4 The following additional information shall be disclosed where a pension plan which provides defined benefits to employees is required by the Code to be accounted for by an employer as if it were a defined contribution plan:

- (a) the fact that the plan is a defined benefit plan; and
- (b) the reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan.
- (c) To the extent that a surplus or deficit in the plan may affect the amount of future contributions, disclose in addition:
  - (i) any available information about that surplus or deficit
  - (ii) the basis used to determine that surplus or deficit
  - (iii) the implications, if any, for the authority.
- (d) In respect of Teachers' Pension Scheme administered by the Department for Children, Schools and Families for England and Wales and the Scottish Government for Scotland, the rate of contribution set and the amounts paid over, together with information regarding any termination benefits awarded by the authority.

### **Statutory Disclosure Requirements**

6.4.2.5 There are no statutory disclosures required for defined contribution plans and defined benefit plans required to be accounted for as if they were defined contribution plans.

### **6.4.3 Defined Benefit Plans**

#### **Accounting Requirements**

##### ***Accounting for the constructive obligation***

6.4.3.1 An authority shall account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits.

##### ***Recognition and measurement***

6.4.3.2 Accounting by an authority for defined benefit plans involves the following steps:

- (a) estimating the benefit that employees have earned

- (b) discounting the benefit to determine the present value of the defined benefit obligation
- (c) determining the fair value of any plan assets (and reimbursement rights, if any)
- (d) determining the amount of actuarial gains and losses
- (e) where a plan has been changed, determining the resulting past service cost
- (f) where a plan has been curtailed or settled, determining the resulting gain or loss.

*Estimating the benefit that employees have earned*

6.4.3.3 Actuarial techniques are used to:

- (a) Estimate the variables that will determine the ultimate cost of providing postemployment benefits. The main actuarial assumptions for pension benefits comprise demographic assumptions such as mortality, employee turnover and expected early retirement where the employee has the right under the plan rules; and financial assumptions such as the discount rate and salary and benefit levels.
- (b) Determine how much benefit is attributable to the current and prior periods. Benefits shall be attributed to periods of service in accordance to a plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, benefit shall be attributed on a straight-line basis until the date when further service by the employee, will lead to no material amount of further benefits.

6.4.3.4 Actuarial assumptions shall be unbiased and mutually compatible. They are unbiased if they are neither imprudent nor excessively conservative. Financial assumptions shall be based on market expectations, at the end of the reporting period, for the period over which the obligations are to be settled.

6.4.3.5 Where a benefit does not vest immediately (eg because of a qualifying period of service) the probability that some employees may not satisfy the vesting conditions and not become entitled to the benefit shall be taken into account in measuring the pension obligation.

*Discounting the benefit to determine the present value of the defined benefit obligation*

6.4.3.6 The 'Projected Unit Credit Method' shall be used to determine the present value of an authority's defined benefit obligation and the related current service cost and, where applicable, past service cost. This method views each period of service as giving rise to an additional unit of benefit entitlement, with each unit being measured separately to build up the obligation.

6.4.3.7 The rate used to discount postemployment benefit obligations shall be determined by reference to market yields at the balance sheet date on high quality corporate bonds. The currency and term of the corporate bonds shall be consistent with the currency and estimated term of the postemployment benefit obligations. The 'interest cost' shall be computed by multiplying the discount rate as determined at the start of the period by the present value of the defined benefit obligation throughout that period, taking account of any material changes in the obligation.

*Determining the fair value of any plan assets*

6.4.3.8 The fair value of any plan assets is deducted in determining the defined benefit liability. When no market price is available, the fair value of plan assets is estimated; for example, by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets. Plan assets exclude unpaid contributions due from the reporting entity to the fund. Plan assets are reduced by any liabilities of the fund that do not relate to employee benefits, for example, trade and other payables and liabilities resulting from derivative financial instruments.

6.4.3.9 Sometimes, an authority is able to look to another party, such as an insurer, to reimburse some of the expenditure required to settle a defined benefit obligation. Qualifying insurance policies as defined in paragraph 6.1.2.1 are plan asset and are accounted for as other plan assets. Other reimbursement (such as non-qualifying insurance policies and the pension top-up grants received by police and fire and rescue service authorities from their sponsoring departments) are not included in plan assets but rather recognised as a separate asset. The reimbursement right shall be recognised when, and only when, it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation. The reimbursement asset shall be recognised at fair value. In all other respects, the reimbursement asset is treated in the same way as other plan assets.

6.4.3.10 The pension top-up grant received from their sponsoring Government departments by Police and Fire and Rescue Service Authorities can sometimes be a negative amount because of the way the formula operates. In such a case the obligation to make a payment to the sponsoring department shall be recognised as a separate liability rather than included as an addition in determining the defined benefit liability.

6.4.3.11 Where the right to reimbursement arises under an insurance policy or a legally binding agreement, exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations.

*Determining the amount of actuarial gains and losses*

6.4.3.12 IAS 19 defines actuarial gains and losses as:

- (a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and
- (b) the effects of changes in actuarial assumptions.

6.4.3.13 The movement in actuarial gains and losses for the year shall be recognised in the Pension Reserve.

*Where a plan has been changed, determining the resulting past service cost*

6.4.3.14 Past service cost usually arises when the benefits payable for past service under an existing defined benefit plan are changed (they also arise when a defined benefit plan is introduced that attributes benefits to past service). Past service cost is measured as the change in the liability resulting from the amendment. Where the amendment vests immediately the past service costs shall be recognised immediately regardless of the fact that the cost refers to employee service in previous periods. Sometimes there is a vesting period, in which case the past service cost shall be amortised on a straight-line basis over the average period until the benefits become vested. The amortisation schedule for past service cost is fixed when the amendment is introduced and shall not be revised unless there is a curtailment or settlement.

6.4.3.15 Where benefits payable under an existing defined benefit plan attributable to past service are changed so that the present value of the defined benefit obligation decreases, the resulting reduction in the defined benefit liability shall be recognised as (negative) past service cost over the average period until the change in benefits becomes vested. Where at the same time as the reduction in liability, other changes are made that result in an increase in the liability under the plan for the same employees, the change shall be treated as a single net change.

*Where a plan has been curtailed or settled, determining the resulting gain or loss*

6.4.3.16 Curtailments and settlements are events that change the liabilities relating to a defined benefit pension plan and that are not covered by normal actuarial assumptions.

6.4.3.17 A 'curtailment' occurs when an authority either:

- (a) is demonstrably committed to make a significant reduction in the number of employees covered by a plan; or
- (b) amends the terms of a defined benefit plan so that a significant element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

When a plan amendment reduces benefits, only the effect of the reduction for future service is a curtailment. The effect of any reduction for past service is a negative past service cost.

- 6.4.3.18 A curtailment may arise from an isolated event, such as the discontinuance of an activity, or a reduction in the extent to which future salary increases are linked to the benefits payable for past service. Curtailments are often linked with a restructuring. When this is the case, an entity accounts for a curtailment at the same time as for a related restructuring.
- 6.4.3.19 A 'settlement' arises when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan. Settlements have the effect of extinguishing a portion of the plan liabilities, usually by transferring plan assets to or on behalf of plan members to their new employer or an insurance company in settlement of the obligation.
- 6.4.3.20 Gains or losses on the curtailment or settlement of a defined benefit plan are recognised in the Surplus or Deficit on the provision of services when the curtailment or settlement occurs. The gain or loss shall comprise:
- (a) any resulting change in the present value of the defined benefit obligation
  - (b) any resulting change in the fair value of the plan assets
  - (c) any unamortised related past service costs.
- 6.4.3.21 Before determining the effect of a curtailment or settlement, the obligation shall be remeasured (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

*Entity combinations*

- 6.4.3.22 Where an authority assumes pension assets and liabilities relating to employees transferring to it on taking over all or part of another authority's geographical area or all or some of its functions, the authority recognises assets and liabilities arising from postemployment benefits at the present value of the obligation less the fair value of any plan assets. The present value of the obligation includes all of the following, even if the employees' previous authority had not yet recognised them at the date the employees transferred to the authority:
- (a) actuarial gains and losses that arose before the transfer date
  - (b) past service cost that arose from benefit changes, or the introduction of a plan, before the transfer date
  - (c) amounts that, under the transitional provisions of the Code, the authority transferring employees had not recognised.
- 6.4.3.23 The authority whose geographical area or functions have in whole or in part been transferred shall account for the transfer of pension liabilities and associated pension assets under the standard provisions of the Code as a settlement. The reduction in plan members' may also effect the actuarial calculations on which

the plan liabilities associated with employees continuing in employment are based; there may therefore also be need to account for a curtailment.

### ***Balance Sheet***

- 6.4.3.24 The amount recognised as a defined benefit liability shall be the net total of the following amounts:
- (a) the present value of the defined benefit obligation at the balance sheet date (see paragraph 6.4.3.6)
  - (b) minus any past service cost not yet recognised (ie past service costs that have not vested at the balance sheet date)
  - (c) minus the fair value at the balance sheet date of plan assets (if any) out of which the obligations are to be settled directly (see paragraphs 6.4.3.8 and 6.4.3.9).
- 6.4.3.25 The defined benefit liability determined under paragraph 6.4.3.24 may be negative (ie an asset). Where this is the case there is a limit on the amount that can be recognised on the balance sheet as an asset. Any Minimum Funding Requirement of the pension plan may also affect the amount that can be recognised as an asset. Where paragraph 6.4.3.24 indicates a negative liability (ie an asset) the amount to be recognised on the balance sheet shall be determined in accordance with *IAS 19* paragraphs 58 to 58B and *IFRIC Interpretation 14 – IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
- 6.4.3.26 The present value of defined benefit obligations and the fair value of any plan assets shall be determined with sufficient regularity that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the balance sheet date. This shall be interpreted to mean that between the formal actuarial valuations every three years, there shall be approximate assessments in intervening years. Acceptable approximations shall include adjusting full valuation results using the latest available membership data.

### ***Surplus or Deficit on Provision of Services***

- 6.4.3.27 The net total of the following amounts shall be recognised in Surplus or Deficit on the provision of services except to the extent that the Code requires or permits their inclusion in the cost of an asset:
- (a) current service cost (see paragraphs 6.4.3.3 to 6.4.3.6)
  - (b) interest cost (see paragraph 6.4.3.7)
  - (c) the expected return on any plan assets (see paragraphs 6.4.3.8)) and on any reimbursement rights (see paragraph 6.4.3.9 and 6.4.3.11)

- (d) past service cost (see paragraph 6.4.3.14 and 6.4.3.15)
- (e) the effect of any curtailments or settlements (see paragraphs 6.4.3.16 and 6.4.3.21).

## **Statutory Accounting Requirements**

### ***Pensions Reserve***

- 6.4.3.28 Local authorities in England, Scotland and Wales are required respectively by SI 2003/515 *The Local Authorities (Capital Finance) (Amendment No. 2) (England) Regulations 2003*, SSI 2003/580 *The Local Government Pension Reserve Fund (Scotland) Regulations 2003*, SI 2003/915 (W 118) *The Local Authorities (Capital Finance) (Amendment) (Wales) Regulations 2003*, not to charge to revenue expenditure in respect of liabilities for retirement benefits and to maintain a 'Pension Reserve' to which the pensions liabilities are charged. Under local government finance legislation "revenue" means the General Fund (or General Fund equivalent such as the Police Fund), or the Housing Revenue Account.
- 6.4.3.29 The amount that shall be charged to General Fund for providing pensions for employees is the amount payable for the year in accordance with the statutory requirements governing the particular pension schemes or funds in which the authority participates. Where this amount does not match the amount charged to Surplus or Deficit on the provision of services for the year under the Code, the difference shall be taken to the Pensions Reserve.
- 6.4.3.30 The amount that shall be charged to the Housing Revenue Account for providing pensions for employees is the amount payable for the year in accordance with the statutory requirements governing the particular pension schemes or funds in which the authority participates. Where the amount payable for the year in accordance with the scheme requirements does not match the amount included in the HRA Income and Expenditure Account for the year, the recognised cost of pensions borne by the HRA will not match the amount required by statute. This should be dealt with by showing the difference as a reconciling item in the Statement of Movement on the Housing Revenue Account Balance.
- 6.4.3.31 Where the pension costs charged to Surplus or Deficit on the provision of services or HRA Income and Expenditure Account under the Code are:
  - larger than the amount payable for the year in accordance with the scheme requirements the General Fund Balance or HRA Reserve as appropriate should be credited and the Pensions Reserve debited with the difference
  - smaller than the amount payable for the year in accordance with the scheme requirements the General Fund Balance or HRA Reserve as appropriate should be debited and the Pensions Reserve credited with the difference.

### **Disclosures**

- 6.4.3.32 An authority shall disclose the following in respect of postemployment benefit plans it accounts for on a defined benefit basis:

- (a) A general description of the type of plan.
- (b) Information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period.
- (c) Accounting policy for recognising actuarial gains and losses.
- (d) A reconciliation of opening and closing balances of the present value of the defined benefit obligation showing separately, if applicable, the effects during the period attributable to each of the following:
  - (i) current service cost
  - (ii) interest cost
  - (iii) contributions by plan participants
  - (iv) actuarial gains and losses
  - (v) benefits paid
  - (vi) past service cost
  - (vii) entity combinations (eg effects on the obligation of combining authorities or taking over part of the geographical area of another local authority or acquiring new functions such as on becoming a unitary authority)
  - (viii) curtailments
  - (ix) settlements.
- (e) An analysis of the defined benefit obligation into amounts arising from plans that are wholly unfunded and amounts arising from plans that are wholly or partly funded.
- (f) A reconciliation of the opening and closing balances of the fair value of plan assets; and of the opening and closing balances of any reimbursement right recognised as a separate asset in accordance with paragraphs 6.4.3.8 to 6.4.3.9 showing separately, if applicable, the effects during the period attributable to each of the following:
  - (i) expected return on plan assets
  - (ii) actuarial gains and losses
  - (iii) contributions by the employer

- (iv) contributions by plan participants
  - (v) benefits paid
  - (vi) entity combinations
  - (vii) settlements.
- (g) A reconciliation of the present value of the defined benefit obligation in (d) and the fair value of the plan assets in (g) to the assets and liabilities recognised in the balance sheet, showing at least:
- (i) Any past service cost not recognised in the balance sheet (see paragraph 6.4.3.14)
  - (ii) any amount not recognised as an asset, because of the limit on the amount of surplus that can be recovered through reduced contributions in accordance with paragraph 6.4.3.25
  - (iii) the fair value at the balance sheet date of any reimbursement right recognised as an asset in accordance with paragraph 6.4.3.9 (with a brief description of the link between the reimbursement right and the related obligation)
  - (iv) the other amounts recognised in the balance sheet.
- (h) The total expense recognised in income and expenditure for each of the following, and the line item(s) in which they are included:
- (i) current service cost
  - (ii) interest cost
  - (iii) expected return on plan assets
  - (iv) expected return on any reimbursement right recognised as an asset in accordance with paragraph 6.4.3.9
  - (v) actuarial gains and losses
  - (vi) past service cost
  - (vii) the effect of any curtailment or settlement
  - (viii) the effect of the limit in paragraph 6.4.3.25.

The current service cost, the past service cost, the effect of any curtailment or settlement shall be included within the Net cost of services. The interest cost and expected return on assets shall be included shall be in net operating expenditure.

- (i) The total amount recognised in Other Comprehensive Income and Expenditure for each of the following:
  - (i) actuarial gains and losses
  - (ii) the effect of the limit in paragraph 6.4.3.25.
- (j) The cumulative amount of actuarial gains and losses recognised in Other Comprehensive Income and Expenditure.
- (k) For each major category of plan assets, which shall include, but is not limited to, equity instruments, debt instruments, property, and all other assets, the percentage or amount that each major category constitutes of the fair value of the total plan assets.
- (l) The amounts included in the fair value of plan assets for any property occupied by, or other assets used by, the entity.
- (m) A narrative description of the basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets.
- (n) The actual return on plan assets, as well as the actual return on any reimbursement right recognised as an asset in accordance with paragraph 6.4.3.9.
- (o) The principal actuarial assumptions used as at the balance sheet date, including, when applicable:
  - (i) the discount rates
  - (ii) the expected rates of return on any plan assets for the periods presented in the financial statements
  - (iii) the expected rates of return for the periods presented in the financial statements on any reimbursement right recognised as an asset in accordance with paragraph 6.4.3.9.
  - (iv) the expected rates of salary increases (and of changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases)
  - (v) the mortality rates
  - (vi) any other material actuarial assumptions used.
- (p) The amounts for the current annual period and previous four annual periods of:

- (i) the present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and
- (ii) the experience adjustments arising on:
  - the plan liabilities expressed as a percentage of the plan liabilities at the balance sheet date and
  - the plan assets expressed either as a percentage of the plan assets at the balance sheet date.
- (q) An estimate of contributions expected to be paid to the plan during the annual period beginning after the balance sheet date.

### **Statutory Disclosure Requirements**

6.4.3.33 There are no statutory disclosure requirements for defined benefit plans.

### **6.4.4 Changes Since SORP 2009**

6.4.4.1 The 2009 SORP included the Northern Ireland Local Government Officers Superannuation Scheme, which provides defined benefit pensions, as one that met the FRS 17 requirement to be accounted for by authorities as if it were a defined contribution scheme. For 2010/11 the Northern Ireland Local Government Officers Superannuation Scheme does not meet the IAS 19 requirements to be accounted for by authorities as if it were a defined contribution scheme and consequently authorities are required to account on a defined benefit basis. This will result in a different charge to Surplus or Deficit on the provision of services for pension costs; actuarial gains and losses being taken to Other Comprehensive Income and Expenditure; and the Balance Sheet including a net defined benefit pension liability or asset.

**Secretariat Note:** *in England, Scotland and Wales in accordance with legislation, the amount chargeable to the General Fund for providing pension benefits for employees is the amount payable for the year in accordance with the statutory requirements governing the particular pension schemes or funds in which the authority participates. Without similar legislative provision for Northern Ireland, there would be an impact on the General Fund and in turn taxation. The need for legislation on the matter for Northern Ireland is being considered by the Northern Ireland Department of the Environment.*

## **Transitional arrangements – Postemployment benefits**

For authorities, except those in Northern Ireland, there will not normally be transitional issues in respect of post employment benefits and the balance sheet items will usually be transferred to the 1 April 2009 opening IFRS balance sheet at the amounts carried on the 31 March 2008 Balance Sheet.

Where exceptionally the defined benefit obligation or plan assets to be included to the opening IFRS (1 April 2009) Balance Sheet in accordance with the requirements of the Code is different from the carrying amounts included in the 31 March 2009 Balance Sheet an authority shall:

### **Step 1- Restate the Opening IFRS Balance Sheet as at 1 April 2009**

The amounts included for the opening IFRS Balance Sheet shall be the amount determined in accordance with the Code and the net difference shall be taken to the Pension Reserve.

### **Step 2 - Restate the Comparative Figures for 2009/10**

The postemployment benefit transactions during 2009/10 will need to be restated in accordance with the Code and the affected 2009/10 comparative statement of accounts restated.

## **Northern Ireland Local Government Officers Superannuation Scheme**

The Northern Ireland Local Government Officer's Superannuation Scheme (NILGOS) is a defined benefit plan. The 2009 SORP classifies NILGOS as a plan that employers should account as if it were a defined contribution scheme. Under the Code this is no longer the case and employers shall account for their pension plans on a defined benefit basis. This will involve the following steps:

### **Step1 – Determine opening IFRS Balance Sheet as at 1 April 2009**

Authorities shall recognise in accordance with the Code their defined benefit obligation and the fair value of the plan assets attributed to them on their opening IFRS balance sheet (1 April 2009). [The differences between the assets and liabilities shall be recognised as the opening balance on the Pension Reserve.]

**Secretariat's note:** the need to put in place similar legislation to England, Scotland and Wales concerning the requirement to establish a statutory Pension Reserve is being considered by the Northern Ireland Department of the Environment.

### **Step 2 - Restate the Comparative Figures for 2009/10**

The postemployment benefit transactions during 2009/10 will need to be restated in accordance with the Code and the affected 2009/10 comparative statements of accounts restated.

## 6.5 Accounting and Reporting by Pension Funds

### 6.5.1 Introduction

6.5.1.1 The objective of *IAS 26 Retirement Benefit Plans* is to provide guidance on the form and content of the financial statements prepared by retirement benefit plans (which were referred to as Pension Funds in the 2009 SORP). However, *IAS 26* does not require Retirement Benefit Plan statements to be prepared, rather it requires *IAS 26* to be applied “where such statements are prepared”. It complements *IAS 19 Employee Benefits*, which deals with the determination of the cost of retirement benefits in the financial statements of employers. Authorities shall account for retirement benefit plans in accordance with *IAS 26*, except where interpretations or adaptations to fit the public sector are detailed in the Code.

6.5.1.2 *IAS 26* (unlike the Pension SORP under UK GAAP on which the local authority SORP requirements were based) does not set out to comprehensively specify the requirements for preparing financial statements for a Retirement Benefit Plan; and other relevant provisions of IFRS standards apply to the extent that they are not superseded by specific *IAS 26* requirements. So, for example, to the extent that they are not superseded by specific *IAS 26* requirements:

- the IFRS financial instruments standards (*IAS 39*, *IAS 32* and *IFRS 7*) govern the recognition, measurement, presentation and disclosure of financial instruments (although many requirements are inapplicable since all material financial instrument are carried at fair value through profit or loss); and
- the section of *IAS 19* on ‘Post-employment Benefits’ governs the measurement of a plan’s obligation to provide pension benefits.

6.5.1.3 Similarly this section of the Code does not by itself specify all the requirements for preparing Retirement Benefit Plan financial statements, other relevant provisions of the Code apply to the extent they are not superseded by this section of the Code. However, to facilitate preparation of Retirement Benefit Plan statements, this Code includes some requirements drawn from other parts of IFRS and legislation where these are clearly applicable (eg because a plan holds financial instruments) in addition to specific *IAS 26* based requirements.

6.5.1.4 Under *IAS 26* and the Code, a retirement benefit plan is a reporting entity separate from the employers of the participants in the fund for financial reporting purposes. This is congruent with 2009 SORP, which required authorities that administer pension funds (‘administering authorities’) to include pension fund accounts in their statements of accounts. ‘Retirement benefit plans’ are more commonly referred to in the UK as Pension Funds and ‘Pension Fund’ is the terminology adopted by the Code.

#### *Pension Fund Annual Reports*

6.5.1.5 From 2008/09 under the *Local Government Pension Scheme (Administration) Regulations 2008*, administering authorities of Local Government Pension Scheme funds in England and Wales have been required to prepare a pension fund annual report. There is no similar requirement in Scotland. The annual report is not

required to be included in the administering authority's main statement of accounts, but is required to be published separately. Section 76B of the *Local Government Pension Scheme Regulations* requires pension fund annual reports to include a "Fund Account and Net Assets Statement with supporting notes and disclosures prepared in accordance with proper practices".

- 6.5.1.6 The proper practices for the preparation of both the Pension Fund Accounts included in an administering authority's statement of Accounts and those required to be included in the Pension Fund Annual Report in England and Wales, are contained in the Code. The Code would also provide appropriate guidance for pension fund accounts that authorities in Scotland may include in any Pension Fund Annual Report they prepare voluntarily.
- 6.5.1.7 After consulting with key stakeholders on the matter, CIPFA/LASAAC has concluded that the statutory requirement for administering authorities in England and Wales to prepare Pension Fund Annual Reports does not change the requirement for them to include Pension Fund Accounts in their statements of accounts. CIPFA/LASAAC has raised with key stakeholders the issue of whether for the future legislation should be amended to allow administering authorities that publish an Annual Pension Fund Report containing pension fund accounts prepared in accordance with proper practices, not to include pension fund accounts in their main statement of accounts, but rather to disclose how the Pension Fund Annual Report can be accessed or obtained.

## **6.5.2 Interpretation for the Public Sector Context**

### *Requirement to prepare Pension Fund Accounts*

- 6.5.2.1 *IAS 26* does not require pension fund accounts to be prepared or indicate the circumstances that it would be appropriate to prepare Pension Fund Accounts. Police and Fire and Rescue Service pension funds are single employer and unfunded and therefore the benefit of preparing *IAS 26* compliant pension fund accounts is reduced since the police or fire and rescue services main statement of accounts will contain much of the relevant information. The Code does not require Police and Fire and Rescue Service Authorities to prepare *IAS 26*-based pension fund accounts. However, each individual police authority and fire and rescue service authority (FRSA) in England and Wales is required by legislation to operate a pension fund and include pension fund accounts in its statement of accounts. This requirement was introduced in 2007/08 in England and Wales, when the funding arrangement change from one where the police or FRSA met pension benefits directly, to one where the employer was required to pay an employer's contribution at a specified percentage rate and operate a Pension Fund.
- 6.5.2.2 In Scotland police authorities and FRSAs still pay pension benefits directly, do not operate a Pension Fund, and are not required by legislation to include pension fund accounts in their statements of accounts. Since each individual police authority in Scotland operates a single employer retirement benefit plan, appropriate disclosure is substantially achieved by complying with the Code section on 'Post-employment benefits'. Police and Fire and Rescue Service Authorities in Scotland are not required under the Code to prepare Pension Fund Accounts.

6.5.2.3 For Pension Funds participating in the following pension schemes, Pension Fund accounts in accordance with paragraphs 6.5.3.1 to 6.5.5.1 of the Code shall be prepared by the local authority that administers the Pension Fund:

- (a) The Local Government Pension Scheme (in England and Wales)
- (b) The Local Government Pension Scheme (in Scotland).

For Pension Funds participating in the following Pension Schemes, Pension Fund Accounts in accordance with paragraphs 6.5.6.1 to 6.5.6.6 shall be prepared:

- (a) The Firefighters' Pension Scheme for England
- (b) The Firefighters' Pension Scheme for Wales
- (c) The Police Pension Scheme in England and Wales.

#### *Valuation of financial instruments*

6.5.2.4 *IAS 26* is a very old standard dating back to 1988 and one provision of it is incompatible with the much more recently issued *IAS 19*. *IAS 26* includes an option to carry securities that have a fixed redemption value and that have been acquired to match the obligations of the plan, or specific part thereof "*at amounts based on their ultimate redemption value assuming a constant rate to maturity.*" *IAS 19* does not permit this and the option shall not be used under the Code.

6.5.2.5 *IAS 26* requires marketable securities to be carried at market value, the Code clarifies that the market value that shall be used is the bid price in accordance with the provisions of *IAS 39 Financial Instruments Recognition and Measurement* for determining the fair value of financial instruments.

#### *Analysis of investment assets and Income*

6.5.2.6 Paragraph 35 of *IAS 26* requires the net assets available for benefit at the end of the period to be 'suitably classified'. In order to ensure comparability between different local authority Pension Funds' disclosures in this key area, requirements based on the *Financial Reports of Pension Schemes – A Statement of Recommended Practice* (Pension SORP) have been included. For similar reasons, an analysis of investment income based on the Pension SORP has been adopted by the Code to ensure authorities also disclose comparable information in this area.

#### *Additional Voluntary Contributions*

6.5.2.7 The matter of Additional Voluntary Contributions paid by members and separately invested outside the Pension Fund, is not covered by *IAS 26*. The Code requires note disclosure of such AVC transactions. The Code note is based on the similar 2009 Local Authority SORP disclosure.

#### *Actuarial present value of promised retirement benefits*

6.5.2.8 *IAS 26* requires the '*actuarial present value of promised retirement benefits*' to be disclosed, which is the *IAS 26* terminology for what *IAS 19* refers to as the '*defined benefit obligation*'. *IAS 26* permits the valuation to be based on either 'current' salary levels or 'projected' salary levels. *IAS 19* (and the Code) requires projected

salary levels to be used when measuring the defined benefit obligation of an employer. Therefore, for consistency between what the employers participating in a Pension Fund disclose in their statements of accounts, and what the Pension Fund discloses as the 'defined benefit obligation' for the Pension Fund accounts as a whole, the option to use 'current salary levels' is not permitted when measuring 'the actuarial present value of promised retirement benefits' of a Pension Fund.

6.5.2.9 *IAS 26* requires the 'actuarial present value of promised retirement benefits' to be disclosed. However, it gives three options for disclosure:

**Option A** – in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit.

**Option B** – in the Notes to the Accounts

**Option C** – by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, *IAS 26* requires the most recent valuation (which should be based on *IAS 19* not the pension fund's funding assumptions) to be used as a base and the date of the valuation disclosed.

6.5.2.10 In the CODE Board's view, it would be unhelpful to present as a surplus or deficit on the Pension Fund an amount derived by comparing the pension fund's assets at the balance sheet date with its pension liabilities at an earlier date. Option A may only be used where the actuarial present value of promised retirement benefits being disclosed is at the balance sheet date. However, Option A does not require a full actuarial valuation to be undertaken every year: the same actuarial techniques for rolling forward the last full triennial actuarial revaluation used to estimate individual employers' *IAS 19* pension liabilities between triennial revaluations may be used.

6.5.2.11 There is a general requirement under IFRS to disclose matters that are material to an understanding of the financial position and financial performance of an entity, as well as specific requirements in *IFRS 7* to report on the risks to which financial instruments expose the entity. With regard to this, investments in non-sterling securities are subject to extra risk in the form of exchange rate risk; and stock lending is in the nature of a trading activity rather than an investing activity, and entails counter-party default risks. Note disclosures concerning these have been included in the Code.

### **6.5.3 Accounting Requirements (Excluding Police and Fire and Rescue Service Pension Funds)**

6.5.3.1 Pension funds may be either defined contribution funds or defined benefit funds. Defined contribution funds, if they occur at all, are rare in local authorities: all the pension schemes in which significant numbers of local authority employees participate provide pension benefits on a defined benefit basis. Defined contribution pension funds are not covered in detail by the Code, should they occur the requirements of *IAS 26* shall be followed.

*Valuation of plan assets for all plans*

6.5.3.2 Pension fund investments shall be carried at fair value. In the case of marketable securities fair value shall be market value and the current bid price shall be used.

*Defined benefit pension funds*

6.5.3.3 The objective of reporting by a defined benefit pension fund is periodically to provide information about the financial resources and activities of the pension fund that is useful in assessing the relationships between its benefit obligations and the accumulation of resources available to meet those benefit obligations over time.

6.5.3.4 The financial statements of a defined benefit pension fund shall contain:

- (a) **A Fund Account** disclosing changes in net assets available for benefits. Where presentation Option A (see paragraph 6.5.2.9) is followed the change in the actuarial present value of promised retirement benefits for the period and the resulting surplus or deficit for the period is also shown.
- (b) **A Net Assets Statement** showing the assets available for benefits at the year end. Where presentation Option A (see paragraph 6.5.2.9) is followed the actuarial present value of promised retirement benefits and the net pension liability or asset at the period end is also shown.
- (c) **Notes to the accounts.**

**Fund Account**

*(Note: the major categories are indicated in bold. The unbolded items may be analysed in the notes to the accounts, if not shown on the face of the Fund Account or Net Assets Statement).*

**Contributions**

- Employer contributions
- Member contributions

**Transfers in from other pension funds**

**Other income**

**Benefits**

- Pensions
- Commutation of pensions and lump sum retirement benefits
- Purchased annuities
- Lump sum death benefits

**Payments to and on account of leavers**

**Other payments**

### **Administrative expenses**

#### **Investment income**

- Interest from fixed interest securities
- Dividends from equities
- Income from index-linked securities
- Income from pooled investments vehicles
- Net rents from properties
- Interest on cash deposits
- Share of profit/losses from associates and joint ventures
- Income from derivatives
- Other (for example stock lending or underwriting)

#### **Profit and losses on disposal of investments and changes in value of investments**

#### **Taxes on income**

### **Net increase (decrease) in the net assets available for benefits during the year**

**(Note:** only where presentation option A has been adopted (see paragraph 6.5.2.9) also show the following)

#### **Change in actuarial present value of promised retirement**

- Vested benefits
- Non-vested benefits

#### **Surplus / (deficit) on the pension fund for the year**

### **Net Assets Statement**

#### **Investment assets**

- Fixed interest securities (analysed between public sector and other)
- Equities (including convertible shares)
- Index linked securities (analysed between public sector and other)
- Pooled investment vehicles (analysed between unit trusts, unitised insurance policies and other managed funds (including open-ended investment trusts, OEICs, and assets held in limited liability – partnerships), showing separately those funds invested in property)
- Derivative contracts (including futures, options, forward foreign exchange contracts and swaps)

- Property
- Insurance policies (with profit contracts, unitised with-profits contracts and annuity and deferred annuity contracts)
- Loans
- Other investments (such as works of art)
- Cash deposits (including fixed term deposits, certificate of deposit, floating rate notes and other cash instruments)
- Other investment balances (such as debtors in respect of investment transactions where these form part of the net assets available for investment within the investment portfolio; and other assets and liabilities directly connected with investment transactions, accrued dividend entitlements and recoverable withholding tax, suitably analysed where material)

**Investment liabilities**

- Derivative contracts (including futures, options, forward foreign exchange contracts and swaps)
- Other investment balances (such as creditors in respect of investment transactions and other liabilities directly connected with investment transactions)

**Borrowings**

- Sterling
- Foreign currency

**Current assets**

- Contributions due from employers
- Other current assets
- Cash balances (not forming part of the investment assets)

**Current liabilities**

- Unpaid benefits
- Other current liabilities (such as accrued expenses (other than liabilities to pay Pensions and other benefits in the future))

**Net assets of the scheme available to fund benefits at the period end**

**(Note:** only where presentation option A has been adopted (see paragraph 6.5.2.9) also show the following)

**Actuarial present value of promised retirement**

- Vested benefits
- Non-vested benefits

**Net pension liability or asset at the period end**

#### **6.5.4 Statutory Accounting Requirements for Defined Benefit Pension Funds (Excluding Police and Fire and Rescue Services Pension Funds)**

6.5.4.1 There are no statutory accounting requirements for defined benefit pension funds (excluding Police and Fire and Rescue Service Pension Funds).

#### **6.5.5 Disclosures for Defined Benefit Pension Funds (Excluding Police and Fire and Rescue Services Pension Funds)**

6.5.5.1 The financial statements of a defined benefit retirement benefit fund (excluding Police and Fire and Rescue Services Pension Funds) shall contain the following information, if applicable and if not disclosed on the face of the financial statements:

- (a) A description of the fund and the effect of any changes in the fund during the period.
- (b) A summary of significant accounting policies.
- (c) Assets at the end of the period suitably classified (see paragraph 6.5.3.4 for the minimum requirements)..
- (d) The basis of valuation of assets for each significant class of asset.
- (e) Where investments are held for which an estimate of fair value is not possible, disclosure shall be made of the reason why fair value is not used.
- (f) A reconciliation between the opening and closing value of investments analysed into meaningful categories such as by major asset class, named investment managers or investment strategy. For investments that have purchase costs or sale proceeds the total amount of sales and purchases should be disclosed. For derivatives the nature of the amounts included in purchases and sales should be explained.
- (g) The market value (current bid price for quoted securities and unitised securities) of the assets (at the balance sheet date) which were under the management of fund managers should be disclosed and also the proportion managed by each manager. Where a market value is not available assets should be valued at fair value in accordance with the valuation basis specified by the Code.
- (h) An analysis of investment assets between 'UK' and 'overseas' and between 'quoted' and 'unquoted'.
- (i) The amount of sales and purchases of investment assets should be disclosed and including the market value of futures and options at the Balance Sheet date (if any).
- (j) A breakdown of derivative contracts by their main types including futures, options, forward foreign exchange contracts and swaps. A summary of the key terms and notional amount of the derivative contracts held at the year end. An explanation of the objectives and policies for holding derivatives and

the strategies for achieving those objectives that have been followed during the period.

- (k) The effective date of revaluation of property assets; whether an independent valuer was used; the methods and significant assumptions applied in estimating the fair value; the extent to which the item's fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques.
- (l) Details of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security.
- (m) Liabilities other than the actuarial present value of promised retirement benefits.
- (n) A description of the funding policy ie the basis upon which the contribution rate has been set for both the administering and scheduled bodies.
- (o) An indication of the actuarial position of the fund, including the relationship between the actuarial present value of promised retirement benefits and the net assets available for benefits, and the policy for funding the promised benefits.
- (p) A description of the significant actuarial assumptions made and the method used to calculate the actuarial present value of promised retirement benefits.
- (q) The total contributions receivable and benefits payable analysed between the administering authority, scheduled bodies and admitted bodies
- (r) Information in respect of material transactions with related parties, not disclosed elsewhere, including investments and loans made at any time during the period.
- (s) The total amount of stock released to a third party under a stock lending arrangement within a regulated market at the period end, together with a description of the related collateral.
- (t) The amount and nature of any material contingent assets, liabilities and contractual commitments of the scheme at the period end. Details of any material non-adjusting events occurring subsequent to the period end.
- (u) The amount of additional voluntary contributions paid by members during the year and the value at the balance sheet date of separately invested additional voluntary contributions. It should be disclosed that these amounts are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831.)

#### **6.5.6 The Police Pension Scheme in England and Wales and the Firefighters' Pension Scheme in England and the Firefighters' Pension Scheme in Wales**

6.5.6.1 The Police Pension Scheme in England and Wales and the Firefighters' Pension Scheme in England and the Firefighters' Pension Scheme in Wales are unfunded but authorities do not meet the pension outgo directly: rather they pay an employer's pension contribution based on a percentage of pay into the pension fund.

6.5.6.2 Subject to scrutiny and approval by the Secretary of State/Minister and Parliament/Welsh Assembly Government, the central government pays pension top-up grant for the year up to the amount by which the amount payable from the pension fund for the year exceeded the amount receivable. The current expectation is that top-up grant of 100% of the 'deficit' will be paid. Where the amounts receivable by the pension fund for the year exceeds the amounts payable the 'surplus' on the pension fund is payable to central government.

6.5.6.3 While the funding arrangements for the police and firefighters' pension schemes are similar, the regulations governing the police and firefighters' schemes funding arrangements are different with regard to the way the 'surplus' or 'deficit' on the pension fund for the year is funded.

#### *Police Pension Scheme*

6.5.6.4 The funding arrangements for Police Pension Funds are contained in SI 2007/1932 *The Police Pension Fund Regulations 2007*. The regulations require that if the pension fund does not have enough funds to meet the cost of pensions in any year, ie the amounts receivable by the pension fund for the year is less than the amount payable, the amount required to meet the 'deficit' must be transferred from the police authority to the pension fund. Subject to Parliamentary scrutiny and approval, up to 100% of this amount is then recouped by the police authority in the form of a top-up grant paid by central government (the current expectation is that 100% grant will be paid). Conversely, if the Police Pension Fund is in 'surplus' for the year, the surplus is required to be transferred from the pension fund to the police authority, which in turn is required pay the amount to central government.

#### *Firefighters' Pension Scheme*

6.5.6.5 The funding arrangements for the Firefighters' Pension Scheme for England are contained in SI 2006/1810 *The Firefighters' Pension Scheme (Amendment) (England) Order*. The funding arrangements for the Firefighters' Pension Scheme for Wales are contained in Part 13 of the Welsh SI 2007/1072 *The Firefighters' Pension Scheme (Wales) Order 2007*. These orders require that every amount paid or repaid to or by an authority shall be credited or, as the case may be, debited, to their Firefighters' Pension Fund. Therefore where the pension shows a 'deficit' for year the top-up grant is payable to the pension fund. Conversely, if the Firefighters' Pension Fund is in 'surplus' for the year, an amount equal to the surplus is payable by the pension fund to central government. If the Pension Fund Account is not balanced to nil by pension top-up grant receivable or by the amount payable to central government, the pension fund should be balanced to nil by a supplementary contribution from the authority to the pension fund or by the pension fund returning contribution to the authority.

6.5.6.6 The minimum presentation and disclosure requirements for Police Pension Funds

and Firefighters' Pension Funds in England and Wales are shown below.

**Information to be included in the pension fund accounting statements of police authorities and fire and rescue service authorities in England and Wales**

**(The amounts that must be debited and credited to the Pension Fund Account are specified by regulation. There are separate regulations for the Police Pension Scheme for England and Wales and the Firefighters' Pension Scheme for England and the Firefighters' Pension Scheme for Wales. The underlying principles are broadly the same for the three schemes but the details of the way the amounts are determined may vary and the amounts should be determined in accordance with the relevant regulations in force for the financial year.)**

**Fund Account**

**Contributions receivable**

from employer

Normal

early retirements

other (specify, eg reimbursement of unabated pensions of '30+' police officers)

From members

**Transfers in**

individual transfers in from other schemes

other (specify)

**Benefits payable**

Pensions

commutations and lump sum retirement benefits

Lump sum death benefits

other (specify)

**Payments to and on account of leavers**

refunds of contributions

individual transfers out to other schemes

other (specify)

**(For Firefighters' Pension Schemes) Sub-total: Deficit/Surplus for the year before top-up grant receivable/amount payable to central government**

**(For Police Pension Schemes) Sub-total for the year before transfer from the police authority of amount equal to the deficit or transfer of an amount equal to the surplus to police authority**

**(For Firefighters' Pension Schemes) Top-up grant receivable/amount payable to central government**

**(For Police Pension Schemes) Additional funding payable by police authority to meet deficit/amount payable to police authority in respect of the surplus for the year**

**Net amount payable/receivable for the year**

**Net Assets Statement**

**Current assets**

contributions due from employer

(for Firefighters' Pension Scheme) pension top-up grant receivable from central government

(for Police Pension Scheme) funding to meet deficit receivable from police authority

other current assets

**Current liabilities**

unpaid pension benefits

(for Firefighters' Pension Scheme) amount payable to central government

(for Police Pension Scheme) surplus for year payable to police authority

other current liabilities (other than liabilities to pay pensions and other benefits in the future)

**Information to be disclosed in notes to the Pension Fund Accounts of police authorities and FRSAs in England and Wales**

- (a) (For Firefighters' Pension Funds) A general description of the fund's operations including the fact that there are no investment assets and that

the fund is balanced to nil each year by receipt of pension top-up grant from central government if there is a deficit or by paying over the surplus to central government, together with an explanation of how the fund is administered and managed.

- (b) (For Police Pension Funds) A general description of the fund's operations including the fact that there are no investment assets and that if there is a deficit for the year the fund is balanced to nil by the police authority transferring an amount equal to the deficit to the pension fund, which it recoups from central government, or if there is a surplus for the year by transferring the surplus from the pension fund to the police authority, which it pays over to central government, together with an explanation of how the fund is administered and managed.
- (c) The accounting policies followed in dealing with items which are judged material in accounting for, or reporting on, the transactions and net assets of the fund together with the estimation techniques adopted that are significant.
- (d) An explanation that the fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. Information on where details of the authority's long-term pension obligations can be found in the main statements shall be disclosed.

## **Transition arrangements – Pension Fund Account**

The Code (following IFRS 1) requires authorities that administer pension funds to disclose an opening IFRS Net Assets Statement at 1 April 2009. Other than with regard to the disclosure of the 'actuarial present value of promised retirement benefits', which it is optional to disclose in the Net Assets Statement, the requirements of the Code are the same as the 2009 SORP. Where an authority has opted not to disclose the actuarial present value of promised retirement benefits in the Net Asset Statement, the Net Assets Statement at 31 March 2009 would be used unchanged as the 1 April 2009 opening IFRS Net Assets Statement.

Where an administering authority chooses to disclose the 'actuarial present value of promised retirement benefits' in its Net Asset Statement it will need to determine this in accordance with the requirements of the Code (ie on an IAS 19 basis not on the basis of the pension funds funding assumptions)..

Where an authority has opted not to disclose the actuarial present value of promised retirement benefits in the Net Asset Statement, the Fund Account and Net Assets Statement at 31 March 2010 would be used unchanged as the comparative amounts to the 31 March 2010 statement.

Where an administering authority chooses to disclose the 'actuarial present value of promised retirement benefits' in its Net Asset Statement at 31 March 2011 it will need to determine the comparative amount for the previous year in accordance with the requirements of the Code.