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GA.60 14/15
Governance & Audit Committee
Date 9 April 2015

Subject: Accounting Policies and Actuary Assumptions 2014-15

Report by:	Tracey Bircumshaw
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Purpose / Summary:	To scrutinise the accounting policies and actuary assumptions that will be used for the preparation of the 2014/15 accounts.

RECOMMENDATION(S):

1. Members are recommended to approve the proposed Accounting Policies as included at Appendix 1.

2. Members consider and make comment on the pension assumptions as included at Appendix 2.

IMPLICATIONS

Legal: None arising as a result of this report.

Financial FIN/144/15: None directly from this report. However, the accounting policies and actuarial assumptions used for the accounts will have an impact on the amounts contained within the Statement of Accounts for 2014/15.

Staffing: None arising as a result of this report.

Equality and Diversity including Human Rights: None arising as a result of this report.

Risk Assessment: There is a risk of material errors should incorrect accounting policies be applied or if the actuary uses wildly inaccurate assumptions.

Climate Related Risks and Opportunities: None arising as a result of this report.

Title and Location of any Background Papers used in the preparation of this report: No background papers were used in the preparation of this report.

Call in and Urgency:

Is the decision one which Rule 14 of the Scrutiny Procedure Rules apply?

Yes		**No**	**x**

Key Decision:

Yes		**No**	**x**

1. Background

1.1 The Council is required to produce, by 30th June annually, a Statement of Accounts that draws together all the financial statements for the accounts for the previous financial year.

1.2 In producing the Statement of Accounts the Council follows the CIPFA Code of Practice on Local Authority Accounting 2014/15 (the Code).

1.3 The Council is required to ensure that the Statement of Accounts provides a true and fair view of the financial positon, financial performance and cash flows of the authority. A true and fair presentation requires a faithful representation of the effects of transactions, other events and conditions in accordance with the definitions criteria for assets and liabilities, income and expenses set out in the Code. Compliance with the Code will therefore meet this requirement.

1.4 This report is asking for Members to review both the Accounting Policies and the actuarial assumptions (used for determining the pensions estimates) that will be used for drawing up the financial statements for the year. This review then forms part of the scrutiny process for the Statement of Accounts 2014/15.

2. Accounting Policies

2.1 The proposed accounting policies are as detailed at Appendix 1. These have been reviewed to ensure that they reflect the requirements of the latest Code and that they are still appropriate, accurately reflect what has occurred during the year and have been consistently applied.

2.2 The recommended policies are closely aligned to the model accounting policies as included within the Code guidance.

2.3 There have been no changes to the policies since the production of the 2013/14 financial statements.

3. Actuarial Assumptions

3.1 The Councils pension scheme is administered by Lincolnshire Council with pension contributions included in the county wide pension fund. The County Council uses Hymans as the actuary for assessing the year end assets and liabilities of the pension fund and the use of these assumptions determines the estimates of its share of the pension fund that the Council is required to reflect within its accounts.

3.2 The pension values are comparatively large when taken in the context of the Councils overall budget and spend levels, so any assumptions used for these values will inevitably have a major impact on the Councils accounts. It is right therefore that they should receive special scrutiny.

3.3 Although the assumptions have been determined by Hymans, ultimately it is the Council that is responsible for ensuring that any assumptions used are accurate and will lead to the best estimates possible for use in the accounts for 2014/15.

3.4 The actuarial assumptions report as provided by Hymans is included at Appendix 2.

3.5 When reviewing the assumptions used, the Council is required to consider if these assumptions are appropriate having regard to local circumstances. Matters that could impact on any assumptions used usually relate to proposals that may have a major impact on the future makeup of the workforce, such as pay increases in excess of 3% or outsourcing more than 5% of the workforce.

3.6 At this point in time there are no known proposals in the near future that could impact and therefore it is not recommended that the actuary's assumptions are challenged.

APPENDIX 1

1 ACCOUNTING POLICIES

i General Principles

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year-end of 31 March 2015 The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (The Code) and the Service Reporting Code of Practice 2014/15, supported by the International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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

ii Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council

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

- Expenses in relation to services received, (excluding services provided by employees) are recorded as expenditure when the services are received rather than when payments are made. Expenses incurred, which relate to employees, are not accrued for as they are considered to be relatively stable year on year and omitting them would not result in a material error

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

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

iii Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

iv Exceptional Items

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

v Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

vi Charges to Revenues for Non-Current Assets

Services and support services are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service

- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

- amortisation of intangible fixed assets attributable

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement.

The Council has assessed the Minimum Revenue Provision (MRP) in accordance with the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. Any charge in 2014/15 is for either new borrowing under the prudential system, based on the asset life method, or relates to the Council's current credit arrangements for Finance Leases for which the outstanding liabilities are repaid over the term of the agreement.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vii Employee Benefits

The Council accounts for employment and post employment benefits when employees earn them and the Council is committed to providing them, even if the actual provision might be many years into the future. Employee benefits are accounted for in the following four categories:

Benefits Payable During Employment

Short-term employee benefits are payable within twelve months of the Balance Sheet date and include, wages, salaries, social security contributions, paid annual leave and paid sick leave, bonuses and non-monetary benefits, and similar payments and are recognised as an expense for services in the year in which employees render service to the Council.

Short term compensated absences are periods during which an employee does not provide services to the Council, but employee benefits continue to be paid. Typical employee benefits include annual leave, sick leave, maternity leave, jury service and military service.

An accrual is made for the holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line (or in discontinued operations) in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

Post – Employment Benefits

Employees of the Council are eligible to be members of the Local Government Pension Scheme (LGPS), administered by Lincolnshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme.

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

- Liabilities are discounted to their value at current prices, using a discount rate of 4.3% (determined by reference to market yields at the end of the reporting period on high quality corporate bonds (iBoxx AA over 15 year index).

- The assets of the Lincolnshire Pension Fund attributable to the Council are included in the Balance Sheet at fair value:

  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value

The assessment process takes the most recent triennial actuarial valuation and updates it to reflect current conditions.

The change in the net pensions liability is analysed into seven components:

Service cost comprising:

Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

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

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

Remeasurement comprising:

Return on scheme assets – excluding amounts included in net interest on the net defined benefit liability/asset – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Actuarial gains and losses - changes in net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pension Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the Lincolnshire CC Pension Fund

Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

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

Further information can be found in the Lincolnshire Local Government Pension Fund Annual Report

Which is available from:

The Resources Directorate
Lincolnshire County Council,
County Offices
Newland,
Lincoln, LN1 1YG

viii Events after the Balance Sheet date

Events after the balance sheet date are those events, favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorised for issue. Two types of events can be identified:

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

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

ix Financial Instruments

Financial Liabilities

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

The Council has no borrowing.

Financial liabilities are classified into two types:

- amortised cost – liabilities that are not held for trading, such as operational creditors and borrowings; and

- fair value through profit or loss – liabilities held for trading.

The Council currently only has liabilities carried at amortised cost relating to Finance Leases, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the lease agreement.

Financial Assets

Financial assets are classified into two types;

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and

- Available-for-sale assets that have a quoted market price and/or do not have fixed or determinable payments.

The Council currently only has assets classified as “loans and receivables”.

Loans and receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at the amortised costs. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made this means that the amount presented on the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement as the amount receivable for the year in the loan agreement.

Where assets are impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

x Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

xi Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.
Monies advanced as grants or contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

xii Intangible Fixed Assets

Expenditure on non-monetary assets without physical substance that are controlled by the Council as a result of past events, and future economic benefits or service potential is expected to flow to the Council. The most common item posted to this line will be software, but might also cover such things as rights to use land. All such expenditure is accounted for on an accruals basis and capitalised as a non-current asset.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve

xiii Inventories and long-term contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

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

xiv Investment Properties

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

xv Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the CIES with the expenditure it incurs and the share of income it earns from the activity of the operation.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other venturers, with the assets being used to obtain benefits for the venturers. The joint venture does not involve the establishment of a separate entity. The Council accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

xvi Leases

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

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

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

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

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

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debt) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element of the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xvii Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2014/15 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.

Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

xviii Property Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is possible that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an assets potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged as an expense when it is incurred.

Assets valued at less than £10,000 are not normally recognised in the Balance Sheet.

Measurement

Assets are initially measured at cost, comprising;

- The purchase price

- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- infrastructure assets and assets under construction – depreciated historical cost

- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

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

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are re valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the CIES where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

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

Impairment

Assets are assessed at each year–end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives commencing in the first full year that the asset is included in the Council's accounts. An exception is made for assets without a determinable useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings– straight line allocation over the life of the property as estimated by the valuer with the exception of a number of leased shops, where the remaining term of the lease has been used

- Vehicles, plant and equipment – straight line allocation over the life of the asset, as advised by a suitably qualified officer

- Infrastructure – straight line allocation.

Asset Useful Economic Lives assumed

Assets	**Useful life Range (years)**
Offices/Leisure Centre	11 to 46
Depots & Stores	17
Shops	112
Public Conveniences	16 to 36
CCTV Systems/IT Equipment/ Wheeled Bins/Office equipment	1 to 15
Vehicles / Bin Lifters	1 to 6
Infrastructure Assets	24 to 35

Where an item PPE asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Materiality levels have been assessed and a materiality level of £0.5m for major components has been applied.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the data of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts and credited to the Capital Receipts Reserve. The balance on the Capital Receipts Reserve can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

xix Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance the Council may be involved in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.
When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required or a lower settlement than anticipated is made, the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party, this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

xx Contingent liabilities

A contingent liability arises when an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

xxi Contingent assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed only by the occurrence or otherwise of uncertain future events, not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xxii Reserves

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

xxii Revenue Expenditure Funded From Capital Under Statute

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

xxiv Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

HYMANS ROBERTSON

briefing note

LOCAL GOVERNMENT FRS17 / IAS19

February 2015

Steven Scott
Actuary

Local Government Pension Scheme: Accounting Assumptions for 31 March 2015

This briefing note has been prepared by Steven Scott of Hymans Robertson's Public Sector Practice specifically for employers participating in the LGPS to outline the approach to deriving our recommended FRS17/IAS19 assumptions as at 31 March 2015. We recommend that this paper is shared with all employers in the Fund with March year ends. This will allow employers to discuss our approach with their auditors and identify any issues in advance of the FRS17/IAS19 exercise. We hope this will limit the number of queries and also minimise any rework required at a late stage in the process - both of which could incur additional costs. For the avoidance of doubt, the approach to assumption setting outlined in this briefing note applies to both FRS17 and IAS19 disclosures (unless otherwise stated). We also propose that the same approach be adopted for unfunded liabilities.

We have discussed the approach to set our recommended assumptions with the Audit Commission, who have not raised any significant concerns with this.

“We recommend that each employer should discuss the proposed assumptions with their auditor.”

Changes in market conditions since 31 March 2014

The change in market conditions since 31 March 2014 is expected to lead to a lower net discount rate as at 31 March 2015. This would increase the value placed on the FRS17/IAS19 liabilities.

At the end of January 2015, the change to the net discount rate for a typical LGPS employer over the period from 31 March 2014 was a fall of around 0.8%. Over the same period, asset returns have been greater than expected and this may go some way to offset any increase in liabilities.

Ultimately, the impact could vary significantly between individual employers although it is likely that most, based on current market conditions, will see a deterioration in their balance sheet over the 2014/15 year.

Any market movements between now and 31 March 2015 could change this further.

Background to FRS17/IAS19 assumptions

As for any actuarial calculation, the value of the liabilities for FRS17/IAS19 purposes is heavily dependent on the assumptions underpinning the calculations. If they are not already, employers should be aware that, ultimately, they are responsible for the assumptions used.

For example, FRS17 states:

The assumptions underlying the valuation should be mutually compatible and lead to the best estimate of the future cash flows that will arise under the scheme liabilities. The assumptions are ultimately the responsibility of the directors (or equivalent) but should be set upon advice given by an actuary.

Any assumptions that are affected by economic conditions (financial assumptions) should reflect market expectations at the balance sheet date.

For a number of reasons, principally cost and employer timescales, we have historically recommended a standard set of assumptions as at a given date for all employers within the LGPS. (This is subject to any specific guidelines for any group of employers, such as Government agencies who follow the Financial Reporting Manual guidance). However, FRS17/IAS19 has become increasingly important to employers and we understand that auditors' guidance now requires them to go beyond simply accepting the actuary's calculations as the work of an expert.

We welcome the greater interest in the assumptions being taken by employers and their auditors. However, in order to maintain service standards and contain costs, our default approach is that reports for employers with the same year-end and similar maturity profile are processed using the same assumptions. We believe that this approach remains appropriate for the majority of employers, particularly local authorities and other public sector bodies.

Corporate entities for whom FRS17/IAS19 affects decision-making may take a different view; the additional costs associated with adopting bespoke assumptions are possibly worthwhile for them. It should also be noted that Hymans Robertson fees for LGPS employers are a fraction of those for sponsoring employers of stand-alone private sector schemes; this is due to the efficiencies and economies of scale which Hymans Robertson has put in place for your benefit.

An employer in the Fund and its auditor may decide that they wish to use a different approach to setting just the **financial assumptions** (e.g. discount rate) for accounting purposes. In this case we will normally be able to accommodate this, although it will lead to an increase in costs. It will, however, still be possible to prepare the report as part of a batch and so will still be cheaper than a fully bespoke report.

If an employer wishes to use different financial assumptions, then it is essential that we are made aware of their desired approach to assumption setting prior to 31 March 2015. If we are informed after this date, we will have to process the report individually and the employer will not benefit from reduced fees from being part of a group.

Any different approach to **demographic assumptions** (e.g. life expectancy) will be more time-consuming to adopt, and so a further increase in fees will result.

To assist employers in assessing whether they wish to accept our recommended assumptions, we have set out below the rationale for our recommendations for each of the principal assumptions.

Discount Rate

FRS17 (and in effect IAS19 also) state that liabilities should be discounted at a rate equivalent to the "current rate of return available on a high quality corporate bond of equivalent currency and term to the scheme liabilities". It further defines a high quality corporate bond as one that "has been rated at the level of AA or equivalent status".

The principle behind our approach to setting the recommended discount rate as at 31 March 2015 has remained unchanged since 31 March 2014 i.e. the discount rate is still derived from a corporate bond yield curve whilst recognising the weighted average duration (or term) of the benefit obligation for each separate employer.

However, the way we have constructed the corporate bond yield curve has been revised.

Corporate bond yield curve

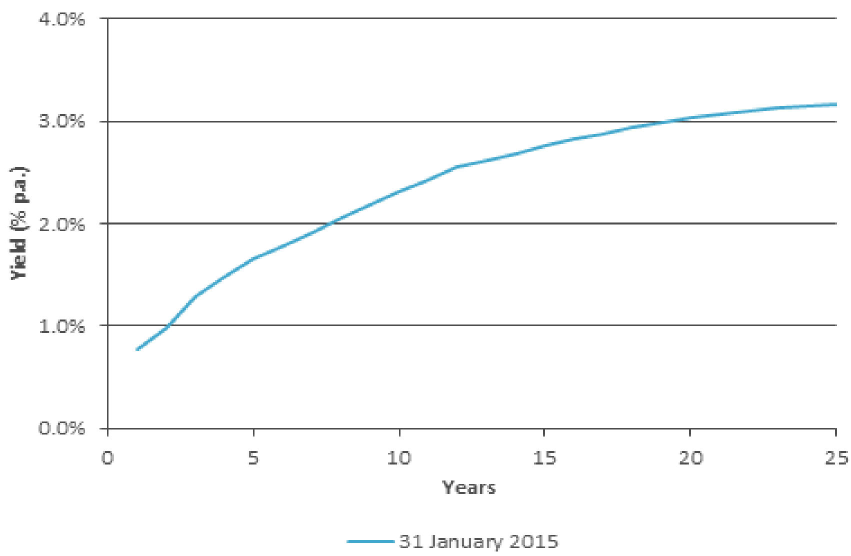
Government bond yield curves are updated and available on a daily basis from the Bank of England. It is therefore relatively easy to identify a spot yield on Government bonds at any duration and at any date. Unfortunately, a similarly accessible corporate bond yield curve is not so readily available.

At 31 March 2014, our corporate bond yield curve was based on the constituents of the iBoxx £ Corporates AA index using the UBS delta curve fitting methodology. Currently, the UBS curve produces a discount rate that, at longer durations, is lower than what we understand auditors would typically expect. Our understanding is based on recent discussions we have had with auditors.

For this reason, we have adopted an approach whereby a corporate bond yield curve is now constructed in the following manner:

- Use the UBS corporate bond curve (derived by applying the UBS delta curve fitting methodology to the constituents of the iBoxx £ Corporates AA index) for durations up to 8 years
- From 12 years onwards use a gilts curve plus a long term average credit spread of 1.0% p.a. (based on my judgement of market conditions as at 31 January 2015)
- Interpolate between the two approaches for durations between 8 and 12 years.

The UBS fitting approach is complex and specific details on this can be provided if required. This approach gives a smooth curve of locally averaged yields along the term structure. The chart below shows a representative yield curve as at 31 January 2015.



Weighted average duration

As mentioned above, the discount rate should reflect the term of the benefit obligation. We have interpreted 'term' to be the weighted average duration of the benefit obligation. This is broadly defined as;

The weighted average time until payment of all expected future discounted cashflows, determined based on membership and the financial and demographic assumptions at a particular time. The shorter the duration, the more 'mature' the employer.

Historically, the weighted average duration of the benefit obligation for each LGPS employer was similar. With increased divergence of LGPS employers, in particular the introduction of Academies in England and the increased number of outsourcings, it is now the case that the weighted average durations of individual employers are likely to be materially different. The use of a single discount rate appropriate for a typical employer in the fund is no longer appropriate for all employers.

In accordance with the approach adopted at 31 March 2014, we recommend separate discount rates (and corresponding RPI/CPI inflation assumptions – see below) for individual employers, dependent on their own weighted average duration. The first step in this is to allocate each employer to a duration category as defined below:

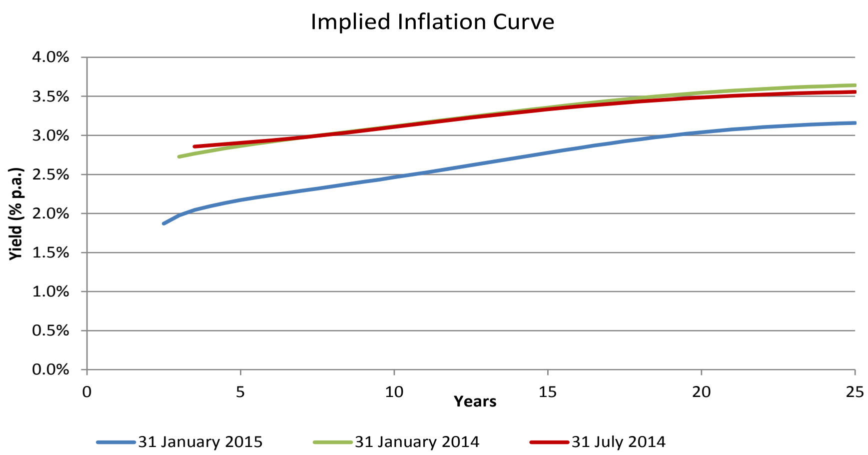
Weighted average duration	Discount rate category
Less than 17 years	Short
Between 17 and 23 years	Medium
More than 23 years	Long

The weighted average duration used to identify the appropriate category for each employer is that determined at the most recent actuarial valuation. For English and Welsh LGPS Funds this will be the duration determined at the 2013 valuation and will be identical to that used at 31 March 2014. For Scottish LGPS Funds, employers may see themselves being allocated to a different duration category with the duration calculated at the 2014 formal valuation being applied as opposed to the duration at the 2011valuation that was used to set the FRS17/IAS19 assumptions as at 31 March 2014.

Retail Prices Inflation

This assumption is typically derived from yields available on fixed interest and index linked government bonds, and should be consistent with the derivation of the discount rate.

The chart below show the Bank of England implied inflation curve over a range of maturities at 31 January 2015, 31 July 2014 and 31 January 2014. The recommended RPI inflation assumption for each discount rate category defined above will be identified at appropriate durations from this curve as at 31 March 2015.



Source: Bank of England (31 January 2015)

Pension Increases

In the LGPS pension increases are linked to the rate of CPI as opposed to RPI. As a market in CPI linked bonds does not exist, we need to estimate the long term gap between RPI and CPI in order to derive a CPI assumption for FRS17/IAS19 purposes.

In the past we have estimated that CPI would be approximately 0.8% below RPI. This was based on our estimate of the 'formula effect'. The Office for National Statistics (ONS) publish the size of the actual formula effect on a monthly basis and over the last four years it has varied between 0.8% and 1.0%. Based on this evidence and as a result of discussions we have had with auditors, we are increasing our assumed RPI-CPI gap to 0.9% p.a. at 31 March 2015. This will lead to a reduction in the assumed rate of CPI (all else being equal).

Indicative financial assumptions based on market conditions as at 31 January 2015

The following table shows the indicative financial assumptions based on this methodology and **market conditions as at 31 January 2015**. It is unlikely that market conditions as at 31 March 2015 will be identical to those as at 31 January 2015 therefore the actual 31 March 2015 assumptions are likely to differ to those shown below.

Weighted average duration	Discount rate	RPI inflation (CPI)
Less than 17 years (Short)	2.9%	2.8% (1.9%)
Between 17 and 23 years (Medium)	3.0%	3.1% (2.2%)
More than 23 years (Long)	3.1%	3.2% (2.3%)

Salary growth

Our recommended assumption will generally be consistent with the most recent actuarial valuation. In particular, recognition of short term pay restraints is made implicitly in determining a long term pay growth assumption linked to the assumed rate of RPI.

An additional allowance for promotional salary increases is also made

Longevity Assumptions

Our recommended longevity assumptions for the FRS17/IAS19 2015 exercise are in line with those adopted by funds for the most recent actuarial valuation (please refer to the valuation report for your own fund for further information).

Demographic assumptions

These include assumptions for commutation (a higher allowance for commutation will reduce the value of the liabilities), withdrawal, ill-health early retirements, proportions of deaths leaving a dependant, etc. The assumptions underlying the valuation should be mutually compatible and lead to the best estimate of the future cash flows that will arise under the scheme liabilities. Best estimate is not defined in FRS17/IAS19 so there is scope for actuarial judgement in setting these assumptions.

We gathered data on recent experience of LGPS funds in order to set appropriate demographic assumptions for the most recent formal funding valuation. For all funds, our recommendation will be to use the same demographic assumptions for FRS17/IAS19 purposes as at the most recent valuation. Collectively, these are intended to be best estimate.

Putting them all together

FRS17 and IAS19 do not require that every individual assumption is a *best estimate.* The Directors (or equivalent) of the organisation should be satisfied that the combined effect of the assumptions is reasonable as a whole.

Surplus limits

It may seem unusual to talk of surpluses in current market conditions, but we do expect to see a few employers whose IAS19/FRS17 balance sheet shows a surplus (net asset) position. These employers are often contractors who were set up fully funded in the midst of adverse market conditions.

For such employers, please note that:

- both IAS19 and FRS17 currently contain provisions to limit the amount of surplus recognised in the balance sheet;
- this limit will depend on various factors such as whether the employer is closed to new entrants or not, how the surplus compares to the service cost, and what contributions the employer is duty bound to pay to the Fund;
- if there is a surplus then further checks are required to see if the limit applies; if so, then changes are needed to the calculations and disclosures. These tasks are outside our standard pricing approach. Therefore, where a material surplus exists at 31 March 2015, we will simply flag this to the employer in the first place and await further instructions: any subsequent work would require separate agreement on timescales and fees.

FRS17 or IAS19?

Many larger employers, such as local authorities, are required to account for pension costs under IAS19 instead of FRS17. Many other bodies will also report on an IAS basis, and so it is important we are instructed whether to adopt IAS19 or FRS17 for each employer.

FRS102

FRS102 comes into effect for accounting years starting on or after 1 January 2015, (i.e. the first year of adoption for employers with a 31 March year-end will be 1 April 2015 to 31 March 2016). The changes to the FRS102 standard are broadly in line with the IAS19 changes i.e. the most significant change is to the Expected Return on Assets assumption, which should lead to a higher charge to the Profit and Loss account.

In order to help employers understand the implementation of FRS102, the FRS17 reports as at 31 March 2015 will include an appendix showing the 2014/15 figures on the FRS102 basis i.e. the impact on the profit and loss figures of setting the Expected Return on Assets assumption equal to the discount rate. This is what the 31 March 2016 FRS102 reports will show as the 2014/15 position.

LGPS employers are individually responsible for ensuring their accounts are prepared in line with their own specific statutory requirements. We will be able to provide FRS17 reports in the future for any LGPS employer who still requires this information to comply with their statutory accounting requirements.

Valuation approach

For Scottish LGPS Funds the FRS17/IAS19 balance sheet position disclosed as at 31 March 2014 was typically based on a roll forward from the 2011 valuation position. The FRS17/IAS19 balance sheet position as at 31 March 2015 will be based on a roll-forward of each employer's assets and liabilities determined at the 2014 valuation. The change in the accounting balance sheet position from 31 March 2014 to 31 March 2015 will likely be affected by this 'step change', with the impact differing for each employer. This will not be the case for English and Welsh LGPS Funds where the balance sheet at both 31 March 2014 and 31 March 2015, will typically be based on a roll-forward from the 2013 valuation position.

Next steps

Unless otherwise advised, any FRS17/IAS19 reports commissioned by employers through the Administering Authority will be based on our default recommended assumptions.

Our recommended assumptions are intended to fully comply with FRS17 and IAS19. As prescribed we have aimed for best estimate assumptions and have not tried to be prudent.

We have discussed the approach to set our recommended assumptions with the Audit Commission, who have not raised any significant concerns with this.

The Administering Authority should issue this Briefing Note to all employers in the Fund with a March year end.

We recommend that each employer should discuss the proposed assumptions with their auditor. We would be happy to tailor any of the assumptions to the needs of individual employers. If the employer wishes to use different financial assumptions we will be able to process as part of the main batch of reports for a small extra fee provided this is communicated to us prior to 31 March 2015.

However, if the employer wishes to commission a fully bespoke report with changes to non-financial assumptions or if changes are requested after the accounting date, this will require preparation outside of the main bulk of the reports. This will fall outside of our standard fee scale and timetable.

If an employer wishes to use an assumption setting approach which differs from those specified in this Briefing Note, then it is essential that they advise us through the Administering Authority as soon as possible and no later than 31 March 2015. This will ensure that we are able to carry out the reports in the most cost effective manner.

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