Statement of Accounts 2018/19

Annex 3

Adjusted Differences to the Unaudited Statement of Accounts 2018/19

During the course of the audit it is normal for amendments to be made to the unaudited accounts to make corrections identified by management or to address issues raised by the external audit.

The following amendments have been made relating to technical adjustments:

- **IAS 19 – McCloud/Sargeant Ruling and Guaranteed Minimum Pension (GMP)**

McCloud/Sargeant ruling

When the LGPS benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an ‘underpin’ which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme, by effectively giving them the better of the benefits from the old and new schemes.

In December 2018 the Court of Appeal upheld a ruling (“McCloud/Sargeant”) that similar transitional protections in the Judges’ and Firefighters’ Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well.

The draft unaudited accounts were published on 31 May and did not take the ruling into account due to the uncertainty about its impact. However, the UK Government was refused leave to appeal to the Supreme Court at the end of June, making it more certain that the judgement will have an impact.

Quantifying the impact of the judgement at this stage is very difficult because it will depend on the compensation awarded, members’ future salary increases, length of service and retirement age, and whether (and when) members withdraw from active service. Salary increases in particular can vary significantly from year to year and from member to member depending on factors such as budget restraint, job performance and career progression. The Government Actuary’s Department (GAD) has estimated that the impact for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. A full description of the data, methodology and assumptions underlying these estimates is given in GAD’s paper, dated 10 June 2019.

Following the refusal to appeal, the actuary was instructed to recalculate the estimate net pension liability. The actuary has adjusted GAD’s estimate to better reflect Council Pension Fund’s local assumptions, particularly salary increases and withdrawal rates. The revised estimate as it applies to the Council is that total liabilities (i.e. the increase in active members' liabilities expressed in terms of the employer's total membership) could be 0.73% higher as at 31 March 2019, an increase of approximately £14.4m. The recalculation has also been completed for the Fire Fighters Pension Scheme. This is expected to have an impact of 3.7%, an increase of £9.8m.

These numbers are high level estimates based on scheme level calculations and depend on several key assumptions.

The impact on employers' funding arrangements will likely be dampened by the funding arrangements they have in place. However, if the judgement is upheld then there will be unavoidable upward pressure on contributions in future years.

Guaranteed Minimum Pension

There is also uncertainty regarding the impact of Guaranteed Minimum Pension (GMP) requirements. This arises where a pension scheme was 'contracted out' of additional state pension arrangements. If the contracted out pensions benefits are less than the pensioner would have received if the contracting out had not applied the pension scheme would be required to increase the pension paid to reach the GMP.

The UK government website states that :

"Defined benefit pensions schemes that were Contracted-out Salary Related (COSR) schemes before contracting-out ended on 6 April 2016 need to provide a Guaranteed Minimum Pension (GMP) to members for contracted-out service between 6 April 1978 and 5 April 1997. The GMP is payable at age 60 for a woman and at age 65 for a man."

The GMP will be recognised at a 'past service cost'. At the point of publishing the draft unaudited accounts the actuary considered that there was too much uncertainty to assess when the 'past service cost' will be triggered and how material any impact would be. This remains the case for the Fire Fighters Pension Fund Accounts. However, the actuary has been able to determine that all GMP increases have already been valued within the liabilities for the LGPS and do not require any further adjustments. As such, there will be no additional charge to the LGPS relating to GMP.

- **IFRS 9 – Designation of Strategic Pooled Funds on transition**

The adoption of IFRS 9 in the 2018/19 Code of Practice has required the Council to revise the classification. During the audit the Council has been engaged in technical discussions with the auditors regarding the classification of the Council's investments in Strategic Pooled Funds.

The draft unaudited accounts were completed on the basis that these funds could be designated as 'Fair Value Through Other Comprehensive Income'. This accounting treatment allowed the Council to tale movements in fair value to an unusable reserve and insulate the General Fund from these movements, with gains or losses recycled to the Comprehensive Income and Expenditure Statement on disposal.

However, it has now been agreed to account for these investments at Fair Value Through Profit and Loss and a statutory override, which came into force on 19 December 2019, will be utilised to insulate the General Fund from movements. The statutory override allows the Council to establish an account that can be charged and used solely for the purpose of recognising fair value gains and losses. This account is an unusable reserve called the 'Pooled Fund Adjustment Account'.

The statutory override is in place until 31 March 2023. The government has promised to consult on a possible extension prior to the existing provision coming to an end.

At 31 March 2019, the Council has investments of £101m in Strategic Pooled Funds.

- **REFCUS Accounting Policy**

During the course of the audit, it has also been identified that the Council's policy on the treatment of capital grants used to fund REFCUS is inconsistent with the guidance notes to the Code of Practice.

Original accounting policy:

> "Capital grants and contributions used to finance Revenue Expenditure Funded from Capital Under Statute are accounted for in the same way as other capital grants and contributions i.e. credited to the Taxation and Non-Specific Grant Income line when there are no outstanding conditions and transferred/applied in the same way through the Movement in Reserves Statement."

Code of Practice on Local Authority Accounting, Guidance Notes for Practitioners 2018/19 Accounts:

> "Any grants receivable by an authority that are applied to revenue expenditure funded from capital under statute will be accounted for as revenue grants in the Comprehensive Income and Expenditure Statement, even if described as capital grants by the giver of the grant."

The accounting policy has been amended to reflect this and the entries in the 2018/19 accounts have also been amended to apply the new accounting policy.

The code requires that a change in accounting policy is applied retrospectively, i.e. that adjustments are made 'to clear the effects of the previous accounting policy'.

This has required the 2017/18 comparative figures to be restated in the CIES, EFA, Note 4. Adjustments in the EFA, Note 19. Taxation and non-specific grant income and Note 20. Grants.

- **Other Changes**

There have also been other minor amendments to the disclosure notes to improve presentation or clarity.