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Briefing note

Helping LGPS employers to be aware of important changes to accounting standards

Participating employers in the Local Government Pension Scheme (LGPS) are required to account for the cost of providing retirement benefits and reserve for any oustanding pension liabilities. They are also required to make certain disclosures about these schemes in the notes to their accounts.

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> For employers that account under the FRS17 accounting standard, this is to be replaced by a new standard, FRS102, for accounting periods beginning on or after 1 January 2015.

There are some important changes for employers to be aware of under all accounting standards this year. The purpose of this note is to highlight these issues, in particular with relation to participation in other multi-employer plans and changes to disclosure requirements. It is important to be aware of these changes to ensure each employer complies with the relevant regulations.

Quick background

For employers that account under the FRS17 accounting standard, this is to be replaced by a new standard, FRS102, for accounting periods beginning on or after 1 January 2015. The FRS17 standard that currently applies was last updated in 2006 and the international accounting standard, IAS19, was last updated in 2011 (although it only came into effect for most employers from 1 January 2013). Prior to the amendment to IAS19 in 2011, the two standards were very similar but they diverged as a result of the amendment.

FRS102 has been written to bring the UK standards back into line with revisions made to IAS19. For UK listed companies and local authorities IAS19 applies; for other UK entities FRS17 applies. Any employers with overseas parents may need to make disclosures under other standards.

What are the important changes to note under FRS102?

The key changes under the new FRS102 standard are as follows:

- The **expected return on assets** figure will no longer be used. Instead, the **finance cost** which is currently the difference between the interest on liabilities and expected return on assets will be replaced by a **net interest cost**, calculated using the discount rate applying at the start of the period. With all else being equal this is likely to lead to a higher pension cost in the profit and loss charge compared with FRS17.
- Discount rates are no longer specifically pegged to AA-rated bonds, only to ‘high quality corporate bonds’, although it is not expected that this change will have a significant impact.
- More disclosures will be required about the risks associated with each pension scheme.
- Various components within the disclosures will be relabelled.
- More detailed disclosure about the assets.
- FRS102 refers to the “fair value” of assets rather than specifically requiring the use of bid values.

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> Barnett Waddingham is able to help provide the additional information employers are required to disclose on request although please note that FRS102 information is not required for this accounting period.

Barnett Waddingham will also update the disclosures for the treatment of expenses. In particular, administration costs, other than those relating to investment management, will be accounted for separately to mirror the treatment in IAS19.

Employers will be unaffected by these changes until the new standard is adopted so this note is mainly to provide advance warning of the changes that will be included next year.

We will include some illustrative FRS102 figures in our reports this year to show the effect of the changes and to provide comparators for next year when the standard is introduced.

Recognising a surplus

There are other changes affecting the way any surpluses are restricted under IAS19 – admittedly a bit theoretical! Under current rules, LGPS Funds are unable to pay refunds to LGPS employers and so we do not believe the amendments will affect employers.

» *We would always recommend that LGPS employers seek further advice from us or from their auditors if they are recognising a surplus on their balance sheet.*

Accounting for other defined benefit multi-employer plans

We are aware that some LGPS employers will also participate in other defined benefit (DB) pension schemes. For example, local authorities and academies probably also participate in the Teachers' Pension Scheme. The new accounting standards may also affect how these employers disclose their liabilities from unfunded schemes and benefits in other multi-employer plans.

In the past, some of these schemes would have been accounted for as if they were defined contribution (DC) schemes with the only disclosure being the total contributions paid. This used an exemption in FRS17 and IAS19 which set out that if assets and liabilities could not be separately identified for each employer, these reduced disclosures were sufficient. We understand that most, if not all, employers in the Teachers' Pension Scheme take this approach.

Under IAS19, the pension costs can continue to be treated as if it was a DC scheme so there is no change to the actual accounts but extra narrative disclosures are required to describe the scheme, how the contributions are set, how the other employers in the scheme affect the employer, the relative size of the employer in the whole scheme and the expected contributions in the next year.

Under FRS102, the changes are more significant. The IAS19 disclosures outlined above are required but employers also need to recognise on their balance sheet the expected present value of all future deficit reduction contributions i.e. they need to capitalise part of their future contributions relating to the deficit and show it as a long-term debt along with details of how the capitalised value has been determined. As time passes, contributions are paid and market conditions change, this amount will be recalculated.

» *Barnett Waddingham is able to help provide the additional information employers are required to disclose on request although please note that FRS102 information is not required for this accounting period. For IAS19 we can provide an anonymised additional disclosure note for employers in each fund which can be used by all employers if they can fill in the contributions they expect to pay themselves. Please get in touch to discuss the options available.*

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We will keep you informed of further developments and detailed information will be included in the disclosures that we provide to employers. We would also suggest having discussions and agreeing any uncertainties with your auditor at an early stage.

Please contact your Barnett Waddingham consultant if you would like to discuss any of the above topics in more detail. Alternatively contact us via the following:

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