

**Report To:** Audit Committee

**Date:** 28 April 2009

**Report By:** Chief Financial Officer

**Report No:** FIN/31/09/JB/SC

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**Subject:** Changes to the 2008/09 Accounts

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## 1.0 PURPOSE

- 1.1 The purpose of this report is to advise the Audit Committee of the main changes to the Annual Reporting Accounts for the year ending 31 March 2009 and the requirement to adopt International Financial Reporting Standards which will impact from 1 April 2009 onwards.

## 2.0 SUMMARY

- 2.1 There are some presentational changes to the Annual Accounts for the year ending 31 March 2009. The changes are of a technical nature on the way in which Local Authorities measure the net pension liability.
- 2.2 Officers have been working on the changes and continue to liaise with Strathclyde Pension Fund and Audit Scotland. The attached information note provides more detail on the change.
- 2.3 In future all Local Authorities will be required to produce their Annual Accounts under International Financial Reporting (IFRS) rather than UK Generally Accepted Accounting Standards (UKGAAP). This is a fundamental change both to the way the Annual Accounts will be compiled and the how they will look. This is a considerable change which will impact in 2009/10. Officers are already working on the implication of these changes and a separate report will be presented to this Committee at a later date with more details.

## 3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee: note the changes which are required in preparing the 2008/09 Annual Accounts, note that the draft Accounts for 2008/09 will be presented to the Audit Committee at the end of June 2009 and note the requirement to adopt IFRS.

Alan Puckrin  
Chief Financial Officer

Information Note to Audit Committee  
Changes in the 2008-2009 Annual Accounts

**1. Summary**

- 1.1 This information note gives advance notice to the Audit Committee of some of the more significant accounting changes that will feature in the Council's 2008-2009 Annual Accounts. These changes have been introduced by the "rules and regulations" that set out the main requirements for local authority annual accounts and are contained in the Code of Practice on Local Authority Accounting in Great Britain – A Statement of Recommended Practice. You may see this referred to either as the "ACOP" (Accounting Code of Practice) or the "SORP" (Statement of Recommended Practice).
- 1.2 The changes that are new for this year are presentational only and are part of the drive to harmonise local authority accounts more closely with what is happening in international accounting circles. These changes have no effect upon the taxpayer, because Scottish Government regulations take precedence over the SORP and "over-ride" what may be charged to the Council's general fund balance.
- 1.3 There are few substantive changes and these are mainly a "tidy-up" concerned with the Pension Fund disclosures. The SORP requires that a new format of disclosures is produced and as a result all the pensions' disclosures will be in a different style to those produced for 2007-2008.

**2. The Changes**

- 2.1 There is a technical change in the measurement of the net pension liability. Certain categories of investments held by Strathclyde Pension Fund – quoted securities (stocks and shares) – are now taken into account at "bid price" (the price at which you would be able to guarantee a sale) instead of mid-market price (which is halfway between the "bid" value and the "offer" price, the price at which an asset can be purchased).
- 2.2 Clearly, the bid price will be lower than the mid-value of the assets and so there will be a reduction in the level of Pension Fund assets used for the purpose of the Annual Accounts compared with last year's approach. The advice from the actuary to the Strathclyde Pension Fund is that the effect of this change will be less than half a percent.
- 2.3 There is now more information required in the accompanying notes to the Council's accounts to assist the reader to understand better the main assumptions used by Pension Fund's actuaries. This is in response to criticism that there is currently insufficient information to allow the reader of the accounts to get a clear view of the risks arising from "final salary" schemes.
- 2.4 As for any calculation that seeks to predict the future based on past events, the value of the net pension liability for the purposes of the Annual Accounts is heavily dependent upon the assumptions underpinning the calculations.
- 2.5 One of the most critical assumptions is how the present cost of future liabilities has been assessed. This is known as the "discount rate" and the Pension Fund's actuaries will continue to use a discount rate based on a basket of AA-rated bonds (Iboxx Sterling Corporates over 15 years old).
- 2.6 There is also more information required in the 2008-2009 Accounts about assumptions about the future cost of pensions to be paid out such as:
- The general health of the workforce and the life expectancy of pensioners.
  - Inflation and pension increase rate.

And on the pension fund assets side, assumptions about figures used for:

- Earnings growth for employees' and employers' contributions
- The expected returns on assets for income and capital growth
- Changes in assets (and liabilities) during the year.

### **3. Quick Reprise - Participation in Pension Schemes**

- 3.1 As part of the terms and conditions of employment of its employees, Inverclyde Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make payment that needs to be disclosed at the time that employees earn their future entitlement.
- 3.2 The Council participates in two pension schemes, one exclusive to teachers and the other open to all of its other employees. The teachers' scheme is unaffected by the technical accounting changes as the liability for payment of teachers' pensions rest ultimately with the Scottish Government and it is not possible for councils to identify a share of the underlying liabilities in the scheme attributable to their own employees.
- 3.3 The pension scheme for employees other than teachers is Strathclyde Pension Fund and is a "final salary" scheme for which it is possible for the employers to identify their share of the assets and liabilities on a consistent and reasonable basis.
- 3.4 The presentational changes only affect Inverclyde Council's share of the net liability of Strathclyde Pension Fund