6.4 Post-employment benefits

10.1.2.137 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 2009 Balance Sheet.

Transition adjustments will only be required where a pension plan is accounted for differently under the Code than under the SORP. There are no changes to the accounting required for the Local Government Pension Scheme in England, Wales and Scotland, the Police and Firefighters' Pension Schemes, and the Teachers Pension Scheme. It is therefore highly unlikely that (with the exception of the Northern Ireland Local Government Officers Superannuation Scheme covered later in this guidance) any transition adjustments will be required. In the exceptional case that authorities have pension plans that are accounted for differently under the Code than the SORP, the following steps will need to be followed.

Authorities should also refer to section 6.2 of the Code, and the transition guidance on that section of the Code, in respect of long-term disability benefits that were treated as post-employment benefits under the SORP, but which may be treated as other long-term employment benefits under the Code.

10.1.2.138 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

10.1.2.139 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

10.1.2.140 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

10.1.2.141 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

10.1.2.142 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).

10.1.2.143 The net liability (or asset) will be a charge (or credit) to the District Fund unless the Northern Ireland Department of the Environment introduces regulations or an accounts direction requiring the charge to the District Fund to be calculated on a different basis. If such a regulation or accounts direction is introduced, authorities shall follow the regulations or accounts direction.

Under the SORP, no amounts would have been recognised in the balance sheet in respect of Northern Ireland Local Government Officer's Superannuation Scheme. Authorities will therefore need to create the balances for the opening IFRS balance sheet as at 1 April 2009.

The Accounts Direction issued by the Department of the Environment (Northern Ireland) under Circular LG 22/10 requires the charge to the District Fund to be based on retirement benefits payments and contributions to pension funds which are payable for that financial year (as is the case in England, Wales and Scotland). The entries required to create the balances in the opening IFRS Balance Sheet are as follows:

Dr Plan assets *Cr Pension Reserve* *With the value of the plan assets as at 1 April 2009* *Dr Pension Reserve* *Cr Defined benefit obligation* *With the value of the obligation as at 1 April 2009*

Where the defined benefit obligation is greater than the plan assets, a net pension liability will be presented in the balance sheet. Where the plan assets are greater than the defined benefit obligation, a net pension asset would be presented in the balance sheet. The net liability or asset is the difference between the plan assets and the defined benefit obligation.

Step 2 - Restate the Comparative Figures for 2009/10

10.1.2.144 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.

Under the SORP, authorities would have accounted for the Northern Ireland Local Government Officer's Superannuation Scheme as if it were a defined contribution scheme. The charge to the Income and Expenditure Account would have been the employer's contributions.

Under the Code, the scheme is accounted for as a defined benefits scheme, and authorities will therefore need to restate their 2009/10 accounts accordingly.

When accounting for a defined benefit scheme, employer contributions are not charged to Surplus or Deficit in the Comprehensive Income and Expenditure Statement (equivalent to the Income and Expenditure Account under the SORP), but reduce the defined benefit obligation. The following entries will therefore be required to restate the employer contributions:

Dr Defined benefit obligation *Cr Service revenue accounts (in Surplus or Deficit)* *With the value of the employer contributions charged in 2009/10*

No other transactions would have been recognised under the SORP, and authorities will therefore need to create the entries to restate the 2009/10 comparatives. Given the complexity of this area of accounting, authorities are advised to refer to Module 6, Section D of the 2010/11 Code Guidance Notes (or, prior to publication, Module 4, Section T of the 2009/10 SORP Guidance Notes as these requirements do not change) which provides more detailed guidance on accounting for defined benefit schemes.

The following transactions are those that are most likely to be required when restating the 2009/10 accounts:

Dr Service revenue accounts (in Surplus or deficit)
Cr Defined benefit obligation

With the value of the current service costs

Dr Defined benefit obligation
Cr Service revenue accounts (in Surplus or deficit)

With the value of employee contributions

Dr Non-distributed costs (in Surplus or deficit)
Cr Defined benefit obligation

With the value of past service costs

Dr Financing and investment income and expenditure
Cr Defined benefit obligation

With the value of the pension interest cost

Dr Plan assets
Cr Financing and investment income and expenditure

With the value of the expected return on assets

Dr / Cr Pension Reserve (presented in Actuarial Gains and Losses in Other comprehensive income and expenditure)
Cr / Dr Plan assets and / or Defined benefit obligation

With the value of actuarial gains and losses (in the absence of regulations or an accounts direction, the Pension Reserve will only include unrealised gains and losses)

Dr / Cr Pension reserve
Cr / Dr District Fund

With the difference between the amount required to be charged to the District Fund under the Code and the amount required to be charged under the Accounts Direction.

Where authorities have other transactions, reference should be made to the Guidance Notes for the appropriate treatment.

A worked example is shown in the Appendix to this guidance.

Notes to the accounts

As part of the transition arrangements, authorities in Northern Ireland should be aware that the Code limits the historic pension fund information required to be presented in Northern Ireland to periods commencing on or after 1 April 2009. This is to allow authorities to build up historical information over time, rather than having to generate prior year's information, potentially at a cost to the authority. The relevant extract from the Code (with the limit shown in bold) is as follows:

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

...

(p) The amounts for the current annual period and previous four annual periods **(except that, in the case of authorities in Northern Ireland, previous periods commencing prior to 1 April 2009 need not be presented)** 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.

...

Worked example:

The following worked example illustrates the restatement process.

Deriter District Council accounted for its participation in the Northern Ireland Local Government Officers Superannuation Scheme on a defined contribution basis in its 2009/10 accounts. Under the Code, the scheme is accounted for as a defined benefit scheme, and the Council is therefore required to restate its accounts.

It was determined that as at 1 April 2009, Deriter District Council's share of the NILGOS defined benefit obligation was £1,000m and its share of the NILGOS pension assets was £900m.

During 2009/10, the Council's pension expenditure on a defined contribution basis was £30m and was charged to cost of services as follows:

Leisure and Recreational Services	£12m
Environmental Services	£11m
DRM and Corporate Management	£4m
Other Services	£3m

During 2009/10, the amount due to be charged to service revenue accounts (the net value of the current service cost and employee contributions) under the provisions of the Code was determined to be as follows:

	Current Service	Employee Contributions	Charge to Services
Leisure and Recreational Services	£16m	(£5m)	£11m
Environmental Services	£14m	(£4m)	£10m
DRM and Corporate Management	£6m	(£2m)	£4m
Other Services	£4m	(£1m)	£3m

Information provided by the actuaries included the following information for 2009/10:

Return on pension plan assets assumed at the beginning of the period	£10m
Pension interest cost assumed at the start of the period	£15m
Amount by which actual return on pension plan assets was less than assumed	£6m
Amount by which outturn pension interest costs and other actuarial factors were more favourable than assumed at the beginning of the year	£2m

1 April 2009 Balance Sheet

The entries required to restate the 1 April 2009 balance sheet are:

Dr	Plan assets	£900m
Cr	Pension Reserve	£900m
To create the opening pension asset		

Dr	*Pension Reserve if regulations or an accounts direction are in place)*	*£1,000m*
Cr	*Defined benefit obligation*	*£1,000m*
To create the opening defined benefit obligation		

As a result of these transactions, the restated 1 April 2009 balance sheet would include the following balances or adjustments to balances (two options are shown, depending in whether or not regulations or an accounts direction are in place):

Pension Reserve	*Dr £100m*
Net Pension Liability	*Cr £100m*

2009/10 Accounts

*Assuming regulations or an accounts direction are **not** in place, the entries required to restate the 2009/10 accounts are:*

Dr	*Defined benefit obligation*	*£30m*
Cr	*Service revenue account – Leisure and Recreational Services*	*£12m*
Cr	*Service revenue account – Environmental Services*	*£11m*
Cr	*Service revenue account – DRM and Corporate Management*	*£4m*
Cr	*Service revenue account – Other Services*	*£3m*
To transfer the employer contributions (charged under the 2009 SORP to service revenue accounts) to reduce the defined benefit obligation		
Dr	*Service revenue account – Leisure and Recreational Services*	*£11m*
Dr	*Service revenue account – Environmental Services*	*£10m*
Dr	*Service revenue account – DRM and Corporate Management*	*£4m*
Dr	*Service revenue account – Other Services*	*£3m*
Cr	*Defined benefit obligation*	*£28m*
To recognise the current service cost (entries shown net of employee contributions) in the service revenue accounts		
Dr	*Financing and investment income and expenditure*	*£15m*
Cr	*Defined benefit obligation*	*£15m*
Recognise the assumed pension interest cost		
Dr	*Plan assets*	*£10m*
Cr	*Financing and investment income and expenditure*	*£10m*
Recognise the assumed return on the pension plan assets		
Dr	*Pension Reserve (presented in Actuarial Gains and Losses in Other comprehensive income and expenditure)*	*£6m*
Cr	*Plan assets*	*£6m*
With the amount by which actual return on pension plan assets was less than assumed		

Dr	Defined benefit obligation	£2m
Cr	Pension Reserve (presented in Actuarial Gains and Losses in Other comprehensive income and expenditure)	£2m
With the amount by which outturn pension interest costs and other actuarial factors were more favourable than assumed		
Dr	Pension Reserve	£3m
Cr	District Fund	£3m
With the transfer required under regulations (difference between the £33m charged under the requirements of the Code and the employer contributions of £30m).		

As a result of these transactions, the restated Comprehensive Income and Expenditure Statement would include the following amounts (the amounts in the Income and Expenditure Account under the 2009 SORP are shown for comparison purposes):

2009/10 SORP		2009/10 Code
£12m	Service revenue account – Leisure and Recreational Services	£11m
£11m	Service revenue account – Environmental Services	£10m
£4m	Service revenue account – DRM and Corporate Management	£4m
£3m	Service revenue account – Other Services	£3m
-	Financing and investment income and expenditure – pension interest cost	£15m
-	Financing and investment income and expenditure – return on pension plan assets	(£10m)
£30m	Surplus or deficit (charged to District Fund)	£33m
	Other Comprehensive Income and Expenditure	
-	Actuarial gains or losses on pension assets and liabilities (net)	£4m

As a result of these transactions, plus the transactions listed above to restate the 1 April 2009 balance sheet, the balance sheet at 31 March 2010 would include the following balances (note that the District Fund balance assumes a zero balance at 1 April 2009 prior to restatement, and that the only transactions that affected the balance were those relating to pensions). The amounts in the Balance Sheet under the 2009 SORP are shown for comparison purposes:

31 March 2010 SORP		31 March 2010 Code
(£30m)	Cash (not affected by transition arrangements, but included as the cash balance would have been affected by the original payment of employer contributions and is therefore required to balance the balance sheet)	(£30m)
-	Defined benefit obligation	(£1,011m)
-	Pension Plan assets	£904m
£30m	District Fund	£30m
-	Pension Reserve	£107m