

SUBJECT:	IAS19 – ASSUMPTIONS USED TO CALCULATE PENSION ENTRIES IN THE 2020/21 STATEMENT OF ACCOUNTS
REPORT BY:	CHIEF EXECUTIVE AND TOWN CLERK
LEAD OFFICER:	LAURA SHIPLEY, PRINCIPAL FINANCE BUSINESS PARTNER - REVENUE

1. Purpose of Report

- 1.1 To allow the committee to consider the assumptions the pension fund actuary proposes to use in preparing IAS19 figures for inclusion in the 2020/21 Statement of Accounts.

2. Background

- 2.1 IAS19 is the accounting standard for pension costs, which deals with the accounting requirements for retirement benefits. It is based on the simple principle that an organisation should account for retirement benefits when it is committed to give them.
- 2.2 To calculate the costs of earned benefits for inclusion in the Statement of Accounts, the scheme actuaries use assumptions to reflect expected future events. Assumptions used lead to best estimates of future cash flows that will arise under the scheme liabilities.
- 2.3 The Council will use the calculated costs and the underlying assumptions, based upon the advice of the actuary of the Lincolnshire County Council Pension Fund in preparing the Statement of Accounts for 2020/21.

3. Financial Assumptions

- 3.1 A briefing note prepared by Barnett Waddingham, the pension fund's appointed actuary, is attached at Appendix A. The key assumptions are highlighted in the following paragraphs.
- 3.2 Inflation rate – this allows for the effect of inflation, to provide a best estimate of the ultimate cost of providing benefits, and is derived from yields available on fixed interest and index linked government bonds.
- 3.3 Discount Rate – allowing for the effect of inflation on the liabilities in the scheme, derived from a corporate bond yield curve constructed from yields on high quality bonds.
- 3.4 Pension increase – this is linked to CPI, (which is approximately 0.9% below RPI).

- 3.5 Salary growth – this is set relative to the derived RPI/CPI assumption at the reporting date, using the same methodology as the most recent actuarial funding valuation.

4. Demographic Assumptions

- 4.1 Demographic assumptions typically try to forecast when benefits will come into payment and what form these will take. For example, when members retire, how long they will survive and whether they will exchange some of their pension for tax free cash.
- 4.2 Demographic assumptions as at 31 March 2021 will be based on the market conditions as at 31 December 2020.

5. Treatment of Settlement and Curtailments

- 5.1 Amendments to IAS19 require that when determining past service cost or gain or loss on settlement that the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event.
- 5.2 All relevant events will be remeasured on this basis, subject to materiality.

6. Financial Implications

- 6.1 Statutory provisions require the General Fund and HRA balance be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated in accordance with IAS19. This means that the accounting entries are reversed and replaced with the amount paid to the pension fund in year, therefore ensuring there is no impact to the Council Tax payer.

7. Significant Policy Impacts

- 7.1 There are no significant policy impacts arising as a direct result of this report.

8. Organisational Impacts

- 8.1 There are no organisational impacts arising as a direct result of this report.

9. Recommendations

- 9.1 That the Audit Committee approve the IAS19 assumptions the pension fund actuary proposes to use in preparing IAS19 figures for inclusion in the 2020/21 Statement of Accounts.

Key Decision	No
Key Decision Reference No.	N/A
Do the Exempt Information Categories Apply	No
Call In and Urgency: Is the decision one to which Rule 15 of the Scrutiny Procedure Rules apply?	No
Does the report contain Appendices?	Yes
If Yes, how many Appendices?	1
List of Background Papers:	None
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