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**Local Government Finance Circular 4/2016**

<http://www.gov.scot/Topics/Government/local-government/17999/11203>

By e-mail:

Directors of Finance of Scottish Local Authorities

Copy:

Audit Scotland  
COSLA

Our ref: A13852103

31 March 2016

Dear Director of Finance,

**ACCOUNTING FOR PENSION AND OTHER POST EMPLOYMENT BENEFITS**

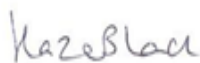
From 1 April 2015 new pension legislation applies. *The Local Government Pension Scheme (Scotland) Regulations 2014* (the 2014 Regulations) establish a scheme for the payment of pensions and other benefits. These Regulations were made by Scottish Ministers in exercise of powers conferred by section 1 of *The Public Services Pensions Act 2013*.

Local authorities are required to account for post-employment benefits in accordance with IAS 19 *Employee Benefits*, except where adaptations to fit the public sector are specified in the CIPFA-LASAAC *Code of Practice on Local Authority Accounting in the UK* (the Accounting Code).

*The Local Government Pension Reserve Fund (Scotland) Regulations 2003* (the 2003 Regulations) require a statutory adjustment for pension costs or other liabilities arising from the accounting requirements of the Accounting Code. This statutory adjustment covers those pension funds or schemes as listed in the 2003 Regulations, and includes any future liabilities arising from regulations made under the Superannuation Act 1972. This legislation does not cover the new pension schemes set out in the 2014 Regulations.

This circular sets out the statutory adjustment to be made to local authority accounts as it relates to the new pension schemes created by the 2014 Regulations. Further work will be undertaken in 2016-17 to review the statutory adjustment to harmonise the position and deliver statutory mitigation for pensions and other post-employment benefits solely through statutory guidance.

Yours faithfully



Hazel Black  
Head of Local Authority Accounting

# ACCOUNTING FOR PENSION AND OTHER POST EMPLOYMENT BENEFITS

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### Part 1 – Commentary

### Part 2 – Statutory Guidance

*Part 1 of this document provides a commentary on the statutory guidance, the statutory guidance itself is set out in Part 2.*

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## PART 1 – COMMENTARY

1. The *Local Government Pension Reserve Fund (Scotland) Regulations 2003* (as amended) require each local authority to establish a fund, the Pension Reserve Fund. The Regulations require deficits and surpluses arising from pension funds to be paid into, or out of, the Pension Reserve Fund. Pension fund is defined in the Regulations. The relevant definitions for the purposes of this statutory guidance are (a) the Local Government Pension Scheme (Scotland) Regulations 1998; (b) the Teachers Superannuation (Scotland) Regulations 1992; and (e) any other regulations made under the Superannuation Act 1972 which would result in liabilities for that local authority.

2. *The Local Government Pension Scheme (Scotland) Regulations 2014* (the 2014 Regulations) were made under *The Public Services Pensions Act 2013*. This means that any surpluses or deficits from the new pension scheme established under the 2014 Regulations are not covered by the 2003 Regulations.

3. Some benefits are still provided by Regulations made under the Superannuation Act 1972 and are therefore still covered by the 2003 Regulations.

4. A review group was set up to consider how the statutory adjustment required by the 2003 Regulations could be extended to cover the surpluses or deficits arising from the 2014 Regulations. It was agreed that the statutory adjustment could be provided through the issue of statutory guidance using powers contained in section 12 of the *Local Government in Scotland Act 2003*. It was recognised that this was not an ideal solution but would resolve the problem for 2015-16. A review of the statutory adjustment would then be undertaken in 2016-17, with future adjustments being the subject of statutory guidance rather than legislation. This will see the 2003 Regulations being repealed.

5. Whilst the statutory adjustment being provided in this circular only relates to the new pension scheme there is **no requirement** for a local authority to separate out the surpluses and deficits covered by the 2003 Regulations and the surplus and deficits covered by the statutory guidance set out in Part 2 of this circular. The statutory guidance makes use of the statutory Pension Reserve Fund to eliminate the need to separately identify costs arising from the old pension regulations and the new pension regulations.

6. The Accounting Code requires authorities to account for termination benefits and post-employment benefits in accordance with IAS 19 *Employee Benefits*. The Accounting Code identifies that termination benefits are often lump-sum payments but sometimes include the enhancement of post-employment benefits, either indirectly through an employee benefit plan. The Accounting Code identifies that post-employment benefits include not only pensions but also other benefits such as life insurance and medical care that is provided post-employment. The Accounting Code also sets out when costs relating to a restructuring are to be recognised as IAS 19 employee benefits (see section 8.2 and

IAS 37 / section 6.3 of the Accounting Code and paragraph 165 of IAS 19). The 2003 Regulations deal with surpluses or deficits arising within pension funds. Pension funds is defined in the 2003 Regulations and the definition limits the pension fund reserve to those pension funds or schemes listed in the 2003 Regulations. This means that the statutory adjustment permitted by the 2003 Regulations **only** applies to those employee benefits set out in the pension legislation. The statutory guidance set out in Part 2 also limits the statutory adjustment to the employee benefits set out in legislation.

7. The 2014 Regulations set out at Regulation 15 and Regulations 65 to 69 the payments the employer must make to the pension fund / may be required to pay to the fund. The amount to be charged to the General Fund or The Housing Revenue Account is the amounts payable under the 2014 Regulations. The statutory guidance requires a local authority to calculate the difference between the amount charged to Surplus or Deficit on the Provision of Services for post-employment benefits from obligations arising from the 2014 Regulations and the amount payable under the 2014 Regulations.

8. In drafting the guidance an assumption has been made that the post-employment benefit cost charged to Surplus or Deficit on the Provision of Services covers all the obligations arising from the 2014 Regulations, including Regulation 68 (additional costs arising from an employer's level of performance) and Regulation 69 (interest on late payment / contribution). Where this assumption is rebutted, and a separate charge has been made to Surplus or Deficit on the Provision of Services, the amount to be charged to the General Fund as set out in paragraph 3 of the statutory guidance is reduced by the amount already charged to the General Fund through the charge to the Surplus or Deficit in the Provision of Services i.e. there should be no duplicate charge to the General Fund / HRA in respect of regulation 68 or 69.

## ACCOUNTING FOR PENSION AND OTHER POST EMPLOYMENT BENEFITS

### PART 2: STATUTORY GUIDANCE

#### STATUTORY GUIDANCE

Issued by Scottish Ministers under section 12(2)(b) of the Local Government in Scotland Act 2003 [proper accounting practices]

#### DEFINITIONS

In this guidance –

**the 2003 Regulations** mean *The Local Government Pension Reserve Fund (Scotland) Regulations 2003* [SSI 2003 No. 580]

**the 2014 Regulations** mean *The Local Government Pension Scheme (Scotland) Regulations 2014* [SSI 2014 No. 164]

**Accounting Code** means *The Code of Practice on Local Authority Accounting in the UK* published each year by CIPFA/LASAAC.

**Housing Revenue Account or HRA** means the account required to be maintained by the Housing (Scotland) Act 1987

**Local Authority** means a council constituted under section 2 of the Local Government etc. (Scotland) Act 1994.

**\*Post-employment benefits** means, for the purposes of paragraph 4, those post-employment benefits charged to Surplus or Deficit on the Provision of Services which correspond, i.e. match, the benefits provided for in the 2014 Regulations.

#### APPLICATION

1. The guidance applies from the financial year commencing 1 April 2015.

#### ACCOUNTING FOR POST EMPLOYMENT BENEFITS

2. A local authority shall account for post-employment benefits in accordance with proper accounting practices as set out in the Accounting Code before applying this statutory adjustment.

3. The amount that shall be charged to the General Fund (which includes the Housing Revenue Account) in any financial year for post-employment benefits is the sum of the amounts a local authority must pay to a pension fund, or is required to pay to the fund by the administering authority, all as set out in the 2014 Regulations. To this should be added any voluntary sums paid to the pension fund.

4. The difference between the amount to be charged to the General Fund (or HRA), as calculated under paragraph 3, and the amount charged to Surplus or Deficit on the Provision of Services for post-employment benefits\* applying the Accounting Code, shall be taken to the Pension Reserve Fund established under the 2003 Regulations.

5. If any of the amounts a local authority must pay to a pension fund, or is required to pay to the fund by the administering authority, are not treated as a post-employment benefit applying the Accounting Code, the calculation required by paragraph 4 is adjusted

by the amount already charged to Surplus or Deficit on the Provision of Services under a different classification.

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**Scottish Government**  
**Victoria Quay, Edinburgh EH6 6QQ**

**31 March 2016**

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