

**FINANCIAL STATEMENTS 2014/15 – CHANGE IN ACCOUNTING ESTIMATES &
THE APPLICATION OF NEW ACCOUNTING POLICIES**

1. INTRODUCTION

- 1.1 The purpose of this report is to obtain Member approval for any changes in the estimation methods and the application of any amended accounting policies used in the preparation of the Council's Financial Statements for 2014/15.
- 1.2 The assumptions made, and the methods used, are important as they determine the way in which the Council's financial statements are prepared in several key areas. The Council's auditors – Ernst & Young - have identified as good practice the consideration of these assumptions and methods by an appropriate Committee of the Council.
- 1.3 The adoption of appropriate accounting policies is important as they determine the way in which the Council's financial statements are prepared and presented. The selection of accounting policies is the responsibility of the Head of Financial Services, who, as S151 Officer, is responsible for the financial affairs of the Council. The Licensing & General Purposes Committee then considers these policies as the body charged with governance.

2. CHANGES IN ACCOUNTING ESTIMATES

- 2.1 The Council's accounts for 2014/15 contain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. The determination of an accounting estimate may be simple or complex depending upon the nature of the item. For example, accruing a charge for rent may be a simple calculation, as would estimating the value of annual leave outstanding at the end of the financial year.
- 2.2 However, in more complex estimates there may be a high degree of specialist knowledge and judgement required. These estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions made.
- 2.3 The Council is required to disclose areas of estimation uncertainty where there is a significant risk of a material adjustment within the next financial year. These areas are identified in this report, which also shows the effects if actual results differ from the assumptions made.
- 2.4 The area in the Council's Balance Sheet at 31st March 2015 where there is major uncertainty, and where changes to existing estimation methods are required are in relation to the cost of retirement benefits. As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Whilst these benefits (pensions) are not actually

payable until employees retire, the Council has a commitment to make the payments. This is disclosed at the time that employees earn their future entitlement.

- 2.5 The Council's future pension liability is assessed by AonHewitt Ltd, (in independent firm of actuaries), using various financial assumptions (rate of inflation, salary increases, duration of liabilities) and mortality assumptions (longevity of current and future pensioners). The principle assumptions used by the actuary for 2015 in calculating the Council's future pension liability are outlined in Appendix 1. The implications of changes in assumptions are outlined below:

Financial assumptions – are updated annually to take account of changes in market conditions. The impact of changes to financial assumptions are summarised as follows:

- The majority of pension liabilities are linked to pay or prices inflation. Higher inflation expectations will lead to a higher pension liability.
- Pension liabilities are calculated using a discount rate set with reference to corporate bond yields. A reduction in the discount rate assumption will increase the present value of the pension liability.
- The “duration of liabilities” is the average period between the calculation date and the date benefits will be paid out. The duration of a typical fund is around 18 years. A reduction in the duration of liabilities means that the liability will become due sooner.

Mortality Assumptions - The majority of the Council's obligations are to provide benefits for the life of the member following retirement. Increases in life expectancy will result in an increase in the pension liability.

- 2.6 The calculation of pension liabilities involves projecting future cash flows from the fund many years into the future. This means that the assumptions used can have a material impact upon the balance sheet position. The impact of changes on the net pensions liability are illustrated in Appendix 1.

3. APPLICATION OF NEW ACCOUNTING POLICIES

- 3.1 On the 30th March 2015, this Committee approved the application of a new guideline de-minimus level for accruals of £2,000 (Report No: FIN1509).
- 3.2 There are no other amendments recommended to any of the existing accounting policies, which have previously been approved by this Committee.

4. CONCLUSIONS

- 4.1 This report has identified one major area where there is a risk that actual results could be materially different from the assumptions and estimates made.
- 4.2 However, the Council minimises this risk by taking into account historical experience, current trends and other relevant factors in arriving at estimates which it believes reflect the most likely and accurate position.

5. RECOMMENDATIONS

- i) Members are requested to note the contents of this report; and
- ii) approve the change in estimation methods outlined in Appendix 1.

**AMANDA FAHEY
HEAD OF FINANCIAL SERVICES**