

## **Audit & Governance Committee**

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**Date of Meeting:** 05 December 2019

**Report Title:** Review of Cheshire East Group Accounting Policies

**Senior Officer:** Alex Thompson, Director of Finance & Customer Services

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### **1. Report Summary**

- 1.1. The report provides an update on the accounting arrangements for the Local Government Pension Scheme (LGPS) in respect of the Council's wholly owned companies.
- 1.2. The report also provides the full set of accounting policies for the Cheshire East Group for review; an extract from the 2018/19 Statement of Accounts is set out in Appendix A.

### **2. Recommendations**

- 2.1. That Members note and comment on the changes to the pension scheme in respect of the Cheshire East Group of Companies as set out in the report.
- 2.2. That Members note and comment on the group accounting policies as set out in Appendix A.

### **3. Reasons for Recommendations**

- 3.1. As part of the Committees role to review and approve the annual Statement of Accounts, Members are asked specifically to consider whether appropriate accounting policies have been followed.

### **4. Other Options Considered**

- 4.1. Not applicable

## 5. Background

### **Accounting for the Local Government Pension Scheme (LGPS) in respect of employees of the Cheshire East Group of Companies**

- 5.1. The accounting policy in respect of post-employment benefits (pension schemes) is described as part of the policy on Employee Benefits (pages 5 - 6 of Appendix A [extract from the Statement of Accounts 2018/19]). The policy statement refers to Note 26 of the Accounts relating to Defined Benefit Pension Schemes. Within Note 26, a section (page 95 of the 2018/19 Accounts) regarding “effect of business combinations” states:

*The Council operates a ‘pass through’ agreement with regard to its pension arrangements with its owned and controlled companies. Within this agreement all pension assets and liabilities are held with the Council and the amounts and related accounting entries are contained in the Council’s financial statements. The ‘pass through’ agreement with each wholly owned company specifies a fixed rate of employer contribution payable by the company to the Cheshire Pension Fund and, as a consequence, each company will disclose these contributions to the scheme in its Profit and Loss account, consistent with the accounting treatment of a defined contribution scheme.*

- 5.2. Pass-through is a mechanism for limiting a (company) service provider’s exposure to pensions risk as a scheme employer. Under pass-through, each company pays a fixed contribution rate for the life of the contract; and the Council retains the responsibility for any shortfall in contributions (deficit at end of contract), as well as the benefit of any surplus.
- 5.3. As such, pass-through is a pragmatic and efficient arrangement that provides certainty for both parties, avoids volatility and any consequent need for “risk premium” costs to be factored in to management fees, and recognises that it is ultimately the Council that will meet the costs in any event, via management fees or other charges (due to the underlying guarantee provided by the Council to the Cheshire Pension Fund).
- 5.4. The pass-through approach as a form of risk-sharing is not a new concept; it has been an option for many years and recent developments nationally have effectively made it the norm.
- 5.5. However, whilst the accounting arrangements for pass-through as described above have been advocated nationally by auditors, actuarial and legal firms previously (and adopted by a number local authorities) it is understood that there is a concern within audit circles that the accounting treatment may not be appropriate. Rather, even though a pass-through

agreement is in place, there is a view that accounting regulations still require pension liabilities and assets to be accounted for within company accounts, rather than the Council's accounts.

- 5.6. As a consequence of this emerging view we are reviewing our accounting policy in this regard; and may make a change for the 2019/20 Accounts.
- 5.7. It is worthy of note that:
- the related accounting regulations are quite old, and arguably were written at a time when “commercialisation” and the establishment of wholly owned local authority trading companies to the extent that we have today were not anticipated; and
  - the Government's LGPS Fair Deal policy consultation (January 2019) not only encouraged the use of pass-through, but also proposed a “deemed employer” approach whereby the Council would be the deemed employer of the staff in the LGPS, rather their actual employer company
- 5.8. Consequently, whilst there is a prospect that the Fair Deal consultation may result in changes to regulations that will clarify the required accounting treatment (and confirm our existing approach as appropriate) it may well be that, due to “Brexit” and other Government priorities, such clarity is not obtained until later in 2020.
- 5.9. As such, we need to carefully review our policy for the 2019/20 Accounts, considering the current audit view, albeit in advance of any further clarity and change that may follow from the Fair Deal consultation.

## **6. Implications of the Recommendations**

### **6.1. Legal Implications**

6.1.1. There are no legal implications identified.

### **6.2. Finance Implications**

6.2.1. As covered in the report.

### **6.3. Policy Implications**

6.3.1. There are no policy implications identified.

### **6.4. Equality Implications**

6.4.1. There are no equality implications identified.

## **6.5. Human Resources Implications**

6.5.1. There are no human resources implications identified.

## **6.6. Risk Management Implications**

6.6.1. The Local Government Act 2003 and the Local Government and Housing Act 1989 require the Statement of Accounts to be produced in line with recommended accounting practices.

## **6.7. Rural Communities Implications**

6.7.1. There are no direct implications for rural communities.

## **6.8. Implications for Children & Young People / Cared for Children**

6.8.1. There are no direct implications for children and young people.

## **6.9. Public Health Implications**

6.9.1. There are no direct implications for public health.

## **6.10. Climate Change Implications**

6.10.1. There are no direct implications for climate change.

## **7. Ward Members Affected**

7.1. Not applicable.

## **8. Access to Information**

8.1. The background papers relating to this report can be inspected by contacting the report writer.

## **9. Contact Information**

9.1. Any questions relating to this report should be directed to the following officer:

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Appendix A: Group Accounting Policies