

Scheme Advisory Board (SAB)

25 September 2026

Sent by email to cipfalasaac@cipfa.org

Code of Practice on Local Authority Accounting in the United Kingdom 2027/28 : Response to invitation to comment

This response is submitted on behalf of the Local Government Pension Scheme Advisory Board (England and Wales) which is a body set up under Section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110-113.

The Board's purpose is to:

- Provide advice to the Secretary of State and to administering authorities on "the desirability of changes to the scheme" and "in relation to the effective and efficient administration and management" of the LGPS
- Provide a framework to encourage best practice, increase transparency and coordinate technical and standards issues across the sector

Membership of the Board includes equal number of voting members representing employers and employees. The Board is also supported by non-voting members and advisors.

There are around 18,000 employers participating in the Scheme and therefore there are representatives of some of the larger employer groups (further/higher education institutions and academy schools) on the Board and its sub-committees.

Secretariat services are provided by the Local Government Association and separate Advisory Boards have been established for the LGPS in Scotland and in Northern Ireland.

The Board is responding only to Questions 39 to 50 and these views have also been endorsed by the Local Government Association's Local Government Resources Committee in its separate response. Our responses to these questions draw on the Board's experience of pension funding, actuarial valuations, employer reporting, administration and audit across the LGPS in England and Wales.

Yours sincerely,

Clair Alcock

Clair Alcock
Board Secretary

Scheme Advisory Board Secretariat

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Response to consultation questions

Pensions reporting: current accounting treatment

Question 39. At which stage of the accounts production does your organisation encounter issues? Please select all that apply.

- **Preparing pensions data for the actuary.**
- **Obtaining the IAS 19 report.**
- **The accounting entries. 23**
- **Producing an audit programme.**
- **Testing the assumptions and calculations.**
- **Audit queries.**
- **Explaining the figures to users.**
- **Co-ordination between local authority audit and pension fund audit (including timing differences).**
- **Other (please specify).**

Response – Although this question is for individual local authorities to answer, the Scheme Advisory Board (SAB) is aware that there have been a large number of audit queries around the pensions element of the IAS19 report for scheme employers and practitioners have discussed the idea of moving to suggest a move to defined contribution reporting over time, therefore the Board would like to share views on this question.

The interpretation of IAS19 has created some issues, for example for employers who participate as admitted bodies and have entered on a “pass-through” basis. In such cases, before the employer can report on a defined contribution basis under existing rules, there are questions of interpretation around where risk lies in practice, the impact of the guarantor and how accounting and valuation assumptions differ. Part of the complexity also arises as there are different accounting standards applying to different types of employers in the LGPS (e.g between local authorities, academy trusts and private sector employers).

SAB would support further consideration of an over-ride for local authority (and indeed other publicly funded) employers to allow defined contribution accounting treatment in the LGPS. We are aware that this is already case for some other public sector pension schemes.

Pensions reporting: issues with the current accounting treatment

Question 40. Using your 2025/26 IAS 19 report (where available), please provide:

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a) The current service cost reported for your organisation.

b) The total employer contributions reported for your organisation.

Response – This question is for individual local authorities to answer.

Question 41. How useful for users is the information on pensions in the accounts? Please give reasons for your answer.

- **Very useful**
- **Somewhat useful**
- **Neutral**
- **Not very useful**
- **Not useful at all**

Response - Not useful at all. The IAS 19 methodology requires the use of discount rates based on corporate bond yields. At the latest date for which we have data, LGPS funds held only 16% of their assets in bonds so this is not a very appropriate proxy. In addition, in recent years there has been considerably more volatility in corporate bond yields than was previously the case. This makes the comparison of data in local authority accounts from year to year even less meaningful. While using the IAS 19 methodology does allow for comparison between local authority and private sector employers' pension liabilities, it is not clear that these comparisons are routinely made, or would be meaningful, to the primary users of the accounts.

Question 42. What information regarding pensions do you think users are interested in? Please select all that apply.

- **Characteristics of defined benefit plans and risks associated with them.**
- **Plan assets.**
- **Defined benefit obligation.**
- **Plan deficit/surplus.**
- **Effect of the asset ceiling.**
- **Current service cost.**
- **Interest income or expense.**
- **Remeasurements of the net defined benefit liability/asset.**
- **Past service cost and gains and losses arising from settlements.**
- **Effect of changes in foreign exchange rates.**
- **Contributions to the plan.**
- **Payments from the plan.**
- **Effects of business combinations and disposals.**
- **Amount, timing and uncertainty of future cash flows.**

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- **Other (please specify).**

Response - Users of the accounts will be interested in the amount of contributions that are required to be paid and the likely trend in those contributions. The best source of this information is the triennial LGPS fund valuation report, read with the Funding Strategy Statement. This outlines the contribution rate for the coming three years, what the change in funding position has been since the last valuation and the key assumptions (e.g. discount rate) used by the actuary.

Information on the asset ceiling may be of interest for LGPS employers which exit the scheme (and so may be entitled to payment of an “exit credit” from the LGPS fund), but for local authorities there is no likelihood of them exiting. Even under local government reorganisation, when one authority is wound up and a new one created the custom is for assets and liabilities to be novated to the new local authority and the entitlement to an exit credit waived in the regulations that give effect to the transfer.

As noted earlier in this response, the LGA supports elected members being recognised as the primary users of local authority accounts. In that context, information that supports governance, financial planning and affordability is likely to be of greater value than annual IAS19 balance sheet movements and accounting volatility.

Pensions reporting: defined benefit asset and IFRIC 14

Question 43. What is your overall view of IFRIC 14? Please explain the main issues or benefits you experience in applying IFRIC 14.

Response - There is a great deal of confusion and complication introduced by attempting to apply the IFRIC standard in the context of an LGPS fund. This has become more apparent as the number of funds in surplus, and the size of those surpluses, have increased. In our view, IFRIC 14 is not a particularly good fit for the structure of the LGPS.

Question 44. Do you agree that the current interpretations of IFRIC 14 in CIPFA Bulletin 15 should be reviewed? Please give reasons for your answer.

Response - The guidance issued to date has been helpful but the issues which we understand that funds have experienced have arisen because different parties are applying different professional standards. This is an area where system leadership is needed to arrive at a solution that works for those who produce the accounts, those who use them and those who audit them.

Question 45. Do you agree that more guidance on implementation and accounts preparation would be beneficial? Please give reasons for your answer.

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Response - Yes, but as mentioned above, this guidance does need to be recognised as being authoritative by all the different parties involved.

Pensions reporting: solutions

Question 46 Do you have any suggestions for improving the current presentation of pensions information under IAS 19? Please give reasons for your answer.

Response - Moving towards a reporting basis that better reflects how local authorities manage their pension obligations in practice could provide more meaningful information for the identified primary users of the accounts. A defined contribution-style approach is one option that should be explored, alongside any other routes identified that would support that objective.

Question 47. Do you believe there are opportunities to improve the efficiency of the audit of IAS 19 pension information while maintaining appropriate levels of assurance? Please give reasons for your answer.

Response - Moving to defined contribution reporting could significantly simplify the audit of pension fund accounts. Under current arrangements, the auditors of each of the bodies needs to carry out assurance work, which includes scrutiny of the approach and assumptions made by the fund actuary and the validity of the valuation of assets which are notionally allocated to that employer. It is worth noting that 15-20 per cent of assets held by LGPS funds may be “Tier 3” assets for which there is no easily assessed market value and for which there is a considerable “lag” on asset manager valuations and tests of the data and disclosures contained in the LGPS fund accounts. This process adds little value to any assessment that users of the accounts are trying to make about the financial sustainability of the employer in question.

SAB also recognises that there may be opportunities to improve practices under the current reporting approach, including through greater consistency in audit practice, common approaches and more proportionate assurance requirements.

Question 48. Would you support a move to deem that local government pension schemes should be treated as if they were defined contribution schemes and follow Section 6.4.2 of the Code? Please give reasons for your answer.

Response - Yes. The legal duty on LGPS employers is to pay the contributions that are set for them by the fund actuary through the triennial valuation process. They are not the legal owners of the pension fund assets and the allocation of particular assets to particular employers is only notional as LGPS is an unsegregated multi-employer defined benefit scheme. These employers are not able to leave the

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scheme and while in theory the scheme is a “last man standing” scheme, the vast majority of liabilities are held either by local authority employers or educational establishments (excluding Universities) whose liabilities are guaranteed by the DFE. There is consequently minimal risk of catastrophic changes in contribution rates that could in theory destabilise a local authority. Defined contribution reporting may therefore give a more meaningful impression of the financial pressure which participating in the scheme places on a local authority employer, although SAB recognises that other approaches may also provide scope for simplification.

In addition, there are statutory processes in place which ensure that the scheme benefits remain within a given cost envelope and is sustainable. These are the HM Treasury (HMT) managed Cost Control Process and the section 13 review of local valuations which is undertaken by the Government Actuary’s Department. The HMT process provides a statutory over-ride to reduce (or enhance) member benefits, including the accrual rate, with the former to prevent scheme costs (and thereby employer contributions) escalating uncontrollably. The section 13 process ensures that the actuary and administering authority are managing the funding a way that provides for its sustainability and long-term cost efficiency.

Question 49. If the Code were to move to defined contribution reporting, what issues or concerns would you want to see addressed? Please give reasons for your answer.

Response - Other stakeholders are better placed to comment on the technical issues which would need to be resolved for such a move to work. Moving defined contribution reporting would remove one of the potential data sources for the Whole of Government Accounts, but further consideration would be needed to determine whether the necessary data could more easily be derived from the triennial LGPS fund valuation reports and the fund annual reports. Fund annual reports contain data about fund assets and liabilities at the aggregate level, while the triennial valuation includes the same information as well as disclosing the proportion of fund assets which are attributable to local authorities and those educational bodies which benefit from a government guarantee.

Question 50. Do you have any other suggestions for how pensions reporting could be improved? Please give reasons to support your answer.

Response – No.