### *6.2 Benefits Payable During Employment*

10.1.2.119 Under IAS 19 and the Code 'Benefits payable during employment' comprise 'short-term benefits' and 'other long-term employment benefits'. Except for 'long-term disability benefits', the SORP and UK accounting standards do not cover these matters. It is therefore likely that authorities' accounting policies will vary and some authorities may not have followed accounting policies that accord with the requirements of the Code.

10.1.2.120 The types of short-term employment benefits covered by IAS 19 and the Code are:

(a) wages, salaries and social security contributions
(b) short-term compensated absences
(c) bonuses and similar payments
(d) non-monetary benefits.

*'Short-term compensated absences' includes items such as holiday pay, flexi-time leave and time off in lieu. In some authorities, items such as time off in lieu may be as significant as holiday pay.*

10.1.2.121 The Code's requirement in respect of (a), (c) and (d) above follow standard principles for accruing expenditure and it seems unlikely that amounts recognised under most authorities' pre-IFRS accounting policies would be significantly different from those that would have been recognised under the Code's requirements.

*The accounting requirements for wages, salaries and social security contributions (eg national insurance); bonuses and similar payments; and non-monetary benefits under the Code are based on the normal principles of accruing for expenditure as incurred. Although the SORP did not explicitly cover these areas, it is expected that authorities would have applied the normal accounting principles of accruing for such expenditure as incurred (where the amounts were material). Where this is the case, no transition arrangements will be required for these transactions. The Local Authority Accounting Panel understands that some authorities may account for salaries on a 52 week basis, with the occasional cost of a 53rd week being accounted for when payments are made. These authorities will need to consider accruing for the amounts unpaid at each balance sheet date where these are material.*

10.1.2.122 In the case of 'short-term compensated absences', however, few, if any, authorities have provided for 'accumulating' short-term absences such as annual leave and flexi-time in accordance with the requirements of the Code, which requires provision to be made for benefits which have accumulated but are untaken at the balance sheet date.

*It is therefore likely that authorities will need to recognise an accrued expense for items such as annual leave (subject to considerations of materiality). Where an authority considers that such amounts will not be material, the authority will need to have evidence to substantiate this view. Where annual leave (and similar benefits) are recorded in the HR or payroll system, this system should be capable of providing evidence as to the scale of any possible accrual, thus enabling a decision as to materiality to be made. Where the evidence is not available from a HR or payroll system, a sample would be an acceptable way of providing an estimate of the scale of any possible accrual (subject to the sample being of a sufficient size, representative and unbiased).*

10.1.2.123 The types of 'other long-term employment benefits' covered by IAS 19 and the code are:

(a) long-term compensated absences such as long service or sabbatical leave
(b) jubilee or other long-service benefits

(c) long-term disability benefits
(d) bonuses payable twelve months or more after the end of the period in which the employees render the related service
(e) deferred compensation paid twelve months or more after the period in which it is earned.

10.1.2.124 All of the above except ‘long-term disability benefit’ rarely occur at local authorities or would very rarely involve significant expenditure, where they do occur.

*Authorities should note that long-term compensated absences cover arrangements such as sabbatical leave, where an employee earns an entitlement to an additional (one-off) period of leave after completing a qualifying period of service. An example would be where an employee who completed 10 years service was entitled to an additional 5 days leave in the following year. This scenario is not common in local government, but may be more common in other sectors.*

*A more usual scenario in local government is that an employee’s leave entitlement increases after a period of service (for example, annual leave entitlement increases from 20 days per annum to 25 days per annum after 5 years service). Such arrangements are not classed as long-term compensated absences, as completion of the qualifying service period does not in itself entitle the employee to any additional leave. At the end of the qualifying period of service (5 years in the example), the employee has not earned any additional leave. However, any future service will earn leave at a higher rate. This compares with the sabbatical leave scenario above, where at the end of the qualifying period (10 years in the example) the employee has earned the additional leave.*

*Long term disability benefits are covered below (see 10.1.2.128).*

10.1.2.125 Where an authority incurs significant expenditure on an employee benefit covered by the ‘benefits during employment’ section of the Code it shall consider whether its accounting policy has resulted in its accounts recognising significantly different amounts from those that would have been recognised if the Code had been in force. Where the amounts are significant, the authority shall:

*Step 1 – Restate the Opening IFRS balance as at 1 April 2009*

10.1.2.126 In the case of short-term employee benefits, this will involve recognising provisions for the amount by which the expenditure which would have been recognised had the Code always been in force exceeds the expenditure that was actually recognised in the accounts with the double entry being to debit the General Fund and HRA Reserve as appropriate. Or, if the expenditure actually recognised in the accounts exceeds the expenditure which would have been recognised had the Code always been in force recognising a debit accrual with the double entry being to debit the General Fund and HRA Reserve as appropriate. (Note: need for legislation/statutory guidance to ameliorate the effect of recognising accumulating short-term compensated absences is being discussed with stakeholders).

*Authorities should note that there is a typographical error in this paragraph. Where the expenditure actually recognised in the accounts exceeds the expenditure which would have been recognised had the Code always been in force, the double entry to the General Fund and HRA Reserve should be a credit rather than a debit.*

*In England and Wales, regulations[1] intended to ensure the requirements of the Code in respect of short-term accumulating compensating absences have no impact on council tax and HRA rents have been issued. The Scottish Government has*

[1] The Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010 (SI 2010 No. 454) and The Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2010 (SI 2010 No. 685 (W.67))

*issued Statutory Guidance[2] that will have a similar effect. In Northern Ireland, an Accounts Direction[3] permits authorities to spread the cost of the accrual recognised in the opening IFRS Balance Sheet (as at 1 April 2009) over three years, but does not provide mitigation on an ongoing basis.*

*England, Wales and Scotland*

*The operation of the regulations / statutory guidance requires amounts that otherwise would be charged to the General Fund or HRA to be transferred to the Accumulated Absences Account; this transfer would be reported in the Movements in Reserves Statement. Although the regulations / statutory guidance take effect on 1 April 2010, the Local Authority Accounting Panel recommends that the effect of the regulations is reflected in the restated opening 1 April 2009 balance sheet and the restated 2009/10 accounts.*

*This treatment is in accordance with the general principle that changes of accounting policy are accounted for retrospectively, and would not be in conflict with the regulations relating to the General Fund balance. The balance on the General Fund at 31 March 2009 and 31 March 2010 is required to be established using the proper accounting practices in force at those dates (ie SORP 2008 and SORP 2009). The opening 1 April 2009 balance sheet and the restated 2009/10 accounts do not reflect the legal balance on the General Fund at those dates, but the balance that would have existed had the accounting policies used in presenting the 2010/11 accounts been in use at those dates. On this basis, presenting the figures as if the regulations apply is appropriate, and will increase the usefulness of the comparative figures. It would however be appropriate to include in the notes to the accounts a statement that the comparative figures are based on the regulations even though those regulations did not come into force until 1 April 2010.*

*The following entries will be required to restate the opening 1 April 2009 balance sheet:*

*Dr Accumulated Absences Account*
*Cr Provision for accumulated absences*

*With the value of the accumulated absences to be accrued at 31 March 2009*

*Guidance on establishing the accrual required is included in Appendix A to this guidance.*

*Northern Ireland*

*The operation of the Accounts Direction requires amounts that otherwise would be charged to the District Fund to be transferred to the Accumulated Absences Account; this transfer would be reported in the Movements in Reserves Statement. The Accounts Direction deals specifically with the restatement of prior year accounts, and so this transfer should be reflected in the 1 April 2009 Balance Sheet.*

*The following entries will be required to restate the opening 1 April 2009 balance sheet:*

*Dr Accumulated Absences Account*
*Cr Provision for accumulated absences*

*With the value of the accumulated absences to be accrued at 31 March 2009*

[2] Local Government Finance Circular 3/2010
[3] Circular LG 22/10

*Guidance on establishing the accrual required is included in Appendix A to this guidance.*

*Step 2 - Restate the Comparative Figures for 2009/10*

10.1.2.127 The short-term employment benefit transactions during 2009/10 will need to be restated in accordance with the Code and the effected 2009/10 comparative statement of accounts restated.

*England, Wales and Scotland*

*Accumulated absences outstanding at 31 March 2009, and therefore included in the provision in the opening 1 April 2009 balance sheet, will need to be reversed in the 2009/10 accounts as the leave is expected to be either taken or paid. In some cases (for example where leave carried forward has to be taken in a certain period or lost) the entitlement to the leave will have lapsed. Again, the provision will need to be reversed. The balance on the Accumulated Absences Account will also need to be reversed. The entries required are as follows:*

*Dr Provision for accumulated absences*
*Cr Service revenue accounts (General Fund)*
*Cr Service revenue account (Housing Revenue Account)*

*With the value of the accumulated absences accrued at 31 March 2009*

*Dr General Fund (in the Movement in Reserves Statement)*
*Dr Housing Revenue Account (in the Movement in Reserves Statement)*
*Cr Accumulated Absences Account*

*With the value of the accumulated absences transferred to the Accumulated Absences Account at 31 March 2009*

*Entries would then be required to reflect the accrual for accumulated absences as at 31 March 2010, and the transfer to the Accumulated Absences Account. The entries are as follows:*

*Dr Service revenue accounts (General Fund)*
*Dr Service revenue accounts (Housing Revenue Account)*
*Cr Provision for accumulated absences*

*With the value of the accumulated absences to be accrued at 31 March 2010*

*Dr Accumulated Absences Account*
*Cr General Fund (in the Movement in Reserves Statement)*
*Cr Housing Revenue Account (in the Movement in Reserves Statement)*

*With the value of the accumulated absences to be transferred to the Accumulated Absences Account at 31 March 2010*

*A worked example is provided at Appendix B(1).*

*Northern Ireland*

*Accumulated absences outstanding at 31 March 2009, and therefore included in the provision in the opening 1 April 2009 balance sheet, will need to be reversed in the 2009/10 accounts as the leave is expected to be either taken or paid. In some cases (for example where leave carried forward has to be taken in a certain period or lost) the entitlement to the leave will have lapsed. Again, the provision will need to be reversed. The entries required are as follows:*

*Dr Provision for accumulated absences*
*Cr Service revenue accounts (District Fund)*

*With the value of the accumulated absences accrued at 31 March 2009*

*The Accounts Direction requires authorities to charge the District Fund with at least one third of the initial provision in the restated 2009/10 accounts. Authorities should therefore transfer at least one third of the balance on the Accumulated Absences Account to the District Fund. Authorities may transfer additional sums if they so choose. The entries required to reflect this transfer in the restated 2009/10 accounts are as follows:*

*Dr District Fund (in the Movement in Reserves Statement)*
*Cr Accumulated Absences Account*

*With the value of the accumulated absences being transferred from the Accumulated Absences Account during 2009/10 (at least one third of the balance on the Accumulated Absences Account)*

*Entries would then be required to reflect the accrual for accumulated absences as at 31 March 2010. The entries are as follows:*

*Dr Service revenue accounts (District Fund)*
*Cr Provision for accumulated absences*

*With the value of the accumulated absences to be accrued at 31 March 2010*

*Authorities should note that as the Accounts Direction only provides for limited mitigation, no further amounts are to be debited to the Accumulated Absences Account.*

*A worked example is provided at Appendix B(2).*

<u>Long-term disability benefits</u>

10.1.2.128 Under the 2009 SORP long-term disability benefits (called 'incapacity benefit' in the SORP) were accounted for in the same way as retirement benefits, with any difference between the expected cost included in the actuarial assumptions and the amounts actually incurred treated as an actuarial gain or loss. Following IAS 19 as interpreted by IPSAS 25, under the Code long-term disability benefits are classified as 'other long-term benefits' and consequently, subject to a rebuttable presumption (see paragraphs 6.2.3.5 to 6.2.3.6), that actuarial gains and losses are required to be recognised immediately in Surplus or Deficit on provision of services. Where the presumption is rebutted authorities are required to recognise actuarial gains and losses in Other Comprehensive Income and Expenditure.

*Long term disability or injury benefits are generally payable through the various pension schemes. As such, under IAS 19 and IPSAS 25 they are accounted for as part of the pension arrangements rather than separately. Separate disclosures are not required.*

*However, some disability or injury benefits are paid outside of the pension arrangements. Examples include the Police (Injury Benefit) Regulations 2006[4] in England and Wales and the Firefighters' Compensation Scheme (Scotland) 2006[5]. As such, these schemes will be accounted for as other long-term benefits, with gains and losses being recognised immediately in surplus or deficit unless*

[4] http://www.opsi.gov.uk/si/si2006/uksi_20060932_en.pdf
[5] http://www.opsi.gov.uk/legislation/scotland/ssi2006/ssi_20060338_en.pdf

*authorities rebut the presumption that these benefits are not subject to the same degree of uncertainty as the measurement of post employment benefits.*

*Paragraph 10.1.2.128 above refers to a rebuttable presumption. Paragraphs 6.2.3.5 and 6.2.3.6 of the Code include guidance on this:*

*6.2.3.5 Under the Code long-term disability benefits are usually accounted for as an 'other longer-term benefit' since in accordance with IAS 19 they are presumed not to be subject to the same degree of uncertainty as the measurement of post employment benefits. However, in accordance with IPSAS 25 this is a 'rebuttable presumption' under the Code; and where this presumption is rebutted an authority shall consider whether some or all long-term disability payments should be accounted for in the same way as defined benefit post employment benefits. This interpretation of IAS 19 was introduced by IPSAS 25 because disability benefits related to certain areas of service provision, such as the military, may be financially highly significant and related gains and losses highly volatile. This has been adopted by the Code since similar considerations may apply to certain local authority services such as police forces and fire and rescue services, where long-term disability benefit may be both material and volatile.*

*6.2.3.6 If the level of long-term disability benefit depends on the length of service, an obligation arises when the service is rendered. Measurement of that obligation reflects the probability that payment will be required and the length of time for which payment is expected to be made. If the level of benefit is the same for any disabled employee regardless of years of service, the expected cost of those benefits is recognised when an event occurs that causes a long-term disability.*

*Paragraphs B72 – B74 of Module 6 of the Code Guidance Notes provide further guidance in this area.*

*Disability and injury benefit schemes outside of the pension arrangements normally arise in respect of the police and fire and rescue services. Authorities with these responsibilities will need to consider whether it is appropriate to rebut the presumption that the measurement of long term benefits are not subject to the same degree of uncertainty as the measurement of post employment benefits. The Local Authority Accounting Panel considers that there will normally be sufficient uncertainty as to the measurement of the long-term benefits to rebut the presumption in the case of the police and fire schemes.*

***Where this presumption is rebutted, the benefits should be accounted for in the same way as other benefits payable under the pension schemes, as was the case with the SORP. In such cases, no transition arrangements will be required.***

*The following paragraphs provide guidance on the transition arrangements where the presumption is not rebutted.*

10.1.2.129 Therefore at 1 April 2009 an authority that has granted disability benefit will likely have associated actuarial gains and losses that that have been taken to the STRGL but which (subject to the above 'rebuttable assumption') are required under the Code to have been included in Surplus or Deficit on the provision of services. Where the amounts involved are significant the authority shall:

*Step 1 – Restate the Opening IFRS balance as at 1 April 2009*

10.1.2.130 There is no requirement to restate the opening IFRS balance sheet at 1 April 2009 since the transfer between the General Fund and Pension Reserve in respect of actuarial gains and losses not recognised in the Income and Expenditure Account would be exactly offset by the increase in the statutory transfer between the General Fund and Pension Reserve that would in turn be required.

*Step 2 - Restate the Comparative Figures for 2009/10*

10.1.2.131 The long-term disability benefit transactions during 2009/10 will need to be restated in accordance with the Code and the effected 2009/10 comparative statement of accounts restated.

*Any actuarial gains or losses previously recognised in the STRGL under the SORP would need to be restated and recognised in the Statement of Comprehensive Income and Expenditure Statement under the Code. The entries required are as follows:*

*Dr / Cr Service revenue accounts*
*Cr / Dr Pension Reserve (Employee Statutory Adjustment Account in Scotland)*

*With the amount of any actuarial gains or losses in respect of long-term disability transactions*

*A worked example is provided at Appendix C.*

*Disability and injury benefit schemes that are separate from the pension scheme should be disclosed separately in the statement of accounts, whether the presumption is rebutted or not.*

*Authorities should note that in England and Wales the regulations that permit pension benefits to be taken to the pension reserve rather than charged to the General Fund or Housing Revenue Account have been extended to cover other long-term employment benefits[6]. In Scotland, statutory guidance[7] has the same effect (although amounts are taken to the Employee Statutory Adjustment Account rather than to the pension reserve). There are no equivalent regulations, statutory guidance or accounts directions in Northern Ireland. The Local Authority Accounting Panel understands that no disability or injury benefit schemes operate outside the Northern Ireland Local Government Officers Superannuation Scheme, and hence no mitigation is required.*

[6] See The Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010 (SI 2010 No. 454) and The Local Authorities (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2010 (SI 2010 No. 685 (W.67))

[7] Local Government Finance Circular 8/2010

**_Appendix A_**

**_Guidance on establishing the accrual required in respect of short-term accumulated compensating absences_**

_General principles_

*The basic principles for establishing the amount of the accrual in respect of annual leave and other short-term accumulating compensating absences are set out in the Code as follows:*

*6.2.2.5 Short-term accumulating compensated absences shall be:*

*(a) recognised when employees render services that increases their entitlement to future compensated absences*

*(b) measured as the additional amount that the authority expects to pay as a result of unused entitlement that has accumulated at the balance sheet date including associated employer's national insurance and pension contributions.*

*The obligation is recognised even if the compensating absences have not yet vested at the reporting date. The possibility that employees may leave before they use an accumulating non-vesting entitlement and their entitlement lost shall be taken into account in measuring the obligation.*

*The first principle is that the accrual for leave (and other short-term accumulating compensated absences) is built up as the employee works the service that entitles them to the leave, and reduced as the employee takes the leave.*

*Leave is measured at the amount the authority expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date. This does not imply that additional payments are made. For example, an employee might have accrued 10 days leave, which are taken in the following year. The number of days worked in that following year would therefore be 10 days less than contracted, but the employee would be paid the normal salary. That part of the normal salary that relates to the accumulated leave would be the amount the authority expects to pay as a result of the unused entitlement.*

*In assessing the amount the authority expects to pay, reliance can generally be placed on the terms in the contract of employment that deal with payment of untaken leave to employees on leaving their employer. Generally, these specify that each days leave is paid at 1/261 of the annual salary. This guidance therefore assumes this approach when calculating leave. If the contract of employment for a particular group of employees specifies a different rate of payment, this should be used when calculating the accrual to be recognised.*

*For teachers in England and Wales, the contract of employment does not specify a rate of payment for untaken leave. This is because, unlike other groups of employees, leave entitlement for teachers in England and Wales is non-vesting, ie if teachers leave before the end of a term, they lose their entitlement to the leave. In the absence of any specific rate, this guidance makes the assumption that the standard rate (1/261) should apply as this will ensure a consistent approach is applied to all groups of employees in an authority.*

*Because the accrual is to be based on the amount the authority expects to pay, this should include amounts for national insurance and pension costs (see paragraph 6.2.2.5 of the Code, quoted above).*

The requirement that the accrual is based on the amount the authority expects to pay raises two further possible issues in respect of measurement. However, it is expected that the effect of these issues will not, in most cases, be material:

i) Pay awards and increments may increase the amount that the authority expects to pay as the amount the authority expects to pay will be based on the normal salary in the following year. Pay awards and increments will increase the salary in the following year, and should therefore increase the accrual. Note that this does not apply to teaching staff, where increments and pay awards will commence on 1 September each year, after any accrued leave will have been settled.

ii) Employees may lose the right to the leave in some circumstances (for example, there may be a requirement that any leave carried forward is taken within 3 months). In calculating the amount the authority expects to pay, this is taken into account. For example, if the authority expects that 5% of leave carried forward in this way will be lost, the amount it expects to pay will be reduced accordingly.

Authorities should, where practicable, estimate the effect of these two factors. In both cases, the adjustments are likely to be immaterial. For example, an authority may identify that the amount of leave to be accrued is equal to 5% of the total days worked in a year. If pay awards and increments were to increase the following year's non-teaching payroll by 5%, this increase would be equal to 5% (days accrued) x 5% (payroll increase) of the non-teaching payroll, or 0.25% of the non-teaching payroll.

Whilst this is not expected to be a material amount, authorities should ideally attempt to calculate any accruals on the correct basis, in order to determine and demonstrate that the amounts are not material in their particular circumstances.

Information used in the preparation of the budget for the estimation of pay awards and increments will be helpful in demonstrating and informing the estimate for pay award and average increment in the accrual calculation. Alternatively, if the accrual is calculated after the April payroll has been run, information regarding the effect of pay awards and increments is likely to be available.

For non-teaching staff, annual leave would normally be paid if an employee left without taking all their leave and no reduction will need to be taken into account. For teaching staff in Scotland, the position is the same as for non-teaching staff. For teaching staff in England and Wales, a reduction would only be required for teachers who leave after 31 March but before the end of the spring term; past experience of the level of staff turnover should inform this estimate, but it is expected to be a very small figure.

Reductions may be required, however, for other absences such as flex leave where payment would not be made if the employee left before taking all the leave accrued.

Staff who are on maternity leave or sick leave may still accrue annual leave entitlement; as they will be unable to take annual leave it is likely that their outstanding entitlement at 31 March will be greater than for most other employees. Authorities should assess whether these amounts are likely to be material; where they are, the provision should reflect the increased outstanding entitlement to leave.

These principles apply to all short-term accumulating compensating absences, including annual leave and flex leave.

*Where an authority's systems can produce the required information on short-term accumulating compensating absences, this should be used as the basis of the accrual. Where systems are not able to provide this information, the accrual will need to be estimated; the following approaches may be helpful.*

***Non-teaching staff***

*Many non-teaching staff will be able to choose their own holidays, and will therefore not have a set pattern of leave. Some non-teaching staff may have the same holiday conditions as teaching staff; where this is the case, authorities should estimate their leave entitlement in the same way as they estimate teachers' leave entitlement.*

*To establish the accrual required for an individual employee, two scenarios need to be considered:*

i) *Where the employee's leave year is aligned with the financial year, the accrual will be based on any leave carried forward at the end of the leave year.*

ii) *Where the employee's leave year is not aligned with the financial year, the leave earned by the employee to 31 March will need to be calculated. This is then compared with the leave taken by 31 March to establish whether leave is owed to or by the employee, as in the following example:*

    *An employee's leave year runs from 1 December to 30 November. The employee's annual leave entitlement is 30 days; this accrues at the rate of 2½ days per month. Between 1 December and 31 March, the employee would therefore have earned 10 days annual leave (4 months x 2½ days). If the employee had taken 8 days annual leave, an accrual would be required for 2 days annual leave at 31 March (this figure would be adjusted by any leave carried forward from previous years).*

*In some authorities, both scenarios will occur.*

*The amount of the accrual should be calculated by multiplying the number of days to be accrued by the appropriate proportion of the annual salary (plus national insurance and pension contributions). For employees working a standard 5 day week, this proportion will normally be 1/261 per day.*

*In the absence of information from a payroll or HR system, it is likely that authorities will need to conduct a sample to establish the level of accrual required. The aim of the sample is to produce reliable information that would provide assurance that any accrual is materially correct.*

*The size of the sample will depend on issues such as the amount of expenditure, the expected level of leave, and the level of precision required.*

*Samples will need to be representative; in other words, they will need to cover staff at a range of pay grades; in a range of locations and departments; and performing a range of tasks. Different groups of staff may have different working patterns (for example, staff working in leisure services in some authorities may have a pattern of taking more leave than other groups in winter, because there is less demand for leisure services at that time of year). To avoid distorting the information, each such group of staff should be sampled separately.*

*Authorities are encouraged to discuss proposed sampling sizes and methods with auditors at an early stage to agree coverage.*

***Non-teaching staff – Term Time Only and Annualised Contracts***

*Some non-teaching staff will have contracts whereby they are contracted to work a set number of hours or days a year, but where the pattern can vary during the year.*

*A common example will be non-teaching staff on term time only contracts, where staff work only during term-time, and are paid for these days plus annual leave (based on the normal leave allowances for administrative staff). This means that an employee on a term time only contract would typically be paid for 43 – 44 weeks rather than a full year; however payment is normally made in twelve instalments.*

*Where contracts are aligned with the financial year, an accrual will only be required where the number of days or hours worked differs from that specified in the contract.*

*Where contracts are not aligned with the financial year (as will be the case with term time only contracts), the accrual required at 31 March may include an element relating to days worked but not paid as well as accrued annual leave. The accrual required should be based on the amount that the authority would pay (plus national insurance and pension contributions) if the employee were to leave at 31 March, based on the terms of the contract.*

***Teaching staff – England and Wales***

*The teacher's contract in England and Wales is not precise about the accrual of annual leave. Leave is earned on a term by term basis, rather than on an annual basis, and therefore the accrual rate varies from term to term depending on the number of days in the term and the number of days leave to which working during the term gives entitlement. Bank holidays are included in the leave entitlement.*

*The conditions[8] covering teachers' pay in England and Wales do not specifically refer to holiday pay, but have a number of terms that are relevant to estimating the accrual. The basic principle is that teachers:*

> *'should receive not less than one-third of a year's salary for each full term's service. For the purpose of these arrangements the three terms in each year shall be constituted as follows:*
>
> *the Summer term from May 1 to August 31;*
> *the Autumn term from September 1 to December 31;*
> *the Spring term from January 1 to April 30.'*

*Other relevant terms are:*

> *'Teachers taking up work on first appointment, or on re-appointment, or on transfer from another employer:*
>
> *a) at the commencement of a school term will be paid salary:*
>
> *i) after the Summer vacation from September 1; or from the first school day of the Autumn Term if this shall be earlier than September 1;*
>
> *ii) after the Christmas vacation from January 1;*
>
> *iii) after the Easter vacation from May 1; or from the first school day of the Summer Term if this be earlier than May 1;*

[8] Conditions of service for school teachers in England and Wales (the Burgundy Book)

b) during the school term will be paid salary from the first school day worked by the teacher.'

*There are three different scenarios that need to be considered – teachers who change employer, teachers who leave the profession and teachers who continue in employment with the same employer. These are considered below.*

*Teachers changing employer*

*It should be noted that where teachers move to another employer at the end of the spring term, the original employer is only responsible for paying the salary up to:*

*'the day preceding the day on which the school under the new employer opens for the Summer Term'.*

*It is therefore clear that those teachers who are transferring to another employer at the end of the spring term will be paid until the day before their new school opens for the summer term. Their Easter holiday will run from the end of the spring term until the day before the start of the summer term.*

*The following example shows the calculation required:*

| **Dates** | **School Days** | **Holidays** |
|---|---|---|
| Christmas holiday: 1 January 2010 – 4 January 2010 | | 2 |
| Spring term: 5 January 2010 – 12 February 2010 | 29 | |
| Half term holiday: 15 February 2010 – 19 February 2010 | | 5 |
| Spring term: 22 February 2010 – 31 March 2010 | 28 | |
| **Totals as at 31 March 2010** | **57** | **7** |
| Spring term: 1 April 2010 | 1 | |
| Easter holiday: 2 April 2010 – 19 April 2010 | | 12 |
| **Total for term** | **58** | **19** |

*During the spring term, teachers changing employer at the end of the term will, in this example, have earned 19 days leave for 58 days work. By the 31 March, they will have worked 57 days; the leave earned by this date will therefore be:*

*19 days leave x 57 days worked to 31 March    58 days in term = 18.67 days.*

*7 days leave has been taken to 31 March, so the accrual required is 11.67 days.*

*There are 77 days in total during the term (58 days work and 19 days leave). The remaining 9 days in April (20 April 2010 – 30 April 2010) are the start of the summer term, and teachers will be paid for these days by the new employer. These days earn entitlement to the summer holidays rather than the Easter holidays.*

*As discussed earlier in this Appendix, the value of untaken leave is assumed to be 1/261 of the annual salary for each day outstanding. The percentage of the annual salary (plus national insurance and pension contributions) to be accrued will therefore be:*

*11.67 days accrued    261 x 100% = 4.47%*

Teachers leaving profession

Teachers who retire or resign at the end of the spring term will be paid salary to 30 April. However, the Burgundy Book leaves it to local discretion whether teachers are required to work (or be available for work) during those days of the summer term that fall into April. The definition of employee benefits in paragraph 3 of IAS 19 includes both benefits provided by contracts and benefits provided by informal practices that give rise to a constructive obligation. Therefore, there are two scenarios that can apply to teachers leaving the profession:

i) Where either the practice is to require teachers to work those days of the summer term that fall in April, or no common practice has been established and a constructive obligation does not arise, summer term days that fall in April will not automatically form part of a retiring teacher's Easter holidays, and should therefore be excluded from the calculation of the accrual. In this case, the calculation will be the same as for teachers who are moving to a new employer (see above). When working those days of the summer term that fall in April, teachers will be earning entitlement to the summer holidays. However, because annual leave for teachers in England and Wales is non-vesting, that entitlement will lapse when the teacher leaves the profession.

ii) Where the practice is not to require teachers to work those days of the summer term that fall in April, it is likely that a constructive obligation will arise. Teachers who are leaving the profession at the end of the spring term will receive four months' salary for working the spring term, and for this group of teachers the Easter holiday will be from the end of the spring term to 30 April, as this is the date to which they are paid. The following example shows the calculation required:

| **Dates** | **School Days** | **Holidays** |
|---|---|---|
| Christmas holiday: 1 January 2010 – 4 January 2010 | | 2 |
| Spring term: 5 January 2010 – 12 February 2010 | 29 | |
| Half term holiday: 15 February 2010 – 19 February 2010 | | 5 |
| Spring term: 22 February 2010 – 31 March 2010 | 28 | |
| **Totals as at 31 March 2010** | **57** | **7** |
| Spring term: 1 April 2010 | 1 | |
| Easter holiday: 2 April 2010 – 30 April 2010 | | 21 |
| **Total for term** | **58** | **28** |

During the spring term, teachers leaving the profession at the end of the term will, in this example, have earned 28 days leave for 58 days work. By the 31 March, they will have worked 57 days; the leave earned by this date will therefore be:

28 days leave x 57 days worked to 31 March    58 days in term = 27.52 days.

7 days leave has been taken to 31 March, so the accrual required is 20.52 days.

As discussed elsewhere in this Appendix, the value of untaken leave is assumed to be 1/261 of the annual salary for each day outstanding. The percentage of the annual salary (plus national insurance and pension contributions) to be accrued will therefore be:

20.52 days accrued    261 x 100% = 7.86%

*The Local Authority Accounting Panel understands that the most common scenario is that teachers are not required to work those summer term days that fall in April, but that not every authority adopts this practice. In assessing the accrual for teachers, authorities will therefore need to select the appropriate treatment for their situation.*

*<u>Teachers continuing in existing employment</u>*

*For teachers continuing in their existing employment (which will be most teachers), the terms and conditions are less precise. The basic requirement is that teachers 'should receive not less than one-third of a year's salary for each full term's service.' The expectation for teachers continuing in their existing employment at the end of the spring term is that they will be paid 8 months salary for the spring and summer terms (ie for 1 January – 31 August). Under the Burgundy Book terms and conditions, the spring term is considered to run from 1 January – 30 April for pay purposes. It therefore appears that the nine days worked in the summer term in April in the 'teachers changing employer' example above would be included in the spring term for pay purposes. However, those days are worked after the Easter holiday do not increase the entitlement to the Easter holiday; instead they earn entitlement to the summer holiday, and therefore need to be omitted when calculating the accrued leave at 31 March. This is in line with the requirements of the Code and IAS 19; paragraph 6.2.2.5 of the Code states that short-term accumulating compensated absences are 'recognised when employees render services that increases their entitlement to future compensated absences.' Working those days in the summer term that fall in April does not increase a teacher's entitlement to the Easter holidays, and these days are therefore excluded from the calculation.*

*The number of days leave accrued at 31 March will therefore be calculated on the same basis as for teachers changing employers. In the example used above, this would be 11.67 days.*

*As discussed elsewhere in this Appendix, the value of untaken leave is assumed to be 1/261 of the annual salary for each day outstanding. The percentage of the annual salary (plus national insurance and pension contributions) to be accrued will therefore be:*

*11.67 days accrued   261 x 100% = 4.47%*

*The calculations are shown in detail in the spreadsheet, in the sheet titled England and Wales (1). A second example (with the Easter holidays starting in March) is shown in the sheet titled England and Wales (2).*

***<u>Teaching staff – Scotland</u>***

*The teachers' contract in Scotland states that teachers accrue annual leave at the rate of 0.3385 days per day worked (this rate includes bank holidays). The leave year commences on 1 September of each year. These terms and conditions are taken from 'The SNCT Handbook of Conditions of Service'.[9]*

*To estimate the annual leave for which an accrual is required, authorities will need to:*

*i) Identify the number of term days between 1 September and 31 March*

*ii) multiply this figure by the rate at which leave is earned (0.3385)*

[9] See www.aaa.comhttp://www.snct.org.uk/wiki/index.php?title=Part_2_Section_5

iii) compare this figure with the number of days holiday between 1 September and 31 March. The accrual required should be based on the difference between the number of days earned and the number of days holiday in the school year up to 31 March.

The following example shows the process for one year:

| **Dates** | **School Days** | **Holidays** |
|---|---|---|
| Autumn term: 17 August 2009 - 31 August 2009<br>(These dates are in the previous leave year and therefore not included in the calculation) | N/A | N/A |
| Autumn term: 1 September 2009 - 9 October 2009 | 29 | |
| Autumn holiday: 12 October 2009 - 23 October 2009 | | 10 |
| Winter term: 26 October 2009 - 18 December 2009 | 40 | |
| Christmas holiday: 21 December 2009 - 1 January 2010 | | 10 |
| Spring term: 4 January 2010 - 31 March 2010 | 63 | |
| Spring term: 1 April 2009<br>(This date is after the balance sheet date and therefore not included in the calculation) | N/A | N/A |
| **TOTAL** | **132** | **20** |

From the start of the leave year until 31 March 2010, teachers will have worked 132 days. Leave accrues at 0.3385 days per day worked; teachers will therefore have earned 44.68 days leave. From the start of the leave year until 31 March 2010, teachers will have taken 20 days leave, meaning an accrual is required for 24.68 days per teacher. The percentage of the annual salary (plus national insurance and pension contributions) to be accrued will therefore be:

24.68 days accrued    261 days in the year = 9.46%

The calculations are shown in detail in the spreadsheet, in the sheet titled Scotland (1). A second example (with the Easter holidays starting in March) is shown in the sheet titled Scotland (2).

**Appendix B(1)**

**Worked Example – Accumulated Absences (England, Wales and Scotland)**

*Erehwon County Council estimated that, as at 31 March 2009, a provision for the following untaken short-term accumulated compensating absences was required:*

| | |
|---|---|
| *Annual leave* | *£10.5m* |
| *Flex leave* | *£0.5m* |
| *Other absences* | *Not material* |

*These amounts related to the following service revenue accounts:*

| **Service** | **Annual leave** | **Flex leave** | **Total** |
|---|---|---|---|
| *Children's services* | *£6.1m* | *£0.1m* | *£6.2m* |
| *Adult social services* | *£2.5m* | *£0.2m* | *£2.7m* |
| *Transport* | *£1.3m* | *£0.2m* | *£1.5m* |
| *Other* | *£0.6m* | *£0.0m* | *£0.6m* |

*The entries required to restate the opening 1 April 2009 balance sheet are as follows:*

| | | |
|---|---|---|
| *Dr* | *Accumulated Absences Account* | *£11m* |
| *Cr* | *Provision for accumulated absences* | *£11m* |
| *With the total provision for untaken leave (annual leave and flex leave).* | | |

*Compared to the 31 March 2009 balance sheet prepared under the SORP, the opening 1 April balance sheet under the Code will include an new liability of £11m (the provision), matched by a debit balance on the new Accumulated Absences Account.*

*Erehwon County Council also estimated that, as at 31 March 2010, the equivalent provision for untaken short-term accumulated compensating absences was as follows:*

| **Service** | **Annual leave** | **Flex leave** | **Total** |
|---|---|---|---|
| *Children's services* | *£6.3m* | *£0.1m* | *£6.4m* |
| *Adult social services* | *£2.4m* | *£0.3m* | *£2.7m* |
| *Transport* | *£1.5m* | *£0.1m* | *£1.6m* |
| *Other* | *£0.6m* | *£0.1m* | *£0.7m* |

*The entries required to restate the 2009/10 accounts are as follows:*

| | | |
|---|---|---|
| *Dr* | *Provision for accumulated absences* | *£11m* |
| *Cr* | *Children's services* | *£6.2m* |
| *Cr* | *Adult social services* | *£2.7m* |
| *Cr* | *Transport* | *£1.5m* |
| *Cr* | *Other* | *£0.6m* |
| *Dr* | *General Fund (in the Movement in Reserves Statement)* | *£11m* |
| *Cr* | *Accumulated Absences Account* | *£11m* |
| *With the reversal of the provision as at 1 April 2009* | | |

| | | |
|---|---|---|
| Dr | Children's services | £6.4m |
| Dr | Adult social services | £2.7m |
| Dr | Transport | £1.6m |
| Dr | Other | £0.7m |
| Cr | Provision for accumulated absences | £11.4m |
| Dr | Accumulated Absences Account | £11.4m |
| Cr | General Fund (in the Movement in Reserves Statement) | £11.4m |
| With the total provision for untaken leave (annual leave and flex leave) at 31 March 2010 | | |

As a result of these transactions, plus the transactions listed above to restate the 1 April 2009 balance sheet, the restated Comprehensive Income and Expenditure Account for 2009/10 would differ from the Income and Expenditure Account presented under the SORP as follows:

| 2009/10 SORP | | 2009/10 Code |
|---|---|---|
| £429.7m | Children's services | £429.9m |
| £153.2m | Adult social services | £153.2m |
| £209.8m | Transport | £209.9m |
| £58.4m | Other | £58.5m |
| £851.1m | Net Cost of Services | £851.5m |

The increase in the net cost of services relates to the increased provision for accumulated absences in 2009/10 compared to that required in 2008/09 (included in the opening 1 April 2009 balance sheet).

Compared to the 31 March 2010 balance sheet prepared under the SORP, the 31 March 2010 balance sheet under the Code will include an new liability of £11.4m (the provision), matched by a debit balance on the new Accumulated Absences Account of £11.4m.

The impact of these arrangements on schools balances has been raised. Authorities should note that whilst the Code requires leave to be accrued where material, it relies on the Best Value Accounting Code of Practice to determine the level of detail at which such amounts are posted. BVACOP does not require accruals to be posted to individual schools; posting at the (mandatory) division of service or the (discretionary) subdivision of service would meet the requirements of the Code and BVACOP.

***Appendix B(2)***

***Worked Example – Accumulated Absences (Northern Ireland)***

*Dekrow District Council estimated that, as at 31 March 2009, a provision for the following untaken short-term accumulated compensating absences was required:*

| | |
|---|---|
| *Annual leave* | *£110,000* |
| *Flex leave* | *£10,000* |
| *Other absences* | *Not material* |

*These amounts related to the following service revenue accounts:*

| ***Service*** | ***Annual leave*** | ***Flex leave*** | ***Total*** |
|---|---|---|---|
| *Leisure and Recreation Services* | *£45,000* | *£3,000* | *£48,000* |
| *Environmental and Regulatory Services* | *£55,000* | *£5,000* | *£60,000* |
| *Other* | *£10,000* | *£2,000* | *£12,000* |

*The entries required to restate the opening 1 April 2009 balance sheet are as follows:*

| | | |
|---|---|---|
| *Dr* | *Accumulated Absences Account* | *£120,000* |
| *Cr* | *Provision for accumulated absences* | *£120,000* |
| *With the total provision for untaken leave (annual leave and flex leave).* | | |

*Compared to the 31 March 2009 balance sheet prepared under the SORP, the opening 1 April balance sheet under the Code will include an new liability of £120,000 (the provision), matched by a debit balance on the new Accumulated Absences Account.*

*Dekrow District Council also estimated that, as at 31 March 2010, the equivalent provision for untaken short-term accumulated compensating absences was as follows:*

| ***Service*** | ***Annual leave*** | ***Flex leave*** | ***Total*** |
|---|---|---|---|
| *Leisure and Recreation Services* | *£47,000* | *£4,000* | *£51,000* |
| *Environmental and Regulatory Services* | *£58,000* | *£4,000* | *£62,000* |
| *Other* | *£10,000* | *£3,000* | *£13,000* |

*The entries required to restate the 2009/10 accounts are as follows:*

| | | |
|---|---|---|
| *Dr* | *Provision for accumulated absences* | *£120,000* |
| *Cr* | *Leisure and Recreation Services* | *£48,000* |
| *Cr* | *Environmental and Regulatory Services* | *£60,000* |
| *Cr* | *Other* | *£12,000* |
| *With the reversal of the provision as at 1 April 2009* | | |

| | | |
|---|---|---|
| *Dr* | *Leisure and Recreation Services* | *£51,000* |
| *Dr* | *Environmental and Regulatory Services* | *£62,000* |
| *Dr* | *Other* | *£13,000* |
| *Cr* | *Provision for accumulated absences* | *£126,000* |
| *With the total provision for untaken leave (annual leave and flex leave) at 31 March 2010* | | |

*In addition, the Accounts Direction requires authorities to charge at least one third of the balance on the Accumulated Absences Account to the District Fund during 2009/10. Dekrow District Council determines that no additional amount will be transferred in the restated 2009/10 accounts. The entries required to effect this transfer are as follows:*

| | | |
|---|---|---|
| *Dr* | *District Fund (in the Movement in Reserves Statement)* | *£40,000* |
| *Cr* | *Accumulated Absences Account* | *£40,000* |
| *With the transfer required by the Accounts Direction in relation to 2009/10 (note that similar transfers will be required in 2010/11 and 2011/12 to clear the balance on the Accumulated Absences Account)* | | |

*As a result of these transactions, plus the transactions listed above to restate the 1 April 2009 balance sheet, the restated Comprehensive Income and Expenditure Account for 2009/10 would differ from the Income and Expenditure Account presented under the SORP as follows:*

| *2009/10 SORP £000* | | *2009/10 Code £000* |
|---|---|---|
| *6,825* | *Leisure and Recreation Services* | *6,828* |
| *8,014* | *Environmental and Regulatory Services* | *8,016* |
| *2,966* | *Other* | *2,967* |
| *17,805* | *Net Cost of Services* | *17,811* |

*The increase in the net cost of services relates to the increased provision for accumulated absences in 2009/10 compared to that required in 2008/09 (included in the opening 1 April 2009 balance sheet).*

*Compared to the 31 March 2010 balance sheet prepared under the SORP, the 31 March 2010 balance sheet under the Code will include an new liability of £126,000 (the provision), matched by a debit balance on the new Accumulated Absences Account of £80,000 and a reduction in the District Fund balance of £46,000 (the £40,000 transferred from the Accumulated Absences Account in 2009/10 plus the £6,000 increase in the Net Cost of Services).*

## *Appendix C*

### *Worked Example – Long Term Disability Benefits*

*This example is not expected to be relevant to Northern Ireland as disability benefits are not expected to be paid outside the Northern Ireland Local Government Officers Superannuation Scheme.*

*In this example, the authority considers that the presumption that the measurement of long term disability benefits is not subject to the same degree of uncertainty as the measurement of post employment benefits is valid. It therefore accounts for the benefits as other long term benefits rather than in the same manner as other benefits payable under a pension scheme.*

*As at 31 March 2009, the Pension Reserve in the accounts of Erehwon Council included an amount of £1.3m in respect of actuarial losses arising from disability benefit schemes. In order to restate the opening IFRS balance sheet as at 1 April 2009, no entries are required as the regulations relating to pensions in England and Wales have been extended to cover other long-term benefits, and statutory guidance has been issued in Scotland.*

*The amount charged by Erehwon Council for long-term disability benefit in the 2009/10 Income and Expenditure Accounts prepared under the SORP was £1.0m, which was the amount allowed for in the actuarial assumptions for the year. The actual outturn expenditure for the year was £1.2m. The difference of £0.2m was taken to the Statement of Total Recognised Gains and Losses as an actuarial loss and credited to the Pension Reserve.*

*In order to restate the comparative 2009/10 Comprehensive Income and Expenditure Statement, Erehwon Council would need to increase expenditure charged to surplus or deficit on provision of services by £0.2m and reduce the actuarial loss or increase the actuarial gain for the year disclosed in other comprehensive income. The entries required would be:*

<table>
<tr><td>Dr</td><td>Service revenue accounts</td><td>£0.2m</td></tr>
<tr><td>Cr</td><td>Pension Reserve</td><td>£0.2m</td></tr>
<tr><td colspan="3">With increased cost charged to the service revenue accounts (previously shown as an actuarial loss)</td></tr>
</table>

*The following entries will also be required to transfer the increased expenditure to the Pension Reserve:*

<table>
<tr><td>Dr</td><td>Pension Reserve</td><td>£0.2m</td></tr>
<tr><td>Cr</td><td>General Fund (in the Movement in Reserves Statement)</td><td>£0.2m</td></tr>
<tr><td colspan="3">With the reversal of the increased cost charged to the service revenue accounts</td></tr>
</table>