NOTES TO THE ANNUAL ACCOUNTS	STATEMENT 8

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The annual accounts contain estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain.

Estimates are made taking into consideration historical experience, current trends and other relevant factors based on the information available at the time of preparing the financial statements.

However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the council's Balance Sheet at 31 March 2024 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

PENSIONS ASSET / LIABILITY

Uncertainties: Estimation of the net asset or liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide expert advice about the assumptions to be applied by the council in estimating these values at the balance sheet date.

The actuarial inputs into the pension valuation are subject to annual review, and have a significant impact on the potential valuation. Historically it is common for small changes in the discount rate, salary assumption rate and pension increase rate to have material impacts on the year end valuations on a year to year basis. The potential impact of future changes is detailed below. The council's pension asset at 31 March 2024, following the updated actuarial valuation, was £311.8 million, a movement of £14 million from the 2022/23 asset of £325.8 million as at 31 March 2023. This was driven by a 0.05% increase in the discount rate and a 0.15% decrease in the pension inflation rate. The council has reported £20.040 million as a long term liability in respect of the unfunded pension obligations for 2023/24 (£20.672 million 2022/23).

Given the history of significant changes to valuations in the past, the ongoing sensitivity to future changes, and the requirement to update assumptions annually, the council expects future valuations to continue to change significantly going forward.

Sensitivities at 31 March 2024	Approx % increase to Employer Liability	Approx monetary amount £'000
0.1% decrease in Real Discount Rate	2%	19,998
0.1% increase in the Salary Increase Rate	0%	1,264
0.1% increase in the Pension rate	2%	19,072
1 year increase in member life expectancy	4%	43,615

For sensitivity purposes, it is estimated that a one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3 - 5%, increasing it by approximately £32 million - £55 million. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).

More information on the key assumptions used in the actuarial valuation of the estimates is available in note 20 to the accounts, including information on the key assumptions, risks, sensitivities and restrictions on the amount on the balance sheet arising from IFRIC 14. An update is also included in note 20 on the latest developments around a number of equalisation adjustments to pension liabilities which have occurred in LGPS and may continue to materially impact the valuation of the council's liability going forward.

FAIR VALUE MEASUREMENTS

Uncertainties: At the 31 March 2024 the council held assets totalling £0.337 billion related to surplus assets not yet available for sale, Level 2 and 3 Financial Instruments and Pension Plan Assets. These are outlined in more detail in note 20.7 to the financial statements. The fair value of these assets is subject to greater estimation uncertainty than other assets as they cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs). Their fair value is instead measured using Level 2 – quoted prices for similar assets or liabilities in active markets at the balance sheet date.

Where possible the inputs to these valuation techniques are based on observable data, but where this is not possible, estimation judgement is required in establishing fair values. These judgements include considerations such as uncertainty and risk. Changes in the assumptions could affect the fair value of the council's assets and liabilities. More Information about valuation techniques and inputs used in determining the fair value of these assets is set out in note 15.

Effect if actual results differ from assumptions: Significant changes in any of the observable inputs may result in a significantly lower or higher fair value measurement for assets and liabilities. Given the nature of the estimation techniques used as outlined above it is difficult to quantify the potential valuation movement without understanding the nature of the inputs which are subject to change on an annual basis. Given the ongoing uncertainty around the markets impacting these valuations and the materiality of the estimated balances, it is likely that future changes will materially impact the financial statements.

DEBTORS

Uncertainties: At 31 March 2024, the council had a balance of debtors of £45.7 million - Accounts Receivable debtors of £13 million, Council Tax debtors of £26 million and Housing Rent debtors of £6.7 million. In 2023/24 a total of £25.1 million was written off or provided for by the council.