



treatment that is a hybrid of FRS12 and FRS17. (Item (g) of matters arising in the third meeting refers.)

- (d) [REDACTED] s.40 (2) confirmed that GAD is working on the ready reckoner, which will be ready for discussion with HMT later in October. (Para 2, 2<sup>nd</sup> bullet, of 4<sup>th</sup> September refers.)
- (e) [REDACTED] s.40 (2) noted that the NAO had inserted into the minutes of the third meeting (para 2, 3<sup>rd</sup> bullet) a suggestion that, since paragraph 35 requires “full actuarial valuations”, the use of the ready reckoner/spreadsheet should be agreed with the FRAB. He explained the Treasury view that the ready reckoner or, where appropriate, the spreadsheet approach would be used for schemes that were small in terms of overall liabilities and, taken together, would not represent a material part of the overall public sector pension scheme liabilities. In general, they can be split into two parts: small schemes that relate to particular office holders or schemes relating to relatively small organisations that would find the imposition of full actuarial valuations an onerous cost. The idea behind the ready reckoner/spreadsheet is to provide a pragmatic solution to enable the affected bodies to implement FRS17 in a cost-effective way.

He also said that the assumptions behind the ready reckoner and spreadsheet would be reviewed briefly each year to ensure that they remained valid and reviewed in depth every four years, in line with full valuations for the large schemes, to ensure that the ready reckoner and spreadsheet calculations would continue to provide a true and fair view of the liabilities of these schemes.

On this basis, the Treasury did not feel that there was a need to take the proposal to the FRAB. The NAO, however, felt that the possibility of a material impact on the accounts meant that the FRAB should be informed and, after some discussion, it was **agreed** that a minor item would be taken to the FRAB. (Secretary to draft.)

- (f) [REDACTED] s.40 (2) confirmed that PSP had written to departments to let them know that the Treasury, with GAD, is developing a ready reckoner approach to ease the burden of implementing FRS17. (Para 2, 5<sup>th</sup> bullet of 4<sup>th</sup> September minutes refers.)
- (g) [REDACTED] s.40 (2) reported that [REDACTED] s.40 (2) had worked on some proposals on how accurate the calculations of pension liabilities need to be and that he had had some initial discussions with [REDACTED] s.40 (2). Further consideration will be given to the cut-off as a result of these discussions and options will be brought to the next meeting. (Para 2, 6<sup>th</sup> bullet of 4<sup>th</sup> September minutes refers.)
- (h) No further consideration has been given to the applicability of provisions of the Data Protection Act, although [REDACTED] s.40 (2) noted that there is a wider debate about personal disclosures in accounts being taken forward by the Cabinet Office. [REDACTED] s.40 (2) will monitor developments.

## **Oral report on outcome of FRAB discussion on implementing FRS17 for public sector pension schemes**

2. [REDACTED] s.40 (2) reported that the FRAB had considered the Treasury's proposals in the paper on implementing FRS17 in the public sector at the meeting on 13<sup>th</sup> September. That paper had recommended that the major unfunded public sector pension schemes that had a robust contribution regime should be treated as multi-employer schemes. This would mean that departments (in the case of the PCSPS and AFPS) would score ASLCs in resource accounts and the pension scheme account would follow FRS17 principles and would also account for the scheme liabilities.
3. The FRAB accepted the argument that PCSPS, Teachers, the NHS and the Research Councils pension schemes are multi-employer. They noted that the Treasury was still considering the treatment of the UKAEA scheme, where liabilities can be attributed to participating employers and where a notional fund (mainly in equities) has led to a situation where employers' contributions are currently zero. The FRAB also noted that the Treasury is considering the treatment of the DfID Overseas Superannuation Scheme, which is closed to new members.
4. The main part of the debate revolved around the treatment of AFPS, where the FRAB remained to be convinced by the Treasury's argument that it should be treated in the same way as other schemes for reasons of consistency and clarity of budgeting. The Treasury was asked to re-think its proposals and to consider how FRS17 should be applied to the MoD's resource accounts. [REDACTED] s.40 (2) has produced an options paper that will be considered by the November FRAB, including an option that would see the production of discrete resource accounts for the MoD and the AFPS and a supplementary consolidated account. Other options might be the adoption of FRS17 in schedules 2 to 5, with FRS17 entries being reversed and replaced with contributions expenditure in schedule 1 so that schedule I reflects the current RfR; or combine the RfRs in one Estimate, but maintaining budgetary control by having different cash requirements for MoD main and the AFPS.
5. Treasury's preferred option remains the same: to treat the AFPS in the same way as other pension schemes for the reasons already given. The NAO supports this approach and have pointed out that Parliamentary accountability would not be enhanced by the production of a consolidated account. Under section 5 of the Government Resources and Accounts Act 2000, resource accounts have to be produced for each Estimate: if the RfRs were combined to allow for only a consolidated account, there would be a risk that accountability would be compromised.
6. The Treasury's intention was that, if FRAB could be persuaded of the argument for the treatment of the AFPS, the UKAEA would follow suit. The DfID scheme is closed to new members and there is no related contribution regime. Pensioners are from various former employers and this scheme, too, should be treated as a multi employer scheme.
7. The paper taken by the FRAB had also recommended a valuation frequency of four years and a discount rate of 3½ percent. The FRAB accepted these recommendations.
8. The main focus of the ensuing discussion was the format of biennial reviews between the quadrennial actuarial valuations. It was **agreed** that the biennial reviews:
  - would not replicate the quadrennial actuarial valuation;
  - might be limited to an update for assumptions on salary increases and inflation; but
  - would take into account any major changes in other assumptions.

It was also **agreed** that, since the schemes will be starting from a different base, each scheme would need to be considered on a case by case basis in the first instance, although the aim would be to achieve as much consistency across schemes as possible.

### **Detailed guidance on FRS17 disclosure**

9. [REDACTED] s.40 (2) introduced this item by reminding members of FRAB's conclusions (see paragraphs 2 to 8 above. The RAM amendments have been drafted so as not to pre-empt any decisions on how FRS17 might be implemented for the AFPS and UKAEA pension schemes. The RAM amendments, which will be taken to the FRAB meeting on 15<sup>th</sup> October, were **agreed subject** to the following comments:

- a comment to be added to 4.5.1A to cross-refer to the note on early departure costs and make clear that the presumption is that they will be accounted for in accordance with FRS12 and not FRS17;
- a comment to be added to 4.5.21A (c) that prepaid contributions do not include any prepayments in respect of early departure costs;
- replace 'a defined benefit scheme' with 'all defined benefit schemes' in 4.5.21B;
- insert 'additional' between 'following' and 'disclosures' in 4.5.21D;
- the insertions in the first box in Annex A should be included in the Magenta Pension Scheme, not in Department Blue (nor Department Yellow) and should be expanded to show that the 3½% rate is "(real; 6½ % nominal)" and cross reference made to the actuarial statement, which should be expanded to include an explanation of any difference between the liability disclosed in that statement and the liability disclosed in the notes to the accounts;
- reword the first paragraph of the first paragraph to read "For 2001-02, standard employer contributions of £5,448,831 were payable to the PCSPS (2000-01 £0) at rates in the range of 11 to 19.5 per cent of pensionable pay."; and
- paragraph 2 of the insertion in Department Yellow should become the first paragraph and should be expanded to say that it is a multi-employer scheme.

10. It was also **agreed** that, where possible, standard wording should be provided for each scheme (for example, in the wording relating to the disclosures required under 4.5.21C) and that it might be helpful to have a standard list of information needed to complete the disclosures.

11. On Annexes B and C (amendments to NDPB and Trading Fund guidance), it was **agreed** that further consideration would be given to expanding the guidance so as to mirror more closely the guidance in the RAM as an aid to NDPBs where pension provision could, for example, be through the PCSPS, by-analogy to the PCSPS, through other unfunded schemes or through funded schemes. It was generally felt that detailed guidance, along the lines of the RAM, in what will be a complex area, would be of more benefit for a population with such a variety of pension provision arrangements.

### **Stakeholder pensions: disclosure requirements**

12. [REDACTED] s.40 (2) had raised the question of disclosure in the PCSPS accounts of stakeholder pension arrangements. [REDACTED] s.40 (2) explained that the Treasury's initial view is that the PCSPS is merely administering the receipt of contributions from the employer (on behalf of the employee) and the onward transmission to the stakeholder pension provider. He had circulated a form of words for a note to pension scheme resource accounts,

which is based on the note in respect of additional voluntary contributions. In discussion, however, it was **agreed** that the pension schemes' involvement with stakeholder pensions is more akin to FSAVCs where no potential liability rests with the pension scheme (unlike AVCs, where a potential liability might arise) and so no note is needed.

**AOB**

13. There was no other business.

**Date of the next meeting**

14. It was agreed that the next meeting of the Group should await the outcome of decisions on the treatment of AFPS. A meeting was provisionally booked for Wednesday 28<sup>th</sup> November at 10.00 am.

 s.40 (2)

**2 October 2001**