

TREATMENT OF FRS 17 IN CGA AND LINKS TO PENSION SCHEMES' RESOURCE ACCOUNTS

Issue	Agreeing how pension scheme accounts should be incorporated into CGA to allow strict application of FRS in the published CGA statement of accounts.
Timing	For the 2003/04 published CGA.
Recommendation	Schemes and auditors are invited to comment on: <ul style="list-style-type: none"> i) the proposed treatment of Pension Scheme resource account items in published CGA; ii) the proposed treatment of Compensation Scheme and minor agency items in CGA; iii) the proposed data collection approach.

Background

This paper arises from discussions at the Public Service Pensions Group meeting on the accounting for the main unfunded public sector schemes in Central Government Accounts. The aim is to set out the proposed treatment of schemes' data in WGA, where this differs from schemes Resource Accounts and where there will be specific information requirements on schemes.

2. Differences arise between CGA treatments and schemes' Resource Accounts because of the different circumstances that apply at CGA level. For departmental Resource Accounts the main public service schemes are typically multi-employer schemes in which the underlying liability cannot be identified by employer. Accordingly the FRAB approved an adaptation of GAAP in which the schemes themselves recognised the liability.

3. However at CGA level this rationale does not apply as the liability clearly lies with the CGA group. However the CGA group is for most schemes an employer operating an unfunded pension scheme. FRS 17 applies to FRS 17, but does not offer any advice on the specific circumstances. Thus the aim must be to apply FRS 17 as closely as possible. Thus amounts shown as payable in scheme accounts should, where possible, be shown as movements in the liability only in CGA.

Treatment of Resource Account Items

Pension Scheme Income & Expenditure

4. Table 1 sets out the proposed treatment of Schemes' Income & Expenditure items in CGA. Where necessary the rationale for the proposed treatment is set out in the technical annex to this paper, Annex A.

Table 1 – Treatment of Pensions Scheme I&E Items

	Scheme Resource Accounts Item	Maps to CGA ‘Employer’ Accounts Item	Comment See Annex A paras or FRS 17
Expenditure	Pension Cost (Current Service Cost)	Current Service Cost	—
	Pension Cost (Past Service Cost)	Past Service Cost	—
	Enhancements	Past Service Cost	A1 – A5
	Transfers in	Current Service Cost	A6 – A13
	Injury benefits	Non-FRS 17 Item – thus map to [Other Pensions Costs (511130/511230)]	A14 – A15
	Other interest payable	Non-FRS 17 Item – thus map to relevant interest expense code (540400).	—
	Interest on scheme liabilities	Unwinding of Discount in Pensions	—
Income	Contributions in	Employee contributions – current service cost	Per FRS 17.51
		Employer contributions – eliminate on consolidation	—
	Transfers in	Current Service Cost	—
	Other income ¹	Employers costs will eliminate on consolidation. Refunds of gratuities – Other Non-trading Income (412050)	—
Notes	1 Consists of: Refunds of Gratuities received and Amounts in respect of bringing forward the payment of accrued superannuation lump-sums, capitalised cost of enhancement to pensions payable on departure, and capitalised cost of enhancement to pensions payable at normal age		

Compensation Schemes

5. Compensation scheme transaction streams and balances are not related to FRS 17. The WGA Team therefore consider that these items should continue to be reported in accordance with schemes Resource Accounts.

Minor Agency & Principal Arrangements

6. A number of minor schemes are accounted for in the Civil Superannuation resource account. The income and expenditure is recognised on a pay as you go basis and no adjustment is made to the FRS 17 liability for these schemes. Gross expenditure in 2002/03 was approximately £15.5m.

7. The WGA Team consider that accounting for these items on a pay as you go basis will not result in material misstatement at CGA level. We therefore intend to treat the expenditure as Other Pensions Costs (511130/511230). Income will be recognised as Other Non-Trading Income (412050).

Treatment of Balance Sheet Items

8. Schemes do not usually have fixed assets. The majority of schemes current assets and liabilities will be creditors and debtors with CGA bodies and the central funds, which will be eliminated on consolidation. Cash at Bank will of course be recognised directly.

9. Schemes recognise pensions payable, but not yet actually paid, as creditors falling due within one year. Because FRS 17 does not specifically address unfunded schemes this is not mentioned within the standard. However the WGA Team consider that this is the correct treatment, reflecting a payable amount rather than a provision.

10. The FRS 17 liability will be recognised in accordance with Scheme accounts. The movement in the liability, as disclosed in the notes, will include a line showing the payment of benefits, drawn from scheme accounts. While this is not shown in the FRS 17 formats it is necessary to reflect the unfunded nature of the schemes.

Data Collection Approach

Resource Accounts Data & Counter-Party Transaction Streams & Balances

11. The Pensions group meeting of 23rd June discussed the possibility of Schemes either continuing as GOLD users or using a specially designed consolidation pack ('P-Pack').

12. The advantages of using a specially designed P-Pack are that it can take Scheme's accounts with the accounting policies and formats pack users are familiar with, then generate the necessary upload files for GOLD using the accounting policies required for CGA. This should make the process easier for both schemes and the WGA Team.

13. In accordance with the minutes of the 23rd June meeting the WGA Team have also sent the draft P-Pack with this paper.

14. It will be necessary to consider the longer-term issues for collecting Scheme's data in the light of the Single Data System Project, and the development of the COINS system, which will replace GOLD. This will be done in conjunction with Schemes and the SDS project team.

FRS 17 Narrative Disclosures

15. FRS 17.92 allows employers with multiple schemes to disclose ranges or weighted average figures. The costs of preparing weighted averages on an actuarially robust basis across the whole public sector would certainly outweigh any benefits to users of WGA. Large amounts of information on public sector pensions are already published; CGA disclosures should aim to give a concise but informative overview. The WGA Team therefore propose to disclose ranges.

16. The P-Pack will include a small number of additional cells to allow the following items of narrative disclosure to be collected:

- a. Contribution Rates for period ended 31/03/2004
 - Employers Contribution Rates
 - Employees Contribution Rates
- b. Financial Assumptions as at 31/03/2004
 - Rate of increase in salaries.
 - Rate of increase in pensions in payment.
 - Discount rate for pension liabilities.
 - Inflation assumption.
- c. Analysis of Recognised Gains & Losses
 - Experience gains / (losses) arising on the scheme liabilities.
 - Changes in assumptions underlying the present value of scheme liabilities.

Annex A

Rationale for Mapping of Scheme I&E Items in CGA

Enhancements

A1. Enhancements are increases in the benefits accrued by active members or payable to pensioners. The reported cost represents the capital value of enhancements granted during the year. Enhancements will not be included in the calculation of Current Service Cost (CSC) or Past Service Cost (PSC) in Schemes' Resource Accounts. They are accounted for separately in Schemes' Resource Accounts to reflect that they are separate from the routine benefits of the scheme.

A2. To the extent that enhancements refer to service during the financial year they would constitute CSC under the FRS 17 definitions. However the majority of enhancements will relate to prior years service and thus appear to meet the definition of PSC.

A3. WGA Team proposes to map the cost of enhancements reported in scheme accounts to PSC in published CGA.

A4. Implications of the proposed treatment are:

- CSC would be overstated and PSC understated to the extent that enhancements related to current year service.
- PSC would be overstated to the extent that enhancements actually vested over future periods.

A5. The issues in the last two bullet points of paragraph 4 are highly unlikely to be material at CGA level. Collecting the information to achieve strict accuracy would not meet the FRS 18 cost-benefit test. In particular, any misstatement arising from the final bullet point can be considered prudent in conditions of uncertainty.

Transfers in (Income & Expenditure)

A6. Transfers may come from within the public sector schemes club or from non-Club schemes. Transfers may also be individual as employees move, or group transfers as MOG changes occur. The boundary of the club does not exactly match the WGA boundary and is significantly different from the CGA boundary. Transfers within the CGA group should be eliminated and accordingly should not result in a gain or loss.

A7. Transfers in are recognised in Schemes' accounts as expenses (increase in the liability) and income (transfer values receivable). FRS 17 does not refer to inward transfers at all, because, for an employer operating a funded scheme, the transfer occurs between pension funds transfers are almost invariably at par, meaning that there is no shortfall for the employer to meet.

A8. CGA, like other employers operating unfunded schemes, is not in this position. The transfer will result in an increase in the liability, but because the assets receivable are not ring-fenced in a pension fund the increase in the

liability is not offset by an increase in FRS 17 assets. The assets transferred appear as cash or debtors.

- A9. There are two alternatives in accounting for transfers in at CGA level:
- a. All non-eliminated transfers in could be shown as both income and expenditure, in line with scheme accounts; or
 - b. Only exceptional gains and losses arising from difference between transfer values and transfer payments could be shown.

A10. Option A would require reporting non-FRS 17 elements, because FRS 17 applies to employers operating unfunded schemes this would be an adaptation of GAAP. As transfers are typically at 'par' value option B will almost always mean that no non-FRS 17 gain or loss needs to be reported. Given the aim of accounting for pensions at CGA level as an employer the WGA Team considers that option B is more suitable.

A11. In either case it is necessary to consider where the transactions in scheme accounts should be mapped to in WGA. Arguably this could be through:

- a. Current Service Cost (in CGA I&E) reflecting that the benefit is given to attract the employee for service this year.¹
- b. Actuarial gain or loss (on the CGA STRGL), reflecting that previous actuarial assumptions had naturally failed to allow for the transfer.

A12. In relation to transfers out FRS 17 requires that gains or losses in relation to transfers included in the actuarial assumptions are treated as actuarial gains or losses. Gains or losses on transfers out that had not been predicted are treated as gains or losses on settlements and curtailments. A similar split could be imposed on transfers in. However on cost-benefit grounds we propose to treat all gains or losses on transfers in as not related to any actuarial assumption and thus to map gains or losses on transfers in to CSC for CGA purposes.

A13. Implications of the proposed treatment are:

- CSC and actuarial gains and losses will be misstated to the extent that any gains or losses on transfers in have been included in actuarial assumptions. We do not expect this to be material.

Injury Benefits

A14. Injury benefits are not typically financed by the contribution regime. Older benefits payable are a charge to the scheme, financed from Supply; more recent benefits are recovered from employers. The cost of injury benefits represents the cost of the enhanced benefits payable compared with a conventional early retirement. This is recognized on a pay as you go basis – there is no increase in the FRS 17 liability when the injury benefits are approved.

¹ The cost could of course be amortised over the employment period. However this would not reflect the principles of FRS 17 and the practical difficulties and record-keeping at a CGA level would make this not a cost-beneficial accounting policy.

A15. Because the recognised cost of injury benefits does not relate to a movement in schemes FRS 17 liability it is not necessary to map this item to a FRS 17 I&E item. Thus the WGA Team propose to recognise injury benefits as a separate item within operating cost.