

HM TREASURY
PUBLIC SECTOR PENSIONS GROUP
Minutes of the second meeting on 25 July 2001

Present:

■	s.40 (2)	■	s.40 (2)
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Apologies were received from: **All s.40 (2)**

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Minutes of the first meeting

1. The minutes of the first meeting were agreed.

Matters arising

- (a) ■ s.40 (2) confirmed that the revised Terms of Reference had been circulated with the minutes of the first meeting.
- (b) ■ s.40 (2) has written to ■ s.40 (2) at GAD, who has confirmed that GAD will be happy to be involved in the Group.

Introduction of FRS 17 in the public sector

2. ■ s.40 (2) introduced the key points in the RABIG letter and proposed accounting guidance circulated with the agenda. The Treasury's proposals depart from strict adherence to FRS 17 and the Group's views were sought on:

- recording public sector pension scheme liabilities on the scheme balance sheets;
- the use of a 3½% discount rate rather than AA bond rate;
- requiring valuations every four years to coincide with every other spending review;
- whether early retirement costs fell to be treated under FRS 12 or FRS 17; and

- the treatment of club transfers in the Statement of Recognised Gains and Losses.

In order that discussions could focus on these main issues, Group members were invited to send any detailed comments on the accounting guidance to the Secretary or [REDACTED] s.40 (2) outside the meeting. [REDACTED] s.40 (2) had sent in detailed comments by letter. Additionally, [REDACTED] s.40 (2) asked that the list of schemes include the PCSPS (Northern Ireland), but there was some question as to whether this is a devolved matter (the Secretary will contact [REDACTED] s.40 (2) to confirm). [REDACTED] s.40 (2) felt that the redraft of RAM chapter 15 could drop references to the SORP as the Treasury proposals had moved beyond this.

3. Before the discussion started:

- [REDACTED] s.40 (2) noted that work is ongoing on rationalising and tightening the employer contribution regime. The proposals before the Group had been worked up in such a way as to ensure that accounting and budgeting considerations were linked; and
- [REDACTED] s.40 (2) reported that the proposals – and, indeed, FRS 17 – have moved away from the requirements of the Pensions SORP, which the ASB plans to revisit. The Treasury proposals are consistent with the ASB's Statement of Principles, but the Treasury needs to satisfy the FRAB that the proposals are robust.

Reporting public sector pension scheme liabilities on the scheme balance sheet

4. [REDACTED] s.40 (2) opened this part of the discussion by saying that the NAO has long been an advocate of reporting pension liabilities on pension scheme balance sheets. [REDACTED] s.40 (2) (NHS Pensions) questioned whether this was the right approach:

- the FRS is aimed at employers' accounts – not scheme accounts;
- Treasury proposals appear to want to use the accounts to inform future funding decisions and the budgeting process as well as to report on performance;
- the accounts are difficult to follow even for an accountant, and accounting policies would need to be explained in far more detail if the accounts are to be meaningful for users;
- although pension liabilities should be disclosed at a WGA level, they would dwarf other figures on the pension scheme accounts, and there must be other ways of providing the information at a lower level if, indeed, it was needed at that lower level (for example, an unpublished, separate statement showing the liabilities);
- there would be inconsistencies between the way an actuarial valuation was derived for reporting balance sheet liabilities and the way the actuary assessed contribution rates. FRS 17 is not linked to the latter;
- the auditor would need to take a view on figures produced by the actuary; and
- the proposed treatment might lead to problems with budgeting.

5. In the ensuing discussions, the following points were made:

- [REDACTED] s.40 (2) emphasised the point that pension liabilities are obligations that must be accounted for at the appropriate level – not merely as a consolidation adjustment at the WGA level. There are differences between the public and private sectors, because a private sector employer is required under the FRS to account only for his share of the surplus or deficit: for WGA, we will need to consolidate the Government’s obligation to pay pensions. [REDACTED] s.40 (2) noted that there is a strong argument for disclosing the liability in the pension scheme accounts, as users were only interested in the total liability (this raised the question of who uses the accounts – see paragraph 6 below);
- in response to a question from [REDACTED] s.40 (2), it was **confirmed** that, where the Treasury had not listed a pension scheme in the proposals, the relevant body would account for any pension liabilities in accordance with FRS 17. This then raised the question of the RUC pension scheme, and [REDACTED] s.40 (2) **agreed** to consider this scheme outside the meeting. (Note: RUC pensions are financed by employer and employee contributions, with any surplus being surrendered to the Consolidated Fund, and any shortfall will be met by increased grant from the Northern Ireland Office.);
- [REDACTED] s.40 (2) reported (and [REDACTED] s.40 (2) had informed the Secretary prior to the meeting) that the Cabinet Office Accounting Officer believed the existing PCSPS accounts were difficult to understand. It was also important that scheme managers understood the actuary’s requirements. If the proposals were to be adopted, then the accounts would need a large preface. [REDACTED] s.40 (2) felt that better explanation could be achieved through an expanded “Foreword” or Scheme Manager’s Report;
- [REDACTED] s.40 (2) acknowledged that auditability is an issue that the NAO will need to address – but so would private sector auditors – and pointed out that there are actuarial based figures in resource accounts already. The APB has issued draft guidance for auditors, and the Institute of Actuaries is producing guidance for actuaries; and
- there was some concern that the link between the revenue account and Supply would be lost. Several members felt that there should be little impact on budgeting requirements, although it was noted that the current SR2002 guidance did not cover AME treatment of pension schemes. It was **agreed** budgeting requirements would be raised with the Treasury’s GEP team.

6. There was a general feeling that users of pension scheme accounts were restricted to managers of other public sector pension schemes (ie members of the Group) and a few others – for example: MPs (who expressed the view during the passage of the Government Resources and Accounts Bill that pension liabilities should be accounted for on balance sheet), those with an interest in government liabilities, and unions (Teachers’ Pension Scheme). Those interested in the liabilities will also be interested in the movements in those liabilities (whether caused by increases in current service costs, past service concessions or actuarial errors) as this will give information on the ASLC regime and the full cost of public sector services. The FRAB will also be interested in ensuring that movements are disclosed.

Presentation and commentary will be important and [REDACTED] s.40 (2) noted that this should be looked at in terms of non-accountants.

7. In response to a question from [REDACTED] s.40 (2), [REDACTED] s.40 (2) said that the actuarial valuation anticipated future earnings increases but not future service of current employees and [REDACTED] s.40 (2) noted that WGA would contain a snapshot of the cumulative impact of commitments for public sector pensions and the increase in the pension liability. Fiscal planners would be able to use the information in WGA to look at trends in net worth. In New Zealand, similar information had led to the beginnings of reform of their public service pension schemes. [REDACTED] s.40 (2) commented that this was yet another use for the accounts, and a further move away from stewardship reporting. But it was pointed out that stewardship is not only backward looking. For example, in the case of the NHS, the commitments are those given to current workers – not the pensions paid to past workers.

8. [REDACTED] s.40 (2) supported the idea that this was a further argument in favour of separating the scheme liabilities from a department's resource accounts. The reality is that, in the early days of the schemes, the contributions received would have been greater than the liabilities and the Consolidated Fund has used those receipts in lieu of increasing taxation. In the case of the NHS, the liability for paying the pensions remains legally with the NHS – but Central Government (the Treasury) has agreed to provide funds as necessary. In effect, departmental contributions have to match service costs, while Central Government bears the interest charge.

9. In summary: as a result of discussions on putting scheme liabilities on scheme balance sheets, it was **agreed** that:

- the Treasury will seek to clarify the budgeting and Estimate treatment for pension schemes in guidance on SR2002;
- the next meeting will be used to address the issue of the interaction with actuaries, and actuarial requirements; and
- the Treasury will look further at the context and framework for reporting.

REMAINDER OF DOCUMENT OUT OF SCOPE

[REDACTED] s.40 (2)

31 July 2001