



Action G. Arising from LASAAC 31/08/09

To: Police Joint Board Finance Staff, Fire Joint Board Finance Staff,
Fife Council Finance Staff, Dumfries & Galloway Finance Staff

From: LASAAC

Date: 7 September 2009

Subject: Non-Reversal of FRS 17 Entries for New Police / Fire Pension
Schemes – LASAAC Suggested Wording

Background

1. On the 26 August 2009 Audit Scotland issued an e-mail stating that there was no legislation to allow reversal of the impact on the General Fund in respect of the FRS 17 entries for New Police / Fire Pension Schemes (1). The e-mail noted that where the amount was material an adjustment to the unaudited 2008/09 financial statements would be required.

LASAAC Action

2. This issue was discussed at LASAAC on Monday 31 August. It was agreed that LASAAC would provide suggested wording which boards / authorities could use to explain the situation in their financial statements.
3. The responsibility for the content of the financial statements clearly rests with the Chief Financial Officer of the board / authority (SORP 2008 para 7.1). This paper is therefore intended as assistance and is not mandatory. Boards / authorities may amend the suggested wording, or provide an alternative wording, as they wish.
4. For example boards/authorities may have a 'house style' they wish to follow, which may indicate that a text explanation of the impact on balances is preferred to the table format provided.
5. Please note that this paper does not include suggested wording to explain any prior period adjustment where the board / authority has decided to adjust the financial statements. An explanation is required by the SORP 2008 paragraph 5.35 (2). Authorities making prior period adjustments should explain these as required.

(1) – See SPPA Circulars:

Police 2007/3 <http://www.sppa.gov.uk/police/documents/PoliceCircular2007-3NPPSScotland2007Regs.pdf>

Fire 2007/8

<http://www.sppa.gov.uk/fire/documents/ScottishFireandRescueCircular8-2007.pdf>

Reference in the Explanatory Foreword

6. It is suggested that, where material, the issue is referred to in the Explanatory Foreword. No suggested wording is provided for this since the style and content of Explanatory Forewords can differ significantly between boards / authorities. Boards / authorities may however wish to refer to :

- A brief outline of the situation
- An indication of the role and importance of legislation in affecting the funding position of boards / authorities (eg the normal treatment of calculated FRS 17 costs)
- An indication of the responsibility for legislation
- The Chief Financial Officer's view on the likelihood, or anticipation of, legislation during 2009/10 to amend the situation
- The impact on the financial statements / financial position

LASAAC Suggested Wording

7. Three appendices of suggested wording are attached :

- **Appendix A – Where the board / authority has not adjusted the financial statements:** Suggested wording for inclusion in the financial statements as part of, or after, an explanation of the General Fund balance.
- **Appendix B – Where the board / authority has adjusted the financial statements:** Suggested wording for inclusion in the financial statements as part of, or after, an explanation of the General Fund balance.
- **Appendix C –** Suggested potential explanatory text providing a slightly more detailed explanation where this may be considered useful (eg to Audit Committee members). The use of this is of course entirely at the discretion of the board / authority and should be amended as necessary prior to use.

APPENDIX A

Possible Explanatory Paragraph for the Financial Statements Suggested for inclusion in the explanation of the General Fund Balance

Suggested Wording Where Unaudited Financial Statements have NOT been adjusted

In relation to the board's [council's] employer's pension costs, legislation generally requires that the difference between retirement benefit costs as calculated under FRS 17 and the board's [council's] actual employer's pension contributions are charged to the Pensions Reserve. There is currently no legislation that permits this in respect of the New Police [Fire] Pension Scheme which commenced from 6 April 2006. For these financial statements however it is anticipated that this will be corrected by legislative action during the 2009/10 financial year

Consequently in order to provide a financial presentation which reflects what is considered to be the substance of the board's [council's] financial position as at 31 March 2009, the total FRS 17 calculated cost of the New Police [Fire] Pension Scheme since its inception has not been charged against the General Fund.

If the FRS 17 calculated costs of the scheme since inception had been accounted for in line with the existing legislative framework this would have resulted in the General Fund balance and Pensions Reserve balances both being adjusted by £XXm.

	Balance at 31 March 2009 Per Balance Sheet	Adjustment to Charge New Scheme FRS 17 Costs since inception to the General Fund	Adjusted balances, per legislative position, as at 31 March 2009
General Fund	(200)	150	(50)
Pensions Reserve	300	(150)	150
	100	0	100

This would change the uncommitted element of the General Fund from £Ym to £Zm.

APPENDIX B

Possible Explanatory Paragraph for the Financial Statements Suggested for inclusion in the explanation of the General Fund Balance

Suggested Wording Where Unaudited Financial Statements HAVE been adjusted

In relation to the board's [council's] employer's pension costs, legislation generally requires that the difference between retirement benefit costs as calculated under FRS 17 and the board's [council's] actual employer's pension contributions are charged to the Pensions Reserve. There is currently no legislation that permits this in respect of the New Police [Fire] Pension Scheme which commenced from 6 April 2006.

These financial statements reflect that legislative position. Therefore, for the New Police [Fire] Scheme, the full FRS 17 costs since scheme inception have been charged against the General Fund balance. If this situation is amended by legislation during the 2009/10 financial year the level of reserves as shown on the balance sheet for the General Fund and Pensions Reserve will be adjusted by £XXm.

	Balance at 31 March 2009 Per Balance Sheet	Potential adjustment in 2009/10 dependent on legislation	Potential Balances if Legislative Action Implemented
General Fund	(50)	(150)	(200)
Pensions Reserve	150	150	300
	100	0	100

This would change the uncommitted element of the General Fund from £Ym to £Zm.

Possible More Detailed Explanatory Text

1. The board [council] is required to apply accounting standard FRS 17 "Retirement Benefits", which is based on the principle that retirement benefits should be recognised when the board [council] is committed to providing them, even if the actual payment will be many years into the future. As such the FRS 17 calculation requires the estimation of future liabilities, stated at current values, and the valuation of any existing scheme assets.
2. Legislation however generally requires that the General Fund is charged with the actual contributions that the employer is obliged to make for the year, rather than the cost calculated under the FRS 17 requirements. The difference between the FRS 17 calculated costs and the council's actual employer contributions is charged to the board's [council's] Pensions Reserve. The legislation (1) requiring this treatment refers to specific pension schemes and legislation.
3. An additional new pension scheme for Police [Fire] staff was introduced from 6 April 2006 (2). The existing pension scheme remained in place. The new scheme applied to new entrants and any members wishing to transfer from the existing scheme. On introduction of the new scheme however the legislation which requires that the difference between the FRS 17 calculated costs and actual contributions are charged to the Pensions Reserve was not updated to include the new scheme.
4. Therefore at present there is no legislation to allow the impact of the required accounting treatment for the new scheme to be charged to the Pensions Reserve. This means that, for the new scheme, the FRS 17 calculated costs fall to be charged to the General Fund as from the inception of the scheme.

(1) Scottish Statutory Instrument (SSI) 2003 No. 580
http://www.oqps.gov.uk/legislation/ssi/ssi2003/pdf/ssi_20030580_en.pdf

(2) – See SPPA Circulars:
Police 2007/3 <http://www.sppa.gov.uk/police/documents/PoliceCircular2007-3NPPSScotland2007Regs.pdf>
Fire 2007/8
<http://www.sppa.gov.uk/fire/documents/ScottishFireandRescueCircular8-2007.pdf>

Technical Footnote for Finance Staff: This note does not specifically refer to the treatment of 'Actuarial Gains / Losses', as reflected in the Statement of Movement on the General Fund Balance. Boards [councils] wishing to more fully explain the details of FRS 17 requirements may wish to include reference to this aspect.