

## **FRS 17: Application to Police and Fire Boards/Authorities**

1. LASAAC is aware of the debate on how FRS 17 should be applied to Police and Fire Boards/Authorities (hereinafter Boards) and the consequences thereafter. Debate has focused specifically upon the accounting treatment of commuted sums following the implementation of this standard. The matter has been considered by LASAAC and this short statement is intended to provide guidance on the accounting treatment of commuted sums.

2. In this context, commuted sums is considered to be the financial amount which is required to meet sums payable to officers eligible to retire at the end of the financial year but elect to remain in service

3. The Code of Practice on Local Authority Accounting in the United Kingdom 2004: A Statement of Recommended Practice, (The SORP) states at paragraph 1.7 that

*“The SORP applies formally...police authorities, fire authorities, joint committees and joint boards...”*

4. The SORP has specifically adopted FRS 17 and at paragraph 3.51, in addressing accounting policies, specifically states that

*“The accounting policies...shall apply in respect of pension costs arising from...the police and firefighters pension scheme...”*

5. The clear expectation from the SORP, and therefore from LASAAC, is that FRS 17 should be applied including all relevant revenue account and balance sheet entries.

6. While FRS 17 properly addresses accounting, there is from time to time, a tension between the application of accounting standards and the consequent impact upon local taxation or local compulsory levies. An example of this tension was identified by some commentators in 2003/4 with the application of FRS 17 to police and fire boards. The source of tension arose because of the continued treatment of some boards to maintain a cash backed provision under FRS 12 intended to address the future cash impact from commuted sums. The generally adopted view was that it was prudent to maintain this approach, an approach which was endorsed and recommended by the CIPFA Police Panel.

7. The tension can be further examined however when considering the following:

- that separate accounting under FRS 12, results in a double count of the pension liability (for which Audit Scotland recommended a corrective adjustment to the pension liability in 2003/4); and
- potential breach of the carry forward arrangements as prescribed by the Police and Fire Services (Finance) Act 2001 (The Act).

8. The practical consequence of applying FRS 17, and dispensing with an additional FRS 12 provision, is that:

- reversal of the provision would represent a change in accounting policy requiring a prior year adjustment and effectively increase the surplus brought forward to 2004/5;
- It would however continue be prudent to continue to provide for the forward cash impact of commuted sums. This should be effected by 'earmarking' part of the funding surplus.

9. The surplus could however be interpreted as being in excess of the amount prescribed for carry forward under the terms of the Act. It is appropriate to consider the terms of the Act

10. Section 1 of The Act states that in relation to police carry-forward

*"..the money carried forward..shall not exceed three per cent of the total of the money paid to the board by the constituent authorities.."*

11. The wording within the Act is different for combined fire brigade carry-forward and states that:

*"..the money carried forward..shall not exceed three per cent of the total of the contributions paid into the fund by the fire authorities.."*

12. The Act further prescribes an accumulated carry forward carried forward surplus subject to a "*maximum sum*". That maximum for both police and fire brigade carry forward is 5%

13. While it is not the role of LASAAC to place interpretation upon legislation, clearly in this instance it is essential to examine the inter-relationship between accounting, legislation and policy. The interpretation of LASAAC is that, despite this different wording, there is no intended difference in substance to the overall policy intention.

14. It is further understood that the reference in the Act to “the money paid to the board” is intended, inter alia, to fund what is generally referred to as revenue transactions for the financial year. The general and accepted interpretation of policy has been that this has properly included the commuted cost of pensions, although not in themselves representing a cash payment in the year.

15. LASAAC has considered this matter and it is the opinion of the Committee that a clear distinction can be made between the consequences of accounting and those which arise from funding.

16. Turning then to the matter of measurement against the prescribed percentage carry forward arrangements. The approach proposed by LASAAC is that accumulated surplus, after the application of FRS 17, and which would appear in the consolidated revenue account should not then be that surplus which is used to measure performance against the prescribed carry forward requirements. This should more properly be the accumulated surplus less any sums set aside for commuted sums (and included as an earmarked element of the funding surplus).

17. The rationale for this approach that previous practice enabled a sum, set aside as a provision, to be omitted from calculation against the prescribed limit(s). Setting aside that same sum however as an earmarked portion of a reserve would be included. Clearly this would result in inconsistency.

18. In summary, LASAAC would provide guidance as follows:

- that FRS 17 should be applied as per the terms of the SORP. For specific guidance on accounting entries, Boards should refer to LAAP Bulletin 56;
- that the forward cash impact of commuted sums should be accounted for by ‘earmarking’ part of the funding surplus; and
- that the relevant surplus when identifying ‘money carried forward’ (contributions in the case of fire boards) in order to measure performance against the prescribed carry forward amounts, is that which excludes the earmarked portion of the surplus for commuted sums.

19. This proposed accounting would, in the opinion of LASAAC, enable the proper application of the terms of the SORP whilst maintaining the integrity of the application of the Act.

20. Comments on this statement are welcomed and can be directed to LASAAC at 0131 718 2713 or be emailing LASAAC at [lasaac@cipfa.org](mailto:lasaac@cipfa.org)