

Accounting update

A guide to
FRS17
**‘Retirement
Benefits’**
for Registered Social Landlords

FRS 17 'Retirement Benefits'

Full adoption of FRS17 is required for accounting periods beginning on or after 1 January 2005 and affects those entities who participate in defined benefit pension schemes.

This is mainly going to affect those registered social landlords (RSLs) who participate in Local Government Pension Schemes. The actuaries of the Social Housing Pension Scheme (SHPS) have advised members that they are unable to separately identify the assets and liabilities relating to each employer and therefore this scheme will be accounted for as if it was a defined contribution scheme.

So what steps do you need to take to fully adopt FRS17 in the 2005/06 financial statements?

Step One

Liaise with your scheme actuary to make sure that they will be able to provide FRS17 figures in time for the audit. The actuary will 'roll-forward' the figures from the last full valuation to calculate the scheme surplus/deficit at the balance sheet date; this surplus/deficit will be affected by the assumptions adopted by the actuary.

Full adoption of FRS17 will bring this surplus/deficit onto the balance sheet. The movement from year to year will affect the income and expenditure account and the statement of total recognised surpluses and deficits (STRSD); it is therefore important to ensure that the assumptions adopted each year are reasonable.

As the FRS17 calculations roll forward the full funding valuation, it will also be important to understand the assumptions on which the full valuation was based, in particular mortality rates.

Step Two

The next step is to restate the 2004/05 financial statement comparatives as if FRS17 had always applied using the disclosure included in the pension notes.

You will also need to unwind any amounts in the accounts relating to pension costs that have been accounted for under SSAP24 'Pension Costs'.

Example A:

Extract from pension scheme note in the 2004/05 financial statements:

Movement in surplus during the year 2005

	£'000
(Deficit)/surplus in scheme at 1 April 2004	(558)
Service cost	(92)
Contributions *	33
Other finance (costs)/income	(15)
Actuarial gains/(losses)	153
(Deficit)/surplus in scheme at 31 March 2005	<u>(479)</u>

Restate the opening 2004/05 balance sheet revenue reserves by recognising the pension liability at 1 April 2004:

	£'000	£'000
Dr Revenue reserves (B/S)	558	
Cr Pension liability (B/S)		558

Then account for the movement in the liability in the year:

	£'000	£'000
Dr Pension costs - service cost (I&E)	92	
Cr Pension costs - contributions (I&E)		33
Dr Other finance costs (I&E)	15	
Dr Pension liability (558 less 479) (B/S)	79	
Cr Revenue reserve (actuarial gain)(B/S)		153

* Note: For simplicity our examples assume the SSAP24 amount posted to the Income and Expenditure Account to be equal to the contributions paid and that there are no Balance Sheet amounts.

Assets and liabilities are only recognised to the extent that they can be recovered or must be made good. Therefore, the pension asset/liability in the balance sheet may not equal the surplus/deficit in the scheme.

A pension liability should be recognised where there is a legal or constructive obligation to make good a deficit in the defined benefit scheme. A pension liability is disclosed before capital and reserves in the bottom half of the RSL balance sheet format.

A pension asset should be recognised only to the extent that the scheme surplus can be recovered. This may be through either reduced contributions in the future or refunds. If the scheme surplus can be partially recovered then that part of the surplus should be recognised as an asset. A pension asset is disclosed after net current assets/liabilities in the top half of the RSL balance sheet format.

Deferred tax relating to the defined benefit asset or liability should be offset against the defined benefit asset or liability and not included within other deferred tax assets or liabilities.

Where the pension asset or liability in the balance sheet differs from the scheme surplus or deficit (due to related deferred tax balances or partial recognition of a scheme surplus or deficit) then an explanation of the difference should be given.

Where you have more than one scheme, the total of any defined benefit assets and the total of any defined benefit liabilities should be shown separately on the face of the balance sheet.

Step Three

The next step, on receipt of the FRS17 information from the actuaries for 2005/06, is to post journals to recognise the movement in the pension asset/liability during the year:

Example B:

Extract from 2005/06 FRS17 information:

Movement in surplus during the year		£'000
(Deficit)/surplus in scheme at 1 April 2005		(479)
Service cost		(92)
Contributions		30
Other finance (costs)/income		(37)
Actuarial gains/(losses)		<u>(6)</u>
(Deficit)/surplus in scheme at 31 March 2006		<u>(584)</u>

Account for the movement in the liability in the year:

	£'000	£'000
Dr Pension costs - service cost (I&E)	92	
Cr Pension costs - contributions (I&E)		30
Dr Other finance costs (I&E)	37	
Cr Pension liability (479 less 584) (B/S)		105
Dr Revenue reserve (actuarial loss) (B/S)	6	

The impact of the above adjustments on the Income and Expenditure Account, Statement of Total Recognised Surpluses and Deficits, Reconciliation of Movement in Capital and Reserves and Balance Sheet is shown in example C. Those additional lines required as a result of FRS17 are highlighted in red.

Example C:

	Pre- FRS17 journals £'000	2006 FRS17 journals £'000	Post- FRS17 journals £'000	As previously stated £'000	2005 Prior year adjustment £'000	As restated £'000
INCOME AND EXPENDITURE ACCOUNT						
Turnover	70,000		70,000	67,000		67,000
Operating costs	(57,000)	(62)	(57,062)	(55,000)	(59)	(55,059)
Operating surplus	13,000		12,938	12,000		11,941
Surplus on sale of properties	400		400	200		200
Interest receivable	300		300	200		200
Interest payable	(5,700)		(5,700)	(5,500)		(5,500)
Other finance income/(costs)	-	(37)	(37)	-	(15)	(15)
Surplus for the year	8,000		7,901	6,900		6,826
STATEMENT OF TOTAL RECOGNISED SURPLUSES AND DEFICITS						
Reported surplus on ordinary activities	8,000	(99)	7,901	6,900	(74)	6,826
Actuarial gain/(loss) on pension schemes	-	(6)	(6)	-	153	153
Unrealised surplus on revaluation of housing properties	10,000		10,000	10,000		10,000
Total recognised surpluses for the year	18,000		17,895	16,900		16,979
Prior year adjustment	-	(479)	(479)			
Total surpluses and deficits recognised since the last annual report	18,000		17,416			
RECONCILIATION OF MOVEMENT IN CAPITAL AND RESERVES						
Reported surplus on ordinary activities	8,000	(99)	7,901	6,900	(74)	6,826
Actuarial gain recognised in STRSD	-	(6)	(6)	-	153	153
Other surpluses and deficits	10,000		10,000	10,000		10,000
Net additions to reserves	18,000		17,895	16,900		16,979
Opening capital and reserves	243,221		243,221	226,800	(558)	226,242
Closing capital and reserves	261,221		261,116	243,700		243,221
BALANCE SHEET						
Tangible fixed assets						
Housing properties at valuation	275,000		275,000	260,000		260,000
Other fixed assets	3,000		3,000	2,400		2,400
	278,000		278,000	262,400		262,400
Current assets						
Debtors	6,500		6,500	5,600		5,600
Cash	4,000		4,000	2,800		2,800
	10,500		10,500	8,400		8,400
Creditors: amounts falling due within one year	(26,800)		(26,800)	(27,100)		(27,100)
Net current liabilities	(16,300)		(16,300)	(18,700)		(18,700)
Pension asset	-		-	-		-
Total assets less current liabilities	261,700		261,700	243,700		243,700
Pension liability	479	105	584	-	479	479
Capital and reserves						
Revaluation reserve	169,500		169,500	160,000		160,000
Revenue reserve	91,721	(105)	91,616	83,700	(479)	83,221
Total	261,221		261,116	243,700		243,221
	261,700		261,700	243,700		243,700

Disclosures

You will need to analyse and disclose the prior year adjustment in the notes to the 2005/06 financial statements. Suggested disclosure formats are given below:

Reserves	Revenue	Revaluation	Total
	Reserve	Reserve	
	£'000	£'000	
At 1 April 2005 as previously stated	83,700	160,000	243,700
Prior year adjustment (note x)	(479)	–	(479)
At 1 April 2005 as restated	83,221	160,000	243,221
Transfers	500	(500)	–
Surplus in the year	7,901	–	7,901
Other gains	–	10,000	10,000
Actuarial gain/(loss) on pension scheme asset/liability	(6)	–	(6)
Reserves at 31 March 2006	91,616	169,500	261,116

Prior year adjustment

The prior year adjustment relates to the first time adoption of FRS17 'Retirement Benefits'. The adoption of FRS17 has resulted in an increase in staff costs of £62,000 (2005: £59,000) and other finance costs of £37,000 (2005: £15,000), a decrease in surplus for the year of £99,000 (2005: £74,000) and a decrease in the total recognised surpluses and deficits of £584,000 (2005: increase of £79,000).

Analysis of prior year adjustment

Adjustment to opening reserves at 1 April 2004	£'000
Adjustment to income and expenditure for the year ended 31 March 2005	(558)
Adjustment to statement of total recognised surpluses and deficits for the year ended 31 March 2005	(74)
Total prior year adjustment	<u>153</u>
The net adjustment of £479,000 is disclosed on the face of the Statement of Total Recognised Surpluses and Deficits	<u>(479)</u>

The notes to the accounts must also distinguish reserves relating to the pension asset/liability net of any related deferred tax.

Revenue reserve	2006	2005
	£'000	(restated) £'000
Revenue reserve excluding pensions asset/liability	92,200	83,700
Pension asset	–	–
Pension liability	(584)	(479)
Revenue reserve	91,616	83,221

You will also need to update your accounting policies relating to pensions to reflect the full adoption of FRS17 and disclose the first time adoption and the restatement of prior year comparatives in the basis of accounting note.

An example is provided below.

Pension costs

The Association has fully adopted accounting standard FRS17 'Retirement Benefits' during the year. The impact of this standard has been reflected throughout the financial statements. Prior year comparatives have been restated where appropriate.

The difference between the fair value of the assets held in the Association's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the Association's balance sheet as a pension scheme asset or liability as appropriate.

The carrying value of any resulting pension scheme asset is restricted to the extent that the Association is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme. The pension scheme balance is recognised net of any related deferred tax balance.

Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contribution by the Association are charged to the Income and Expenditure account or the statement of total recognised surpluses and deficits in accordance with FRS 17 'Retirement Benefits'.

If you would like to benefit from our services and experience in the RSL sector, please call your local specialist partner:

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