The Financial Reporting of Pensions: The Questions

This document is provided for the convenience of those preparing comments. It sets out the questions that are highlighted in the Summary and Invitation to Comment so that they may be easily copied into a comment letter. It is not intended to serve as a template.

Whilst comments on these questions would be particularly welcome, comments are welcome on any aspect of the views expressed in the paper.

Comments are invited by 14 July 2008. They may be sent, preferably by e-mail to:

asbcommentletters@frc-asb.org.uk or commentletter@efrag.org

The following comments are submitted on behalf of the College Finance Directors' Group ('CFDG')

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1 July 2008
Reply to: Smith.m@runshaw.ac.uk

Further Education ('FE') Colleges in England are independent charitable corporations. Apart from the special designated institutions, colleges were incorporated by the Further and Higher Education Act 1992. They have governing bodies appointed under a standard set of Instruments and Articles, determined by the Department for Innovation, Universities and Skills.

College governing bodies and their principals as accounting officers have a duty to ensure that financial statements are prepared in accordance with accounting standards. The Statement of Recommended Practice for further and higher education (FE/HE SORP) explains how accounting standards apply to colleges.

The CFDG is a voluntary organisation representing finance directors of all FE colleges in England. It operates on a regional and national basis, organising meetings and dealing with technical issues facing college finance directors.

There are over 370 FE colleges in England. They are the largest providers of post-16 general and vocational education and training, serving over four million learners. The FE colleges sector has an income of £6.6bn and staff costs of £4.4bn for over 143,000 full-time equivalent employees. 53% of these staff numbers are teachers but 59% of pay costs

(£2.6bn) are for teaching staff, who are mainly members of the Teachers' Pension Scheme, an unfunded state sponsored defined benefit multi-employer scheme (see Q16 below).

At present, about 7% of colleges are unable to include FRS17 adjustments because their employees are members of defined benefit multi-employer pension schemes that are unable to provide FRS17 data for individual employers (see Q13 below). The remaining 93% of Colleges include FRS17 adjustments for the 47% of their workforce that are members of pension schemes that can provide FRS17 data for each employer. The reported FRS17 deficit for the FE colleges sector on this basis was £0.7bn at 31 July 2007.

Given that the above FRS17 deficit only applies to a minority of the FE colleges sector's workforce, because it takes no account of the membership of the Teachers' Pension Scheme and not all colleges are able to obtain FRS17 data for their non-teaching staff who are in multi-employer schemes, the CFDG has concerns that FRS17 as applied to FE colleges provides incomplete information for stakeholders and results in incomparability between FE colleges.

Many college governing bodies and finance directors place limited importance on the FRS17 data as these have shown significant annual fluctuations and colleges have little control over or input to the data. The reliability and methodology used to compile the FRS17 data is not fully supported by many colleges, which creates a position whereby the figures are effectively ignored by college management and governing bodies.

The estimated annual cost to the FE colleges sector of obtaining FRS17 data from scheme actuaries or managers is over £300,000. Any changes to FRS17 should ensure that the cost of collecting the data is kept to a minimum.

Q13 Do you agree that multi-employer plans should be reflected in an employer's financial statements using the same principles as those that apply to a single employer plan? How, in your view, should an accounting standard require that this be implemented in practice?

FE colleges are members of numerous Local Government Pension Schemes (LGPS) throughout the country. The adoption of FRS17 has led to a loss of comparability between colleges, as different accounting treatments are adopted according to the nature of the pension schemes.

CFGD supports the principle of applying an approach to accounting for pensions which results in improved comparability. However, we have concerns about the proposed method of identifying an individual employer's share of a pension scheme based on the employer's active member contributions.

Even in some multi-employer schemes where the share of participating employers' liabilities are segregated so they can be directly attributed to individual employers (such as with many LGPS), the validity of the FRS17 data could be challenged. The actuarial basis of LGPS valuations is often uniform across the whole scheme rather than reflecting individual circumstances of the particular employer's scheme members. Similarly, the assets of multi-employer schemes are often pooled and not matched to the individual pension liabilities of participating employers. However, a case could be made that the resultant FRS17 estimates are broadly reliable. We believe the same could not be said for the proposed method of attributing multi-employer scheme assets/liabilities to individual employers.

As well as our concerns about the reliability of the pension's estimates, there are practical and cost issues. The assumptions made for reporting pension liabilities should be those of the employer. Schemes with numerous participating employers will have to produce multiple versions of FRS17 data. This is likely to result in higher costs of producing the data and difficulty in ensuring it is available in time for inclusion in audited financial statements.

We can see no alternative method that would produce a more reliable estimate in such circumstances.

Q16 Are there types of pension arrangements that require further consideration? Please identify the specific features of these arrangements and suggest how the principles of this paper would require development to secure appropriate financial reporting for them.

The discussion paper does not cover unfunded state sponsored defined benefit multi-employer schemes, such as the Teacher's Pension Scheme. This is the main scheme for the majority of FE college employees.

This means that FE college financial statements only reflect a minority of their pension liability exposure, producing what in our view is an incomplete and therefore misleading result and state of affairs.

We believe that further consideration is needed for these large multi-employer unfunded schemes.