FRS 102 Adjustments in the Financial Statements for 2015/16 – Pension Deficit Provision

Prior to FRS 102 taking effect for the financial year ending 31 July 2016, the Union's pension costs were accounted for under FRS 17. As a member of two multi-employer defined benefit pension schemes (USS and SAUL) that are not under common control and do not provide employer organisations with the information they require to use defined benefit accounting, FRS 17 requires that employers account for these plans as defined contribution plans. Consequently, it does not require employers to recognise any liability for the pension contributions payable, which arise from these arrangements.

Under FRS 102, the accounting requirements effectively remain the same, except that employers are now required to recognise a liability for that portion of the pension contributions payable that relate to the schemes' deficit funding plans. While employer contributions payable into the schemes are part of a deficit recovery plan, and include a deficit contribution element, FRS 102 requires this element to be accounted for differently, because unlike that portion of employer contributions that are paid in lieu of past service, the deficit is a future liability, the present value of which is affected by a set number of variables, which are specific to each employer.

The effect of FRS 102 is place the responsibility for measuring the present value of the future deficit liability back with the employer, thereby moving the Union's full pension deficit liabilities (USS and SAUL) onto the Balance Sheet for the first time. In the case of the USS scheme, the deficit liability predates the financial year in which it is first recognised, 2015/16. For this reason, the financial impact of its coming onto the Balance Sheet is recognised as a prior year adjustment to the opening reserves for the year. In the case of the SAUL scheme, the deficit liability arises for the first time at the start of the 2015/16 financial year, and therefore the financial impact of its coming onto the Balance Sheet is fully reflected in the pension deficit expense for the year.

The methodology for calculating the deficit liability has been provided to the College by USS, and has been adapted by the Union to reflect its own parameters and assumptions – these are presented under Appendix 1.0. Under the methodology, the present value of the current year and all future year contributions to each of the two deficit recovery plans (up to 31/03/2031 in the case of USS, and up to 31/03/2018 in the case of SAUL) is calculated, and this value becomes the amount of the provision.

Going forward, the provision will be adjusted annually to reflect the following factors:

- An increase in line with the assumed discount factor, to recognise the time value of money
- A reduction to reflect the deficit element of the employer pension contributions actually paid
- Increase/decrease to reflect any change in expected contributions*

* Captured through any change in parameters.

All movements between the opening and closing provisions in a financial year are taken as an adjustment to expenses in the Statement of Financial Activities (as part of Support Costs). In the Union's financial statements for 2015/16, the total expense for the year is £88,190, which is comprised as follows:

Movements in Deficit Provision as at 31.07.2016	**TOTAL**	**USS**	**SAUL**
Change in expected contributions*	£98,060	£49,831	£48,228
Interest charge	£2,093	£2,093	-
Deficit contributions paid	(£11,963)	(3,973)	(7,990)
Total Movement / Expense	**£88,190**	**£47,952**	**£40,238**

* The change in expected contributions for SAUL is effectively the creation of the provision for the first time at 31 July 2016; and for USS it is the impact on the provision of changes in the Union's assumptions used between 2014/15 and 2015/16 (specifically, the discount rate and projected salary and staff changes).

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Finance Manager

Appendix 1.0 – Parameters and Assumptions

Parameters	**USS**	**SAUL**
Accounting Period End	31 July 2016	31 July 2016
Discount Rate*	2.67%	1.24%
Total Employer Contributions	£50,933	£111,860

* The Union has adopted the same discount rate as the College as at 25 August 2016, based on guidance issued by the British Universities Finance Directors Group (BUFDG). The College has since updated its discount rate, based on new guidance issued that month, reflecting current market conditions.

Assumptions	**USS**		**SAUL**	
Year	Salary inflation	Staff changes	Salary inflation	Staff changes
2017	1.6%	-	1.6%	-
2018	2.1%	16.7%	2.1%	-
2019	2.3%	-		
2020	2.0%	-		
2021	2.0%	14.3%		
2022	2.0%	-		
2023	2.0%	-		
2024	2.0%	12.5%		
2025	2.0%	-		
2026	2.0%	-		
2027	2.0%	11.1%		
2028	2.0%	-		
2029	2.0%	-		
2030	2.0%	-		
2031	2.0%	-		