

Changes to example pension fund accounts for 2015/16

Peter Worth
Worth Technical Accounting Solutions



4 main changes.....

- ✓ New *Management Expenses* line in Fund Accounts, with supporting disclosure notes
- ✓ Note 14: *Analysis of investments* now includes all investments and reconciles to Net Assets Statement
- ✓ Note 16: *Fair value of financial instruments* has been deleted
- ✓ Note 23: *Agency services* has been added as a memorandum disclosure

Management Expenses

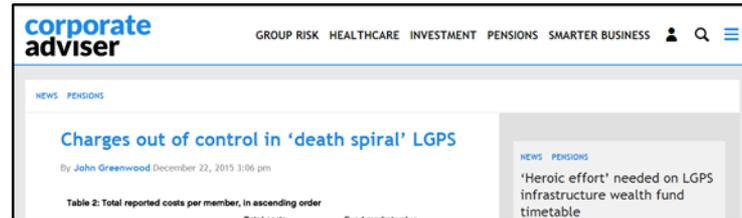
- The need for consistency
- 2015/16 disclosure requirements
- Future changes



The need for consistency

The cost of administering LGPS has come under scrutiny with commentators suggesting:

- funds do not provide value for money
- costs could be reduced through structural change and further reductions to benefits



Inconsistent financial reporting is leading to poorly informed decisions about the future of the LGPS

CIPFA Guidance on management costs

Published 2014 to promote transparency and consistency

New disclosure requirements:

- Oversight and governance costs separately identified
- Management expenses line in Fund Account includes **all** administration, governance and investment costs
- Additional disclosure notes analysing these 3 cost elements

Emphasises existing Code requirements

- Investment costs reported gross (**no** netting off against income)
- Investment costs should **not** be capitalised as part of investment value

Impact of implementing the Guidance

Implementing the guidance should:

- **INCREASE** management costs and
- **INCREASE** net return on investments

with **NO CHANGE** to the movement on the Fund overall

Pension funds implementing the guidance in 2014/15 reported on average a 29% increase each way

2014/15		Notes	2015/16
£000	Dealings with members, employers and others directly involved in the fund		£000
(19,229)	Contributions	7	(216,476)
(34,464)	Transfers in from other pension funds	8	(25,238)
(227,693)			(241,714)
226,858	Benefits	9	232,580
23,536	Payments to and on account of leavers	10	48896
22,701			39,762
14,008	Management expenses	11	13,270
8,693			26,492
	Returns on investments		
(39,167)	Investment income	12	(52,660)
604	Taxes on income	13	773
(820,896)	Profit and loss on disposal of investments and changes in the market value of investments	14a	(300,444)
(859,459)	Net return on investments		(352,331)
(822,750)	Net (increase)/decrease in the net assets available for benefits during the year		(299,999)
(3,375,060)	Opening net assets of the scheme		(4,197,810)
(4,197,810)	Closing net assets of the scheme		(4497,109)

Net Assets Statement – NO CHANGE

2014/15		Notes	2015/16
£000			£000
4,103,035	Investment Assets	14	4,403,074
108,959	Cash deposits	14	12,850
4,214,994			4,415,924
(35,360)	Investment liabilities	14	(11,051)
(609)	Borrowings		(436)
36,482	Current Assets	20	104,178
(15,057)	Current liabilities	21	(11,506)
4,197,810	Net assets of the Fund available to fund benefits at the period end		4,497,109

Additional disclosure note requirements

Note 11: Management expenses

20X4/X5	20X5/X6
£000	£000
3,948 Administration expenses	4,248
9,665 Investment management expenses (see Note 11a)	8,137
845 Oversight and governance costs	885
14,008	13,270

Year 1 compliance

2014/15 LGPS accounts:

% number

52	51 Funds amended their accounts to comply with the guidance
16	16 Funds made changes but did not fully meet guidance requirements
32	31 Funds did not adopt the guidance
<u>100</u>	<u>98</u>

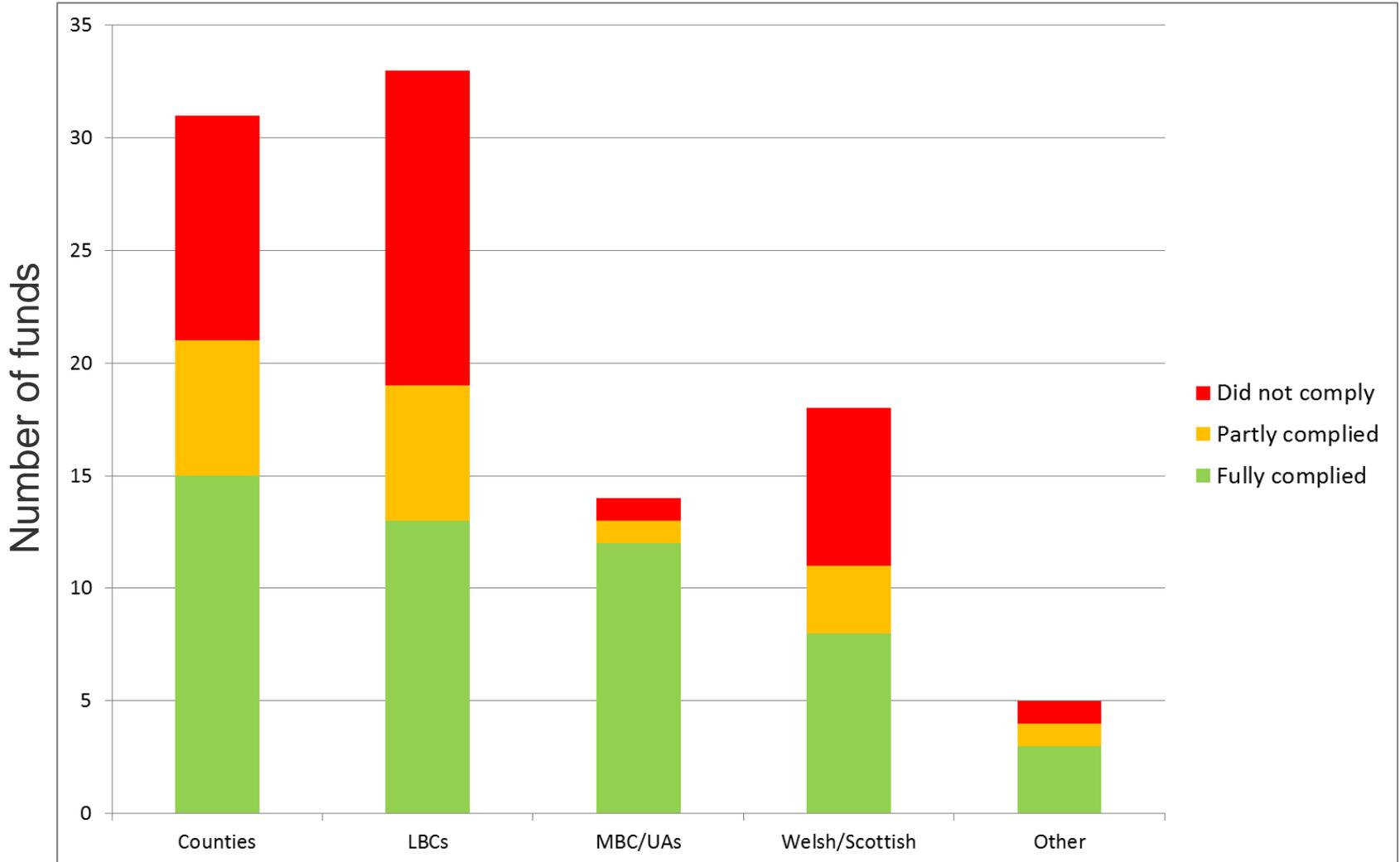
Out of the 52 sets of accounts re-presented to comply with the guidance

% number

51	26 complied with all aspects of the guidance
49	25 complied with some aspects of the guidance only
<u>100</u>	<u>51</u>

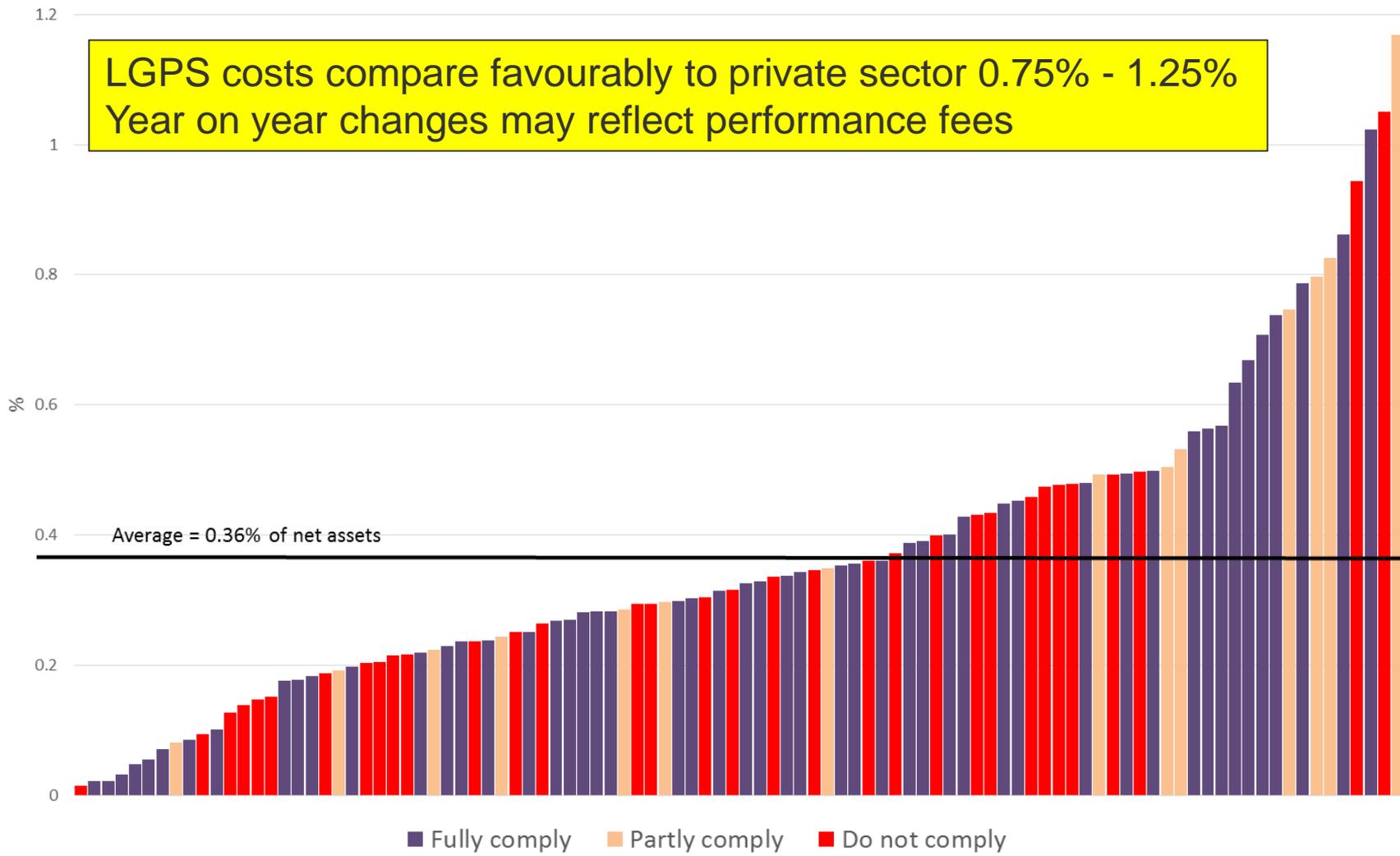
So 68% of practitioners have made changes as a result of the guidance but only 26% have fully complied to date

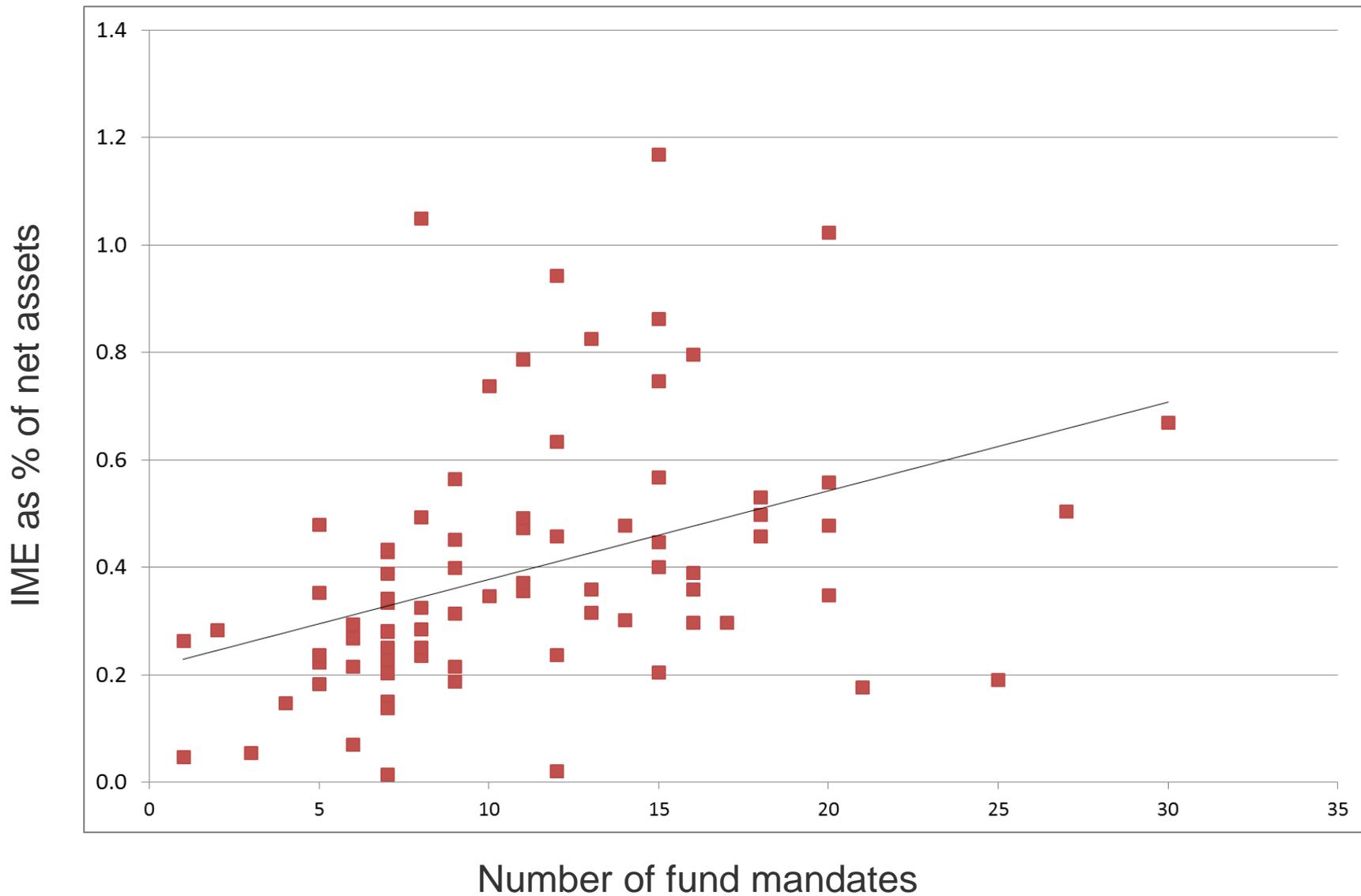
Compliance by sector – 2014/15



Investment Management Expenses as a %age of Net Assets

LGPS costs compare favourably to private sector 0.75% - 1.25%
 Year on year changes may reflect performance fees





Lessons learned from Year 1

- Disclosures on administration, governance and investment costs varied from little or no disclosure through to very detailed analysis
- Administration and governance costs are not significant for most funds - 85% of costs relate to investment management
- Stakeholders are keen to have transaction costs shown separately from investment management costs

2016 Draft Guidance

- Guidance has been updated to address these issues and to provide more detailed examples/guidance for practitioners
- Currently out for consultation with practitioners and stakeholders
- Proposed content will be considered further in this afternoon's "horizon scanning" session

Other changes

- Investments analysis
- Financial Instrument disclosures
- Agency accounting



Note 14 – analysis of investments

2014/15		Notes	2015/16
	Investment Assets		
330,390	Fixed Interest Securities		416,672
1,080,286	Equities		1,183,056
1,947,004	Pooled investments		2,022,516
343,132	Private Equity		420,480
364,001	Property	15d	340,239
16,541	Derivative contracts (analysis as below)		9,762
108,959	Cash deposits		12,850
0	Investment income due		7,608
21,681	Amounts receivable for sales		2,741
4,211,994	Total investment assets		4,415,924
	Investment liabilities		
(160)	Derivative contracts: Futures		(1,348)
(32,606)	Forward currency contracts		(6,883)
(469)	Options		(164)
(2,125)	Amounts payable for purchases		(2,656)
(35,360)	Total investment liabilities		(11,051)
4,176,634	Net investment assets		4,404,873

Should = total investment assets less investment liabilities in Net Asset Statement

Derivative contracts:
Futures
Forward currency contracts
Options

4,176,634

4,404,873

Financial Instruments – note 16

Pension Fund investments are revalued every year with the change in value taken to the Fund Account



Current assets and liabilities are valued at amortised cost – outside scope of IFRS 13



All pension fund investments including directly held property are carried in the Net Asset Statement at Fair Value



No difference between “carrying value” and “fair value” for most LGPS assets and liabilities



No disclosure requirement

Fair value of Financial Instruments

2013/14			2014/15	
<i>Carrying Value</i>	<i>Fair value</i>		<i>Carrying Value</i>	<i>Fair value</i>
		Financial assets		
3,723,988	3,723,988	Fair value through Profit & Loss	4,052,486	4,052,486
145,801	145,801	Loans and receivables	127,377	127,377
3,869,789	3,869,789	Total financial assets	4,179,863	4,179,863
		Financial liabilities		
(20,923)	(20,923)	Fair value through Profit & Loss	(11,051)	(11,051)
(15,057)	(15,057)	Financial liabilities at amortised cost	(11,942)	(11,942)
(35,980)	(35,980)	Total financial liabilities	(22,993)	(22,993)

Note no longer required

BUT disclosure by asset category **IS** still required.....

	Designated as fair value through P&L £'000s	Loans & receivables £'000s	Financial liabilities at amortised cost £'000s
Financial assets			
Fixed interest securities	416,672		
Equities	1,183,056		
Pooled investments	2,022,516		
Private equity	420,480		
Derivative contracts	9,762		
Cash		12,850	
Other investment balances		10,349	
Debtors		104,178	
	4,052,486	127,377	0
Financial liabilities			
Derivative contracts	(11,051)		
Other investment balances			
Creditors			(11,506)
Borrowings			(436)
	(11,051)	0	(11,942)
Total	4,041,435	127,377	(11,942)

Total
£4,156,870

Carrying value should be fair value in most cases

Directly held property is not a financial instrument so excluded from FI disclosures

Otherwise, analysis should agree to Net Asset Statement

...also the analysis of pricing hierarchies for assets carried at fair value

	Quoted market price	Using observable inputs	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets				
Fair value through P&L	1,599,728	2,022,516	430,242	4,052,486
Loans and receivables		127,377		127,377
Financial Liabilities				
Fair value through P&L		(11,051)		(11,051)
At amortised cost		(11,942)		(11,942)
	1,599,728	2,126,900	430,242	4,156,870

Should reconcile to :

- Net Asset Statement
- Note 14 analysis by asset category



Plus property
£340,239
=£4,497,109

Agency accounting

In 2010/11 the Code adopted the principle of agency accounting:

- Each organisation accounts for its own transactions even if a 3rd party is undertaking services or collecting money on its behalf
- Income collected/expenditure incurred on behalf of a third party is excluded from the “agent’s” accounts

Some pension funds provide payroll or pensions administration services for 3rd parties on an agency basis so an additional disclosure on agency services has been added as a memorandum note

Agency Accounting – example disclosure note

The Ellebeau Pension Fund pays discretionary awards to the former employees of Somewhere and Elsewhere district councils. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed below.

2014/15		2015/16
£000		£000
302	Payments on behalf of Somewhere District Council	387
427	Payments on behalf of Elsewhere district council	503
729	Total	890

Any questions?

