

## Preparing Local Government Pension Fund accounts and annual reports

2018/19

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### What we're going to cover today

- Setting the scene
- The Fund Account
- Net Assets Statement
- Financial Instruments
- Other disclosure notes
- Annual reports



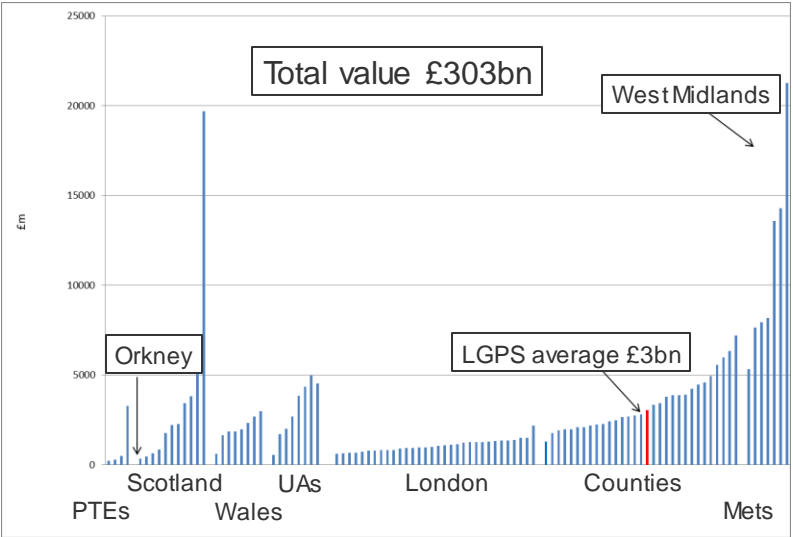
Setting the scene

- Overview of LGPS in England, Wales and Scotland
- Key information flows
- Financial Reporting Framework
- 2018/19 Code changes affecting LGPS



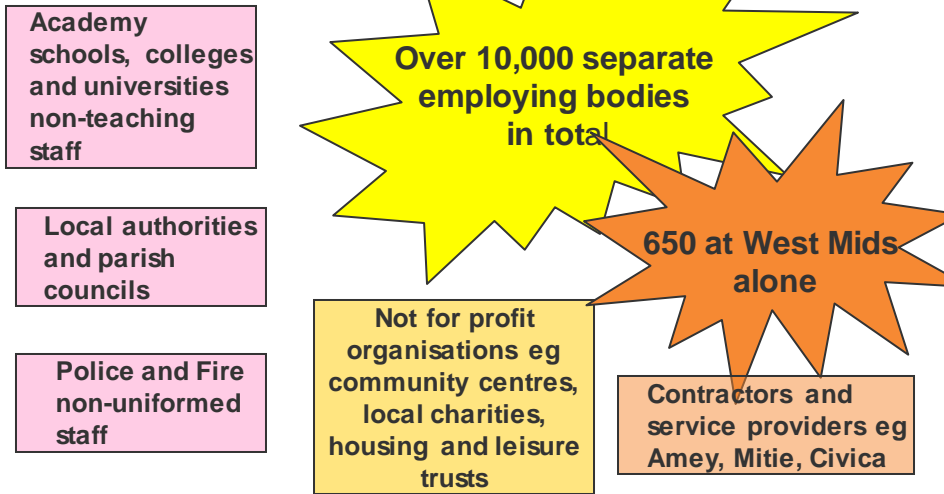
2 schemes, 102 Funds

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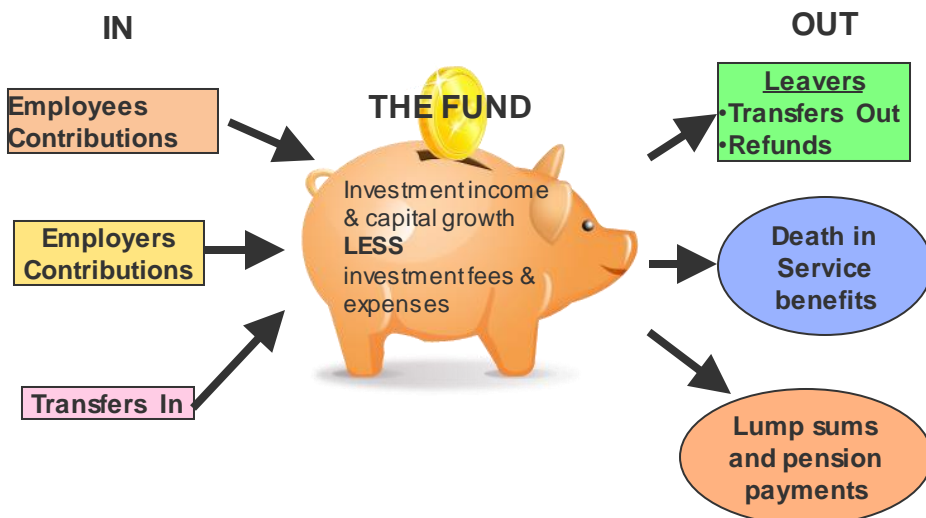


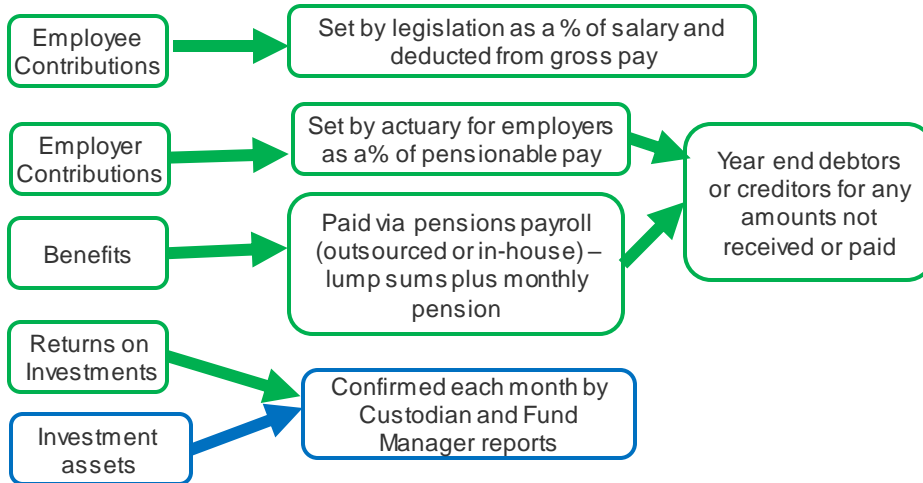
Source: LGPS audited accounts 2016/17

## Employer profile



## LGPS overview - cash flows





## Internal controls report

Report on internal controls in place at service organisations eg custodians, fund managers, outsourced services

- Produced by external or internal auditor for 3<sup>rd</sup> parties
- Report sets out work done, period covered and results

Review exceptions raised:

- Do these need reporting to the Pensions Panel or including in the Governance Compliance Statement?
- Is additional work required to confirm assertions in the accounts?



## Financial reporting framework

- Accounts must be prepared in line with the **current** version of the CIPFA Code of Practice ("the Code")
- Based on International Accounting Standards **BUT**
- adapted to reflect LGPS Regulations and other specific requirements for local government /LGPS
- Accounts are **NOT** based on the Pension SoRP, which is prepared under UK GAAP



## 2018/19 Code and LGPS example accounts

LGPS example accounts, including disclosure and consistency checklist, have now been published and are available from CIPFA website



## 2018/19 Code changes affecting pension funds

- IFRS 9 implementation (Code Chapter 7)
- Separate disclosure of gains and losses from derecognition of assets at amortised cost (para 7.3.2.14)
- Move away from “prescriptive” accounting policies (para 3.4.2.87)
- Deletion of the analyses of debtors and creditors across public sector bodies (paras 5.2.6.3 and 8.1.6.2)

### The Fund Account – Dealings with Members

- Contributions due
- Benefits payable
- Transfers in and out
- Refunds
- Pension Strain
- Funding level disclosures



## The Fund Account

2017/18 £000		Notes	2018/19 £000
<b>Dealings with members, employers and others directly involved in the fund</b>			
(193,229)	Contributions	7	(215,976)
(34,464)	Transfers in from other pension funds	8	(25,238)
<b>(227,693)</b>			<b>(241,214)</b>
226,858	Benefits	9	232,580
23,536	Payments to and on account of leavers	10	48,896
<b>250,394</b>			<b>281,476</b>
<b>22,701</b>	Net (additions)/withdrawals from dealings with members		<b>40,262</b>
14,008	Management expenses	11	13,270
<b>36,709</b>	Net additions/withdrawals including fund management expenses		<b>53,532</b>
<b>Returns on investments</b>			
(39,167)	Investment income	12	(52,660)
604	Taxes on income		773
(820,896)	Profit and losses on disposal of investments and changes in the value of investments	14A	(300,444)
<b>(859,459)</b>	Net return on investments		<b>(852,331)</b>
<b>(822,750)</b>	Net (increase)/decrease in the net assets available for benefits during the year		<b>(298,799)</b>
(3,375,060)	Opening net assets of the scheme		(4,197,810)
<b>(4,197,810)</b>	Closing net assets of the scheme		<b>(4,496,609)</b>

## Contributions receivable

### Employers' contributions – should include

- Normal (% of gross salary paybill)
- Augmentation
- Deficit funding



### Employees' contributions

- Banded rates depending on salary
- Include added years Additional Voluntary Contributions only

**Include in Fund Account :Added years AVCs**

**Exclude from Fund Account: money purchase AVCs(memorandum disclosure note)**

### Pensions

- pension entitlement depends on when you joined
- payable monthly following date of retirement
- usual PAYE rules apply

### Lump sums on retirement

- usually tax free
- may be called "retirement grant"
- part of pension may be commuted into lump sum

### Death benefits

- may be called "death grant" – also tax free
- remember survivors' pension entitlement

! Accounting is always based on actual date of retirement or death

! Keep abreast of who is in which scheme and what their entitlements are

### CONTRIBUTIONS

**NOTE 7: CONTRIBUTIONS RECEIVABLE<sup>25</sup>**

By category		2017/18	2018/19
		£000	£000
41,819	Employers' contributions		54,798
	Employers' contributions:		
101,750	Normal contributions		105,600
46,650	Deficit recovery contributions		50,525
3,019	Augmentation contributions		5,043
151,419	<b>Total employers' contributions</b>		161,268
193,229	<b>Total contributions receivable</b>		215,976

**By type of employer**

	2017/18	2018/19
	£000	£000
60,306	Administering authority	61,804
81,457	Scheduled bodies	86,572
51,466	Admitted bodies	67,600
193,229		215,976

### BENEFITS

**NOTE 9: BENEFITS PAYABLE<sup>27</sup>**

By category		2017/18	2018/19
		£000	£000
185,417	Pensions		189,193
38,864	Commutation and lump sum retirement benefits		38,625
2,577	Lump sum death benefits		4,762
226,858			232,580

**By type of employer**

	2017/18	2018/19
	£000	£000
80,511	Administering authority	80,286
101,186	Scheduled bodies	109,186
45,161	Admitted bodies	43,108
226,858		232,580



## Termination Benefits

Employing bodies seeking to reduce staffing levels have a variety of options available:

**Discretionary Benefits – paid by the employer NOT the pension fund**

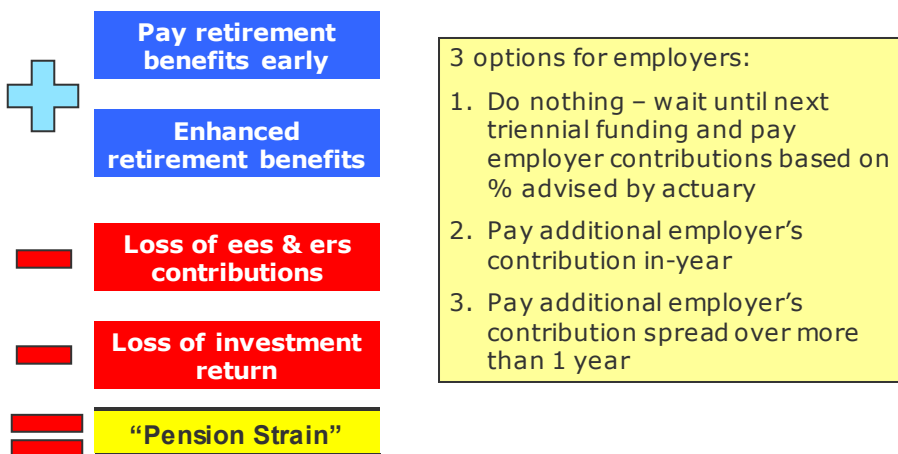
- Increased redundancy payments (but statutory limits apply)
- Discretionary compensation (up to 2 years pay)

**Early termination of employment – paid for by pension fund BUT causes strain on the fund**

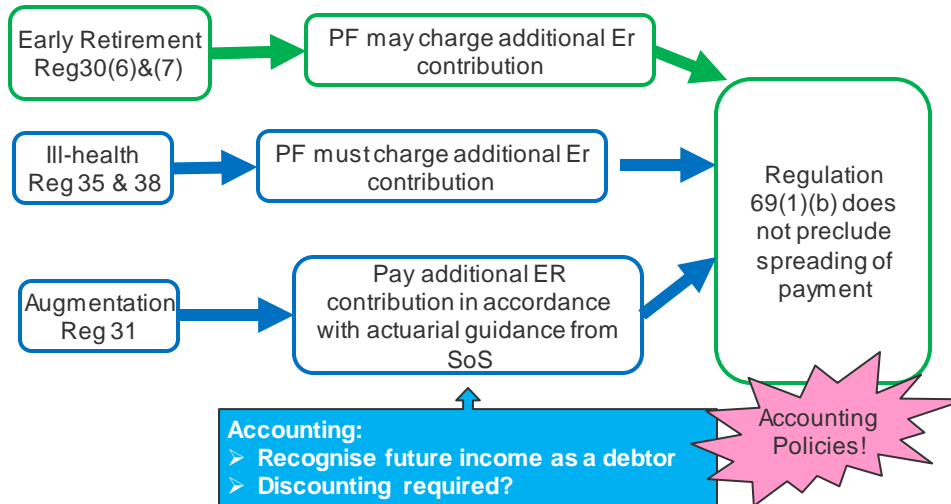
- Flexible retirement post 55 years old (pension abated)
- 55+ on grounds of business efficiency
- Ill health retirement

**Where employee is receiving “packaged” termination benefits ensure payment is split and correctly accounted for**

## Pension fund strain - what is it?



## When are additional ER contributions payable?



## Disclosure requirements

### Triennial funding assessment:

At the 2016 actuarial valuation, the Fund was assessed as 91% funded (86% at the March 2013 valuation). This corresponded to a deficit of £480m (2013 valuation: £487m) at that time. Contribution increases will be phased in over the three-year period ending 31 March 2020 for both scheme employers and admitted bodies. The primary contribution rate (i.e. the rate which all employers in the Fund pay) is as follows.

Year	Employers' contribution rate
2016/17	14.1%
2017/18	14.7%
2018/19	15.3%
2019/20	16.1%

### IAS 19 valuation:

31 March 2018		31 March 2019
£000		£000
(4,564)	Present value of promised retirement benefits	(4,965)
4,198	Fair value of scheme assets (bid value)	4,497
<b>(366)</b>	<b>Net Liability</b>	<b>(468)</b>

Also disclose key assumptions and discount rates used for each valuation

	Individual	Bulk
Example	Employee transfers to another LGPS employer	Group of employees transferring to another body eg LSVT or leisure trust
Accounting	Cash	Accrual
Valuation	Standard formula	Actuarial valuation

**NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS<sup>26</sup>**

2017/18		2018/19
£000		£000
6,457	Group transfers	516
28,007	Individual transfers	24,722
<b>34,464</b>		<b>25,238</b>

Disclose accounting policy + basis of material estimates and valuations

Include:

- Refund of contributions
- Purchase of annuities

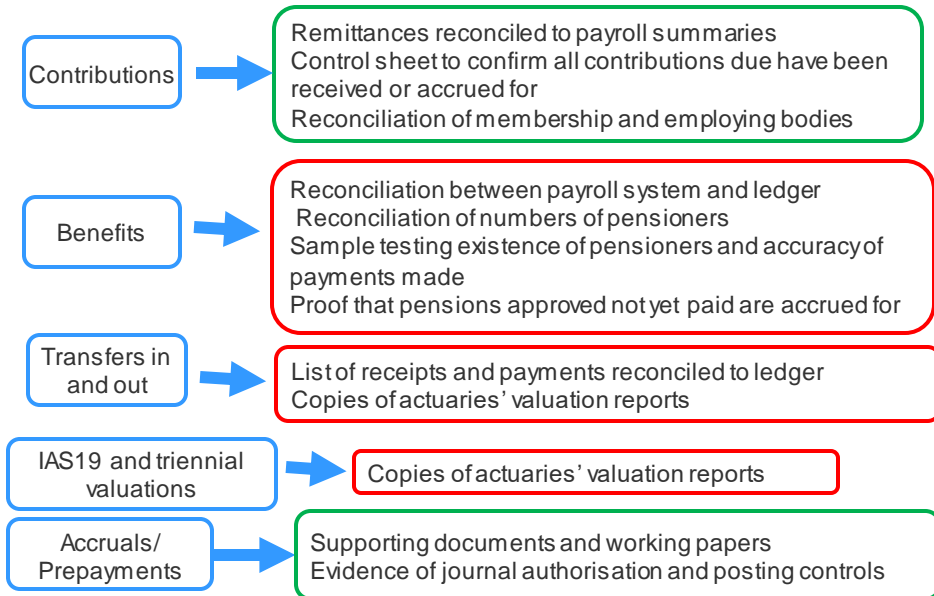
As well as transfers in and out

**NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS<sup>28</sup>**

At the year-end there are further potential liabilities of £15.3m relating to transfers out of the pension fund where the Fund is awaiting final decisions. (see Note 26).

2017/18		2018/19
£000		£000
51	Refunds to members leaving service	21
9,182	Group transfers	3,612
14,303	Individual transfers	45,263
<b>23,536</b>		<b>48,896</b>

Apply IAS37 - accrue for payments approved or due but not yet paid at year end



## The Fund Account - Costs and Investments

- Investment income
- Change in market value of investments
- Management costs



## The Fund Account

2017/18 £000	Notes	2018/19 £000
<b>Dealings with members, employers and others directly involved in the fund</b>		
(193,229) Contributions	7	(215,976)
(34,464) Transfers in from other pension funds	8	(25,238)
<b>(227,693)</b>		<b>(241,214)</b>
226,858 Benefits	9	232,580
23,536 Payments to and on account of leavers	10	48,896
<b>250,394</b>		<b>281,476</b>
<b>22,701</b>	<b>Net (additions)/withdrawals from dealings with members</b>	<b>40,262</b>
14,008 Management expenses	11	13,270
<b>36,709</b>	<b>Net additions/withdrawals including fund management expenses</b>	<b>53,532</b>
<b>Returns on investments</b>		
(39,167) Investment income	12	(52,660)
604 Taxes on income		773
(820,896) Profit and losses on disposal of investments and changes in the value of investments	14A	(300,444)
<b>(859,459)</b>	<b>Net return on investments</b>	<b>(852,331)</b>
<b>(822,720)</b>	<b>Net (increase)/decrease in the net assets available for benefits during the year</b>	<b>(298,799)</b>
(3,375,060) Opening net assets of the scheme		(4,197,810)
<b>(4,197,810)</b>	<b>Closing net assets of the scheme</b>	<b>(4,496,609)</b>

## Investment income

NOTE 12: INVESTMENT INCOME<sup>31</sup>

2017/18 £000		2018/19 £000
23,361	Income from equities	24,504
2,010	Income from bonds	12,821
1,613	Private equity income	5,070
7,891	Rents from property (Note 12A)	6,815
2,315	Pooled property investments	2,211
105	Pooled investments – unit trusts and other managed funds	318
978	Interest on cash deposits	298
700	Income from derivatives	500
194	Other	123
<b>39,167</b>	<b>Total before taxes</b>	<b>52,660</b>

**Source:**  
Custodian  
(Fund  
Managers)  
CREST or  
Euroclear  
(in-house)

NOTE 12A: PROPERTY INCOME<sup>32</sup>

2017/18 £000		2018/19 £000
8,632	Rental income	7,323
(741)	Direct operating expenses	(508)
<b>7,891</b>	<b>Net income</b>	<b>6,815</b>

## Change in market value of investments

Period 2018/19	Market value 1 April 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in value during the year	Market Value 31 March 2018
	£000	£000	£000	£000	£000
Bonds	330,390	1,734,605	(1,656,820)	8,497	416,672
Equities	1,080,286	615,647	(1,175,741)	73,426	593,618
Pooled investments	1,794,391	1,532,272	(1,026,759)	157,860	2,457,764
Pooled property investments	152,613	153,661	(152,853)	769	154,190
Private equity	343,132	226,335	(185,628)	36,641	420,480
Property	364,001	18,548	(42,397)	87	340,239
	<b>4,064,813</b>	<b>4,281,068</b>	<b>(4,240,198)</b>	<b>277,280</b>	<b>4,382,963</b>
Derivative contracts:					
▪ Futures	1,495	5,160	(3,939)	(1,567)	1,149
▪ Options	(117)	3,517	(4,565)	1,735	570
▪ Forward foreign exchange	(18,072)	97,518	(90,426)	10,628	(352)
	<b>4,048,119</b>	<b>4,387,263</b>	<b>(4,339,128)</b>	<b>288,076</b>	<b>4,384,330</b>
Other investment balances:					
▪ Cash deposits	108,959			6,368	6,850
▪ FX contracts				6,000	6,000
▪ Amount receivable for sales of investments	21,681				2,741
▪ Investment income due	-				7,608
▪ Payable for purchases of investments	(2,125)				(2,656)
Net investment assets	<b>4,176,634</b>			<b>300,444</b>	<b>4,404,873</b>

Custodian provides this  
information

Ensure consistent with  
Notes 14 and 14b

Gross up for any fees  
deducted at source

Ensure closing  
balances agree to  
Net  
Asset Statement

## Management costs

**CIPFA guidance re-published 2016 - now incorporated into example accounts**

Builds on the general principles established in 2014 ie:

- No netting off costs and investment returns
- Separate admin, governance and investment costs in disclosure note
- Analyse investment management costs

Also provides:

- more detailed accounting guidance
- worked examples for practitioners

**Not mandated by Code BUT most LGPS  
now follow this guidance**



### Note 11: Management expenses

2015/16		2016/17
£000		£000
1,548	Administrative costs	1,460
11,615	Investment management expenses	10,925
845	Oversight and governance costs	885
<b>14,008</b>		<b>13,270</b>

### Note 11 a: Investment management expenses

2015/16		2016/17
£000		£000
9,615	Management fees	8,935
1,815	Performance related fees	1,820
150	Custody fees	145
35	Transaction costs	25
<b>11,615</b>		<b>10,925</b>

## Investment costs - recognition

**Cost** is defined in accounting standards as ....“ an amount that has to be paid to buy or obtain something”...and a **liability** as “ being legally responsible for something”...

- Code does not permit netting off costs against income so the Fund Account discloses investment costs and income separately
- Liaise with Fund Managers to identify fees/costs deducted at source (especially for pooled investments and venture funds) **BUT** be careful not to end up accounting for costs that were never your responsibility to pay in the first place
- Report **all** costs affecting investment yields in the Annual Report

# Working paper requirements

Investments

- Reconciliation of custodians report to fund manager statements
- Reconciliation of draft accounts and ledger balances
- Valuation reports for other assets eg investment property

- |  |
|--|
| 1. Relevant agresso reports  |
| 2. Correspondence with fund managers to identify <ul style="list-style-type: none"><li>- split of management and performance fees</li><li>- fees netted off capital values or income</li><li>- transaction costs</li></ul> |
| 3. Calculations supporting year end accruals for unpaid fees   |

Admin and  
management costs

## The Net Asset Statement

- Investment valuations and IFRS 13
- Investments analysis
- Other assets and liabilities





## Net Assets Statement – 2018/19 changes

2017/18		2018/19	
0	Long-term investments	14	500
4,211,994	Investment assets	14	4,415,424
(35,360)	Investment liabilities	14	(11,051)
<b>4,176,634</b>	<b>Total net investments</b>		<b>4,404,873</b>
0	Long-term debtors	21A	30
36,842	Current assets	21	103,648
<b>4,213,476</b>			<b>4,508,551</b>
(609)	Long-term borrowing		(436)
(15,057)	Current liabilities	22	(11,506)
<b>4,197,810</b>	<b>Net assets of the fund available to fund benefits at the end of the reporting period</b>		<b>4,496,609</b>

## IFRS 13 Fair value measurement

"Fair value" underpins IFRS and the Code **BUT** has been poorly defined **OR** taken to mean different things at different times by different accounting standards

IFRS 13 aims to provide a consistent definition based on:

**...the "highest and best price"...**  
**that can be obtained in the "most advantageous market"...**

with additional disclosures to explain the valuation techniques applied

**Adopted as a Code requirement for principal authorities in 2015/16, and for LGPS from 2016/17**

All pension fund investments are revalued every year with the change in value taken to the Fund Account



Current assets and liabilities are outside the scope of IFRS 13



There should be no difference between "carrying" and "fair" value for LGPS assets and liabilities



Most LGPS assets should already be valued at "highest and best" price



**Specific valuation issues should only arise if the LGPS has directly held property, artefacts or shares in unquoted companies AND these are not revalued each year**



## How to value unquoted investments



Insurance policies  
Antiques  
Works of Art

Valuation by auction house  
or loss adjuster



Share capital in  
unquoted  
companies

Value at  
net assets /% shareholding  
or expected share of future  
profits

Cash

Separate bank a/c?  
Risk of co-mingling?  
Investment Strategy ?



Loans and  
overdrafts

Limited to:  
• Change of fund manager  
• Cashflow shortfalls  
• 90 days maximum



performance  
in public services

[cipfa.org.uk](http://cipfa.org.uk)

## Fair Value disclosures

- All assets**
- ✓ Valuation method for each asset type, including directly held property
  - ✓ Analysis by level 1-3 hierarchy
  - ✓ Disclose transfers between levels
  - ✓ Include description of significant inputs for levels 2 and 3
- New for Level 3 investments only:**
- ✓ Description of key sensitivities
  - ✓ Sensitivity analysis for investment valuations
  - ✓ Reconciliation of opening to closing balances
  - ✓ Analysis of realised and unrealised gains or losses in year



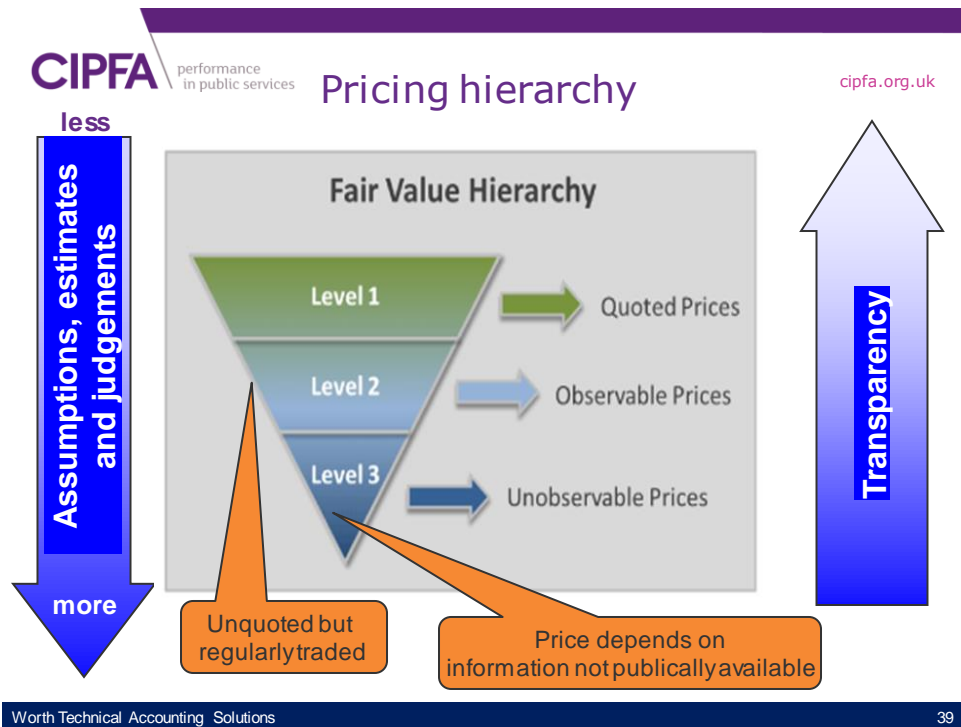
performance  
in public services

[cipfa.org.uk](http://cipfa.org.uk)

## PRAG guidance on level 1-3 hierarchies

**Suggested categorisation for investments:**

Quoted equities Exchange traded pooled funds and derivatives (active markets only) Cash	1 – published price
Corporate/Government Bonds	2 – regularly traded
OTC derivatives Unquoted pooled funds Hedge funds	2/3 depending on frequency of trading
Unquoted equities Special purpose vehicles Property	3 – depend on “expert” valuation



**CIPFA** performance in public services **Fair Value disclosures (1)** [cipfa.org.uk](http://cipfa.org.uk)

Asset type	Level	Valuation Basis	Observable and unobservable inputs	Key sensitivities
Quoted Bonds	1	Market bid price based on current yields	N/A	N/A
Pooled investments – overseas unit trusts	2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	N/A
Directly held property	3	Valued at fair value at year-end by John Smith FRICS in accordance with RICS guidelines	Existing lease terms & rentals Estimated vacancy levels Estimated rental growth Discount rate	Significant changes to rental growth, vacancy levels or discount rate could affect valuations

**Much of this detail was previously in accounting policies**

## Fair Value disclosures (2) – Level 3 assets

Level 3 assets	Valuation range +/-	Value at 31 March 2017 £000	Valuation increase £000	Valuation decrease £000
Pooled investments – hedge & property funds	10%	49,898	54,888	44,908
Freehold property	10%	340,239	374,263	306,215
Unquoted overseas equity	5%	3,595	3,775	3,415
Private equity	15%	420,480	483,552	357,408
<b>Total</b>		<b>814,212</b>	<b>916,478</b>	<b>711,946</b>

- Similar to sensitivity disclosures in financial instrument risks
- Liaise with Fund Managers to clarify basis of valuation, sensitivity range and any changes made in year

## Fair Value disclosures (3)

Level 3 investments	Unquoted overseas equities £000	Overseas unit trusts £000	Private equity £000	Property £000
<b>Market Value 1 April 2016</b>	<b>0</b>	<b>491,527</b>	<b>269,770</b>	<b>0</b>
Transfers into level 3	3,465	0	73,432	364,001
Transfers out of level 3	0	(491,527)	0	0
Purchases and payments	1,973	0	226,335	18,548
Sales	(5,314)	0	(185,628)	(42,397)
Unrealised gains (losses)	2,263	0	28,658	87
Realised gains (losses)	1,208	0	7,963	0
<b>Market Value 31 March 2017</b>	<b>3,595</b>	<b>0</b>	<b>420,480</b>	<b>340,239</b>

- Based on information provided by custodian
- Links to disclosure note on change in market value of investments

## The Net Asset Statement

- Investment analysis



## Investment disclosures - Note 14

	Note ref in example accounts
<b>Analysis of investments</b>	<b>14</b>
Reconciliation of movements on investments	14a
<b>Detailed analysis of investments</b>	<b>14b</b>
<b>Fund Manager analysis</b>	<b>14c</b>
Stock lending	14d
Property holdings	14e

- Information comes from Custodian – ensure it:
- reconciles to Fund Managers' reports **and**
  - reconciles to the Net Asset Statement

Note 14:  
Investments  
analysis  
(Summary)

Should = net  
investment  
assets in NAS

Market value 31 March 2018 £000		Market value 31 March 2019 £000
0	<b>Long term investments</b>	500
	Equities	
330,390	<b>Investment assets</b>	416,672
1,080,286	Bonds	593,118
1,794,391	Equities	2,457,764
152,613	Pooled investments	154,190
343,132	Pooled property investments	420,480
364,001	Private equity	340,239
	Property (see Note 14E)	
1,655	Derivative contracts:	
14,534	Futures	2,497
352	Forward currency contracts	6,531
108,959	Purchased/written options	734
-	Cash deposits	12,850
21,681	Investment income due	7,608
4,211,994	Amounts receivable for sales	2,741
	<b>Total investment assets</b>	4,415,424
	<b>Investment liabilities</b>	
(160)	Derivative contracts:	
(32,606)	Futures	(1,348)
(469)	Forward currency contracts	(6,883)
(3,425)	Purchased/written options	(164)
(35,360)	Amounts payable for purchases	(2,656)
	<b>Total investment liabilities</b>	(11,051)
4,176,634	<b>Net investment assets</b>	4,404,873

Note 14c:  
Investments  
analysis  
(Detailed)

31 March 2018 £000		31 March 2019 £000
	<b>Bonds</b>	
65	<b>UK</b>	618
6,810	Public sector quoted	3,972
-	Corporate quoted	106
	Corporate unquoted	
2,565	<b>Overseas</b>	6,474
320,771	Public sector quoted	405,316
179	Corporate quoted	186
330,390	Corporate unquoted	416,672
	<b>Equities</b>	
176,748	<b>UK</b>	246,394
	Quoted	500
	Unquoted	
900,073	<b>Overseas</b>	343,129
3,465	Quoted	3,595
1,080,286	Unquoted	593,618
	<b>Pooled funds – additional analysis</b>	
805,230	<b>UK</b>	936,960
61,621	Fixed income unit trust - quoted	79,420
27,871	Other unit trusts - unquoted	26,145
	Hedge funds	
272,805	<b>Overseas</b>	162,377
613,284	Fixed income unit trusts - quoted	639,671
	Other unit trusts - unquoted	601,438
19,711	Quoted equity	11,753
1,794,391	Hedge funds	2,457,764
152,613	<b>Pooled property investments - unquoted</b>	154,190
343,132	Private equity - unquoted	420,480
364,001	Property	340,239
16,541	Derivatives	9,762
876,287		924,671

31 March 2018 £000		31 March 2019 £000
108,959	Cash deposits	12,850
-	Investment income due	7,608
21,681	Amounts receivable from sales	2,741
130,640		23,199
4,211,994	<b>Total investment assets</b>	4,415,424
	<b>Investment liabilities</b>	
(33,235)	Derivatives	(8,395)
(2,125)	Amounts payable for purchases	(2,656)
(35,360)	<b>Total investment liabilities</b>	(11,051)
4,176,634	<b>Net investment assets</b>	4,404,873

## Note 14c: Fund Manager analysis

Split between  
pooled and  
non-pooled  
investments

### NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER<sup>40</sup>

Market value 31 March 2018		Market value 31 March 2019	
£000	%	£000	%
<b>Investments managed by XYZ regional asset pool:</b>			
0	0	N and G Investment Management	589,438 13.4
0	0	XYZ Regional Asset Pool	500 0
0	0		589,938 13.4
<b>Investments managed outside of XYZ regional asset pool:</b>			
4,511	0.1	ABC Currency Management	1,088 0.0
553,783	13.2	N & G Investment Management	0 0
755,917	18.1	Alternative Assets	941,774 21.4
245,867	5.9	XYZ Credit Management Ltd	248,905 5.6
804,457	19.3	Offside IM (Global) Ltd	872,569 19.8
551,486	13.2	SFM International (UK) Ltd	544,237 12.4
481,161	11.5	White Stone Investment Managers	389,104 8.8
434,137	10.4	Faraday Investment Management Ltd	425,655 9.7
345,315	8.3	Ellebeau in-house investment team <sup>41</sup>	391,603 8.9
4,176,634	100.0		3,814,935 86.6
<b>4,176,634</b>	<b>100.0</b>	<b>Total</b>	<b>4,404,873 100.0</b>

**Also disclose individual shareholdings or investments representing 5% or more of Fund assets**

## Note 14e - Investment property

- Separate disclosure requirements only apply to directly held property **not** pooled investments
- Carry at fair value (RICS valuation required)
- Disclose any disposal restrictions, obligations or covenants
- Disclose future rental income

### NOTE 14E: PROPERTY HOLDINGS<sup>44</sup>

The Fund's investment in property portfolio comprises investments in pooled property funds and a number of directly owned properties which are leased commercially to various tenants. Details of these directly owned properties are as follows.

2017/18		2018/19
£000		£000
386,091	Opening balance	364,001
	Additions:	
1,801	Purchases	12,299
-	New construction	4,211
438	Subsequent expenditure	2,038
(24,683)	Disposals	(42,397)
327	Net increase in market value	87
27	Other changes in fair value	-
<b>364,001</b>	<b>Closing balance</b>	<b>340,239</b>

The future minimum lease payments receivable are as follows:<sup>45</sup>

31 March 2018		31 March 2019
£000		£000
8,623	Within one year	7,793
33,354	Between one and five years	31,566
5,698	Later than five years	4,125
<b>46,675</b>	<b>Total future lease payments due under existing contracts</b>	<b>43,484</b>

The above disclosures have been reduced by a credit loss allowance of 5% per annum reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This has been based on the Fund's own historic experience but also information on similar properties received from the Fund's property letting agents. In accordance with paragraphs 7.2.9.1 and 7.2.9.2 of the Code the loss allowance has been calculated based on the estimated lifetime loss allowance for all current tenancies.



## Investments – what can go wrong

- Custodian's statement not agreed to Fund Manager reports
- Draft accounts do not agree to ledger
- Inconsistencies between investments analysis notes or between notes and Net Asset Statement
- Fees deducted at source not identified and grossed up
- Incorrect fair Value hierarchy
- Inconsistencies with change in market value of investments

## The Net Asset Statement

- Other assets and liabilities



NOTE 21: CURRENT ASSETS<sup>66</sup>

31 March 2018		31 March 2019
£000		£000
	Short term debtors	
2,976	Contributions due – employees	2,413
17,667	Contributions due – employers	7,032
20,643		9,475
3,809	Transfer values receivable (joiners)	1,463
7,786	Sundry debtors	4,554
156	Prepayments	159
32,394	Total	15,621
4,448	Cash balances	88,027
36,842		103,648

NOTE 21A: LONG TERM DEBTORS<sup>67</sup>

31 March 2018		31 March 2019
£000		£000
	Long term debtors	
0	Reimbursement of lifetime tax allowances	30
0	Total	30

NOTE 22: CURRENT LIABILITIES<sup>68</sup>

31 March 2018		31 March 2019
£000		£000
(6,220)	Sundry creditors	(8,043)
(7,195)	Transfer values payable (leavers)	(2,030)
(1,642)	Benefits payable	(1,433)
(15,057)		(11,506)

- Introduced in 2016 - limits the amount of pension that can be paid without an extra tax charge
- Responsibility for payment rests with the pensioner
- **BUT** some funds offer to pay the tax upfront and are reimbursed from pension deductions over time
- This creates a long term debtor in the accounts.

Note 21:  
Current  
Assets

31 March 2018		31 March 2019
£000		£000
	Long term debtors	
0	Reimbursement of lifetime tax allowances	30
0	Total	30
	Short term debtors	
2,976	Contributions due – employees	2,413
17,667	Contributions due – employers	7,032
20,643		9,475
3,809	Transfer values receivable (joiners)	1,463
7,786	Sundry debtors	4,554
156	Prepayments	159
32,394	Total	15,621

## Common problems

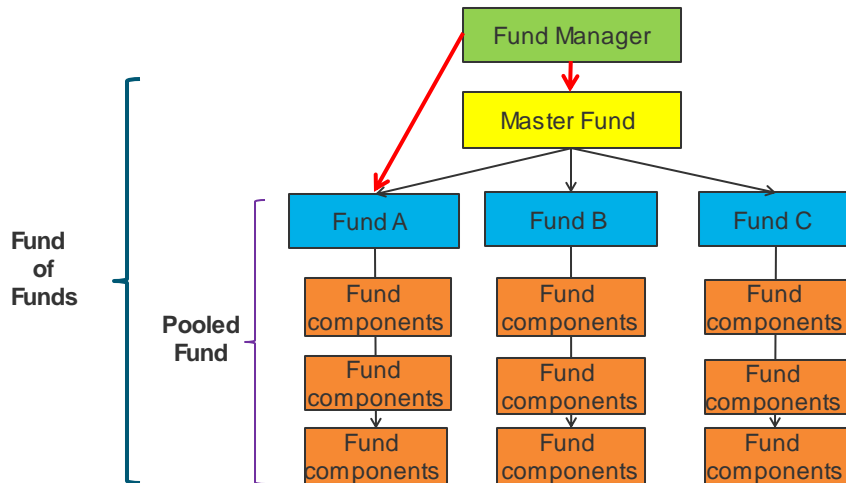
- Accruals/prepayments missed or double counted
- Fund Manager/investment balances left out
- No accruals for Fund Manager fees due not yet paid for
- Previous year end adjustments not reversed out
- Poor audit trail between ledger and draft accounts
- Debit balances not transferred out of creditors and vice versa
- Year end adjustments incorrectly posted to cash accounts

## The Net Asset Statement

- Pooled investments and asset pools



## Pooled Funds/Fund of Funds



## Venture capital

- Money provided to finance new and growing companies
- Enables pension funds to invest in their local area, creating and safeguarding jobs
- Investment usually represents purchase of share capital
- Profit is generated when the shares are sold as part of management buyout, flotation or sale of the company
- Venture capitalists may be involved in running the company as directors or shareholders with voting rights
- Most venture capital funds use a pool format, investing in a range of companies to spread risk and create a more regular income stream

## How to value pooled investments

Pooled investments are relatively easy to value if they:

- have published bid prices eg unit trusts or
- are regularly traded

**BUT** some will be neither - possible valuation methods include:

- ✓ Drilling down to value each separate component
- ✓ Estimate a value based on
  - traded instruments with a similar mix of investments **OR**
  - sale prices achieved by similar funds
- ✓ Obtain independent experts' valuation

All permissible **BUT** method of valuation needs to be disclosed in the accounts

## National asset pools - 1

- 8 pools now established across England and Wales
- DCLG objective is "to deliver significantly reduced costs while maintaining overall investment performance"
- Outside London, pools will start to trade on 1 April 2018.

<b>London</b>	<b>£25bn</b>
<b>ACCESS</b>	<b>£23bn</b>
<b>Wales</b>	<b>£13bn</b>
<b>Northern Pool</b>	<b>£35bn</b>
<b>Central</b>	<b>£34bn</b>
<b>Brunel</b>	<b>£34bn</b>
<b>Border to Coast</b>	<b>£36bn</b>
<b>LLP</b>	<b>£13bn</b>
<b>Total</b>	<b>£179bn</b>

DCLG  
target  
value =  
75% of all  
LGPS  
investments

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National asset pools - 2

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Different transactions are involved which need to be separately identified and accounted for:

Type of cost	Accounting
Set up costs – may be: <ul style="list-style-type: none"><li>• share capital</li><li>• loans</li><li>• Staff or services provided free of charge</li></ul> Investor may be LGPS, Council or both	Include as: <ul style="list-style-type: none"><li>• Long term investment (NAS)</li><li>• Short or long term loan (NAS)</li><li>• Admin costs in Fund Account if not being recharged to pool</li></ul> Accounted for by whoever pays unless specified otherwise
Scrutiny and oversight	Include in oversight and governance costs in Fund Account
<ul style="list-style-type: none"><li>• Transitioned investments</li><li>• Investment management costs</li></ul>	<ul style="list-style-type: none"><li>• Pooled investments in NAS</li><li>• IME costs in Fund Account</li></ul>

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National asset pools - 3

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Shares in or loans to national asset pools will need to be accounted for as follows:

Type of investment in asset pool	Accounting
Loan	<ul style="list-style-type: none"><li>• Analyse in NAS as short or long term</li><li>• Carry at amortised cost</li><li>• Remember soft loan disclosures if loan terms are not commercial rates</li></ul>
Share capital	Carry at Fair Value in NAS based on: <ul style="list-style-type: none"><li>• Balance Sheet value</li><li>• Future profit forecasts</li><li>• Future cash flow forecast OR</li><li>• Cost (in year 1) if fair value cannot yet be ascertained</li></ul>

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CIPFA Investing in asset pools - disclosure

**NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER<sup>40</sup>**

Market value 31 March 2018		Market value 31 March 2019		
£000	%	£000	%	
Investments managed by XYZ regional asset pool:				
0	0	589,438	13.4	
0	0	500		
0	0	589,938	13.4	
Investments managed outside of XYZ regional asset pool:				
4,511	0.1	ABC Currency Management	1,088	0.0
553,783	13.2	N & G Investment Management	0	0
755,917	18.1	Alternative Assets	941,774	21.4
245,867	5.9	XYZ Credit Management Ltd	248,905	5.6
804,457	19.3	Offside IM (Global) Ltd	872,569	19.8
551,486	13.2	SFM International (UK) Ltd	544,237	12.4
481,161	11.5	White Stone Investment Managers	389,104	8.8
434,137	10.4	Faraday Investment Management Ltd	425,655	9.7
345,315	8.3	Ellebeau in-house investment team <sup>41</sup>	391,603	8.9
4,176,634	100.0		3,814,935	86.6
4,176,634	100.0	Total	4,404,873	100.0

**Note 14c Investment Manager Analysis**

Market value 31 March 2018		Market value 31 March 2019	
£000		£000	
Long term investments			
0		500	
Investment assets			
Equities			
330,390		416,672	
1,080,286		593,118	
1,794,391		2,457,764	
332,613		154,190	
343,132		420,480	
364,001		340,239	
Derivative contracts:			
1,655		2,497	
14,534		6,531	
352		734	
108,959		12,850	
-		7,608	
21,681		2,741	
4,211,994		4,415,424	
Investment liabilities			
Derivative contracts:			
(160)		(1,348)	
(32,606)		(6,883)	
(469)		(164)	
(2,125)		(2,856)	
(35,360)		(11,051)	
4,176,634		4,404,873	
Net investment assets			

The Net Asset Statement

Derivatives



- Should be reported gross and stated at fair value
- No offsetting of assets and liabilities
- May be quoted (ETD) or unquoted (OTC) investments
- Separate category in investments analysis disclosure notes
- Separate disclosure note (note 15 in example accounts)
- Include in investment risk disclosures and IFRS13 levels 1-3

Underlying	Exchange traded derivative (ETD)	Over the counter (OTC)
Exchange rate		Forward foreign exchange
Interest rate		Swaps
Equity price	Futures	
Security price	Options	Options

Increasingly difficult to measure

## Types of Derivative - Forward Foreign Exchange

Two parties agree to **exchange currencies** on a **specific future date** at an **agreed rate of exchange**

### Characteristics:

- Over the counter contract – each is potentially unique
- No published value/price
- No commission payable (normally)
- Settled on a gross basis on settlement date
- No collateral
- Value calculated using published market information on exchange rates



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Types of Derivative - Futures

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A contract which **derives** its value from the underlying change in value of a commodity over time

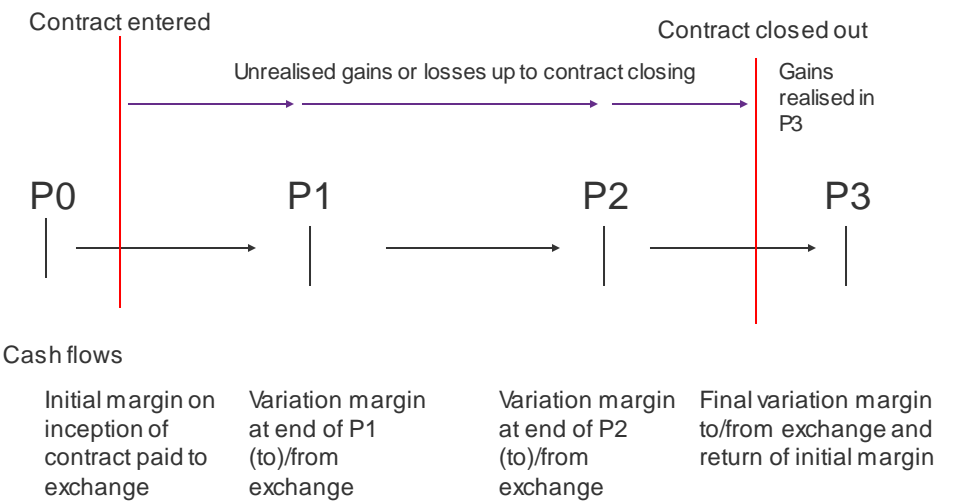
- Commodity may be shares or price of metal/wheat/oil etc
- No initial consideration
- Initial and variation margin cash movements are transfers between cash/amounts due to/from brokers
- Unrealised gains/losses = typically variation margin cash movements over life of contract
- Gains/losses are unrealised until the contract is closed
- Economic exposure is disclosed in notes to accounts

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Futures accounting

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## What can go wrong?

	Opening market value £000	Purchases / derivative payments £000	Sales / derivative receipts £000	Change in market value £000	Closing market value £000
Fixed interest	620,234	451,466	(495,134)	30,536	607,102
Equities	267,345	45,234	(34,245)	104,256	382,590
Derivatives:					
Foreign exchange forwards	3,049	1,751,345	(1,752,312)	2,100	4,182
Interest rate swaps	-	350,000	(350,000)	-	60,139
Futures	51,234	341,000	(332,095)	-	60,139
	941,862	2,939,045	(2,963,786)	152,126	1,069,247
Cash	(52,347)			2,434	(58,299)
Total	889,515			154,560	1,010,948

- Forward FX – Purchases and payments in-year dwarf everything else
- Futures - Two problems here which are very much linked – a large market value for the futures and a large negative cash balance or investment creditor.
- Another issue you may also see is futures with a £Zero market value

## IFRS 9 - hedging

Description of financial instrument	How this has been applied to manage risk					Possible impact on future cash flows		
Fair value hedges								
Interest rates	Hedges are entered into to mitigate the risk presented by variable rate unit trust in pooled investments. Their underlying values are linked to the relative movement over time on specified interest rates eg between a named unit trust bond and LIBOR. Settlement occurs at fixed points throughout the contract term based on the difference between the two rates on the specified date					A reduction of 10% in current carrying value could reduce the year end Fund Account balance by £3.4m		
Forward foreign exchange contracts	Mitigate the risk that adverse movements on foreign exchange rates will affect the carrying value and investment income relating to pooled funds including quoted overseas equities. Settlement is calculated at the contract end date based on the difference between spot rate and forward rate on a specified basket of currencies.					A reduction of 10% in current carrying value could reduce the year end Fund Account balance by £0.7m		
	Nominal value £'000	Inception date	Carrying value at 31.3.2019 £000	Changes in fair value 2018/19 £000	Changes in fair value since inception £000	Hedge ineffectiveness 2018/19 %	Hedge ineffectiveness since inception %	Where ineffectiveness has been recognised
UK pooled investments – unit trusts (classified as FVTPL)								
Interest rate hedges	£40,000	1/7/2017	£26,145	(£1,726)	(13,855)	6.2%	34.6%	As part of change in market value of investments
Overseas pooled investments – unit trusts (classified as FVTPL)								
Forward foreign exchange contracts	£7,500	8/3/2018	£6,661	(£788)	(£839)	10.5%	11.2%	As above
Interest rate hedges	£5,500	1/1/2019	£5,092	(£408)	(£408)	7.4%	7.4%	As above

## Financial Instruments



## Identifying Financial Instruments

Financial Instruments are defined as ... "Any **contract** giving rise to a **financial asset** in one entity and a **financial liability** or **equity instrument** of another entity

**Financial assets** are cash or a contractual right to cash or other assets (eg trade debtors or derivatives)

**Financial liabilities** are contractual obligations to deliver cash or other assets, or to exchange financial assets under potentially unfavourable conditions - e.g. derivatives

**Equity instruments are** an interest or residual interest in the net assets of another entity (eg share capital) even if there is no contractual obligation to make payments -e.g. non-transferable shares or debentures

Financial Assets	Not Financial Assets
Cash Equity/debt instruments Forward transactions Property fund	Property (not a contract) Subsidiaries, associates & JVs (scoped out as covered by IAS 27) Leases (scoped out as covered by IAS17)

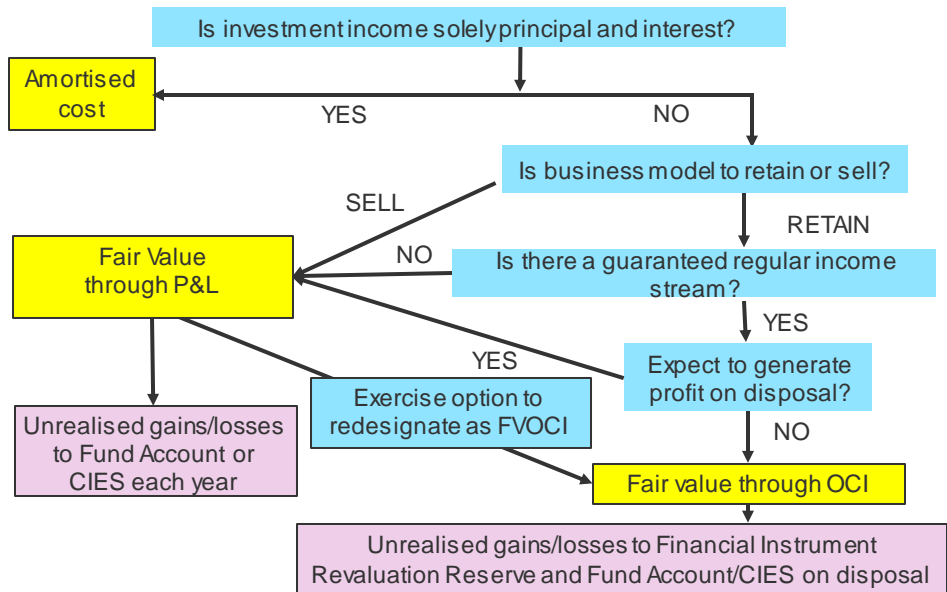
Financial Liabilities	Not Financial Liabilities
Overdrafts Trade creditors Guarantees	Tax owed Promised future retirement benefits (both statutory obligations not contracts)

2018/19 Code introduces:

- new financial instrument classification, with new category of Fair Value Through Other Comprehensive Income (paragraphs 7.1.5.1 to 7.1.5.5 of the Code)
- new requirement for expected loss allowances (paragraph 7.2.9.1 of the Code)
- the option of additional disclosures for hedging (under section 7.1.8 of the Code).

**NO** requirement to restate comparative data for 2017/18 (Code para 7.4.3.3)

**CIPFA** performance in public services **FI classification – IFRS 9** [cipfa.org.uk](http://cipfa.org.uk)



**CIPFA** performance in public services **FI classification – pension funds** [cipfa.org.uk](http://cipfa.org.uk)

	1 Business model?			2 Contractual cashflows?	Conclusion
	Hold solely to collect contractual cashflows?	Hold to collect cashflows AND sell	Neither	Solely payments of principal & interest on principal o/s on specific dates?	<b>Classification and valuation</b>
Bonds	Yes	Yes	N/a	No	FVTPL – Fair Value
Equities	No	Yes	N/a	No	FVTPL - FV
Pooled Vehicles	No	Yes	N/a	No	FVTPL - FV
Private Equity	No	Yes	N/a	No	FVTPL - FV
Cash	Yes	No	N/a	Yes	Amortised cost
Debtors & Creditors	Yes	No	N/a	Yes	Amortised cost

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**FI classification - asset pools**

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	1 Business model?			2 Contractual cashflows?	Conclusion
	Hold solely to collect contractual cashflows?	Hold to collect cashflows AND sell	Neither	Solely payments of principal & interest on principal o/s on specific dates?	Classification and valuation
Scenario 1 – profit share or dividend	Yes	No	N/A	No	FVTPL – Fair Value
Scenario 2 – share option or disposal premium	No	Yes	N/A	No	FVTPL – Fair value
Scenario 3 – loan	No	No	Yes	Yes	Amortised cost
Scenario 4 – no cash flow benefit	No	No	Yes	No	FVOCI – Fair value

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**FI disclosures – net asset statement**

2017/18			2018/19		
Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000	Fair Value through Profit and Loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000
<b>Financial Assets</b>					
330,390			416,672		
1,080,286			593,618		
1,794,391			2,457,764		
152,613			154,190		
343,132			420,480		
16,541			9,762		
	113,407			94,877	
	0			6,000	
	21,681			10,349	
	7,942				4,713
<b>3,717,353</b>	<b>143,030</b>		<b>4,052,486</b>	<b>115,939</b>	
<b>Financial Liabilities</b>					
(33,235)			(8,395)		(2,656)
		(2,125)			(8,043)
		(6,220)			(436)
		(603)			
<b>3,684,118</b>	<b>143,030</b>	<b>(8,954)</b>	<b>4,044,091</b>	<b>115,939</b>	<b>(11,135)</b>

+ separate heading for FVOCI (if any)

FI totals  
+ directly held property  
+ non-contract debtors and creditors  
= Net Asset Statement

## FI disclosures - Fund account

### Income, expense, gains or losses

- Net gains and losses by instrument category
- Impairment losses by class of financial asset
- Interest on impaired financial assets

Should reconcile to  
Change in  
Market Value  
of Investments (excluding  
directly held property)

#### NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS<sup>58</sup>

2017/18 £000		2018/19 £000
<b>Financial assets</b>		
845,434	Fair value through profit and loss	289,556
	Amortised cost – realised gains on derecognition of assets	
	Amortised cost – unrealised gains	12,368
<b>Financial liabilities</b>		
(12,446)	Fair value through profit and loss	(1,567)
	Amortised cost – realised losses on derecognition of assets	
	Amortised cost - unrealised losses	
<b>832,998</b>	<b>Total</b>	<b>300,357</b>

## IFRS 9 – credit losses

- **NOT** investment assets
- **NOT** government or local authority counterparties
- **MAY** apply to income from directly held property **OR** transactions with admitted bodies
- Calculate and account for lifetime loss allowance **ONLY**

### Note 14 – Direct Property Holdings

The future minimum lease payments receivable by the fund are as follows:

31 March 2018 £000		31 March 2019 £000
8,623	Within one year	7,793
32,354	Between one and five years	31,566
5,698	Later than five years	4,125
<b>46,675</b>	<b>Total future lease payments due under existing contracts</b>	<b>43,484</b>

The above disclosures have been reduced by a credit loss allowance of 5% per annum reflecting the fund's expected loss from late or non-recovery of rents from tenants. This has been based on the fund's own historic experience but also information on similar properties received from fund's property letting agents. In accordance with paragraphs 7.2.9.1 and 7.2.9.2 of the Code the loss allowance has been calculated based on the estimated lifetime loss allowance for all current tenancies.

Financial instrument disclosures

Also remember to disclose:

- Any reclassification between categories (Code defines and restricts reclassification)
- Any derecognition or transfer of assets
- Any offsetting arrangements
- All collateral held, and any defaults and breaches that have occurred

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FI risk disclosures (1)

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IFRS 7

Credit risk	Maximum exposure and collateral held Age analysis and credit quality of past due/impaired assets
Collateral	Nature and carrying amount If not convertible, policy for disposal
Liquidity risk	Maturity analysis and arrangements for Arrangements for managing liquidity risk
Market risk	Sensitivity analysis for each market risk
Qualitative	
Extent of risk exposures and how they arise How the risks are managed – policies and processes Any changes from previous period	

Links to:  
Risk register  
Funding &  
Investment  
Strategies



**Quantitative**

Quantify exposure to risk  
Based on information provide to key management  
Highlight any concentrations of risk  
Include sensitivity analysis

**Consistency?**
**Source?**
**Arithmetic?**

	Value at 31/3/15	Effect on asset values	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash & equivalents	12,850	-	-
Cash balances	88,027	-	-
Fixed interest securities (10 year)	416,672	(41,670)	41,670
<b>Total change in assets available</b>	<b>517,549</b>	<b>(41,670)</b>	<b>41,670</b>

**Scope** - Financial Instruments not correctly identified  
(ie directly held property or non-contractual items not excluded)

**Valuation**

- Valuations incorrect or out of date
- Impairments not identified or not properly accounted for

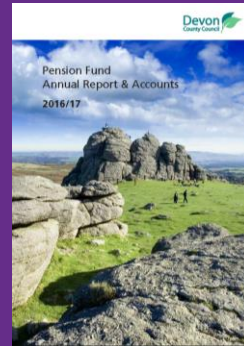
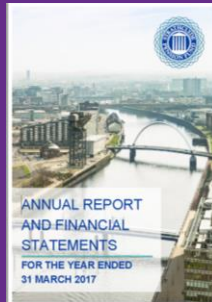
**Inconsistency** – FI disclosures don't agree to the rest of the accounts

**Non-tailored risk disclosures**

- Copied from somewhere else
- Not focused on key risks

## Annual Reports

- Updated guidance
- Scheme administration
- Post Pool reporting
- Transparency Code



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## Annual Report Guidance

- Updated for 2018/19
- Includes disclosure checklist
- Consultation period ended 10 December 2018
- Due for publication January 2019

Main changes are:

- asset pooling
- transparency code
- CIPFA working group on pensions administration



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**Scheme management**

- Manager/advisor details
- Risk management
- Scheme administration summary

**Scheme Administration**

- Caseload statistics
- Unit costs
- Performance against key targets
- Complaints
- Outsourcing arrangements
- Pensions admin strategy (optional)

**Investment management**

- Funding Strategy Statement
- Investment Strategy Statement (Statement of Investment Principles in Scotland)
- Asset allocations
- Investment performance
- Investment costs
- Transition to national asset pools

**Actuarial report  
Statement of Accounts**

- Employing body details
- Contribution rates
- Policies & Guidance for employers
- Communication Strategy (England)

**Governance**

- Governance compliance statement
- Governance arrangements
- Compliance with Myners principles & CIPFA/SOLACE framework

**Management commentary  
Annual Governance Statement**

**Financial performance**

- 1 year & 3 year financial forecasts
- Cash flows and asset values
- Current year outturn vs budget
- Analysis of administration and governance costs
- Summary of financial position
- Pension overpayments & recoveries
- Outstanding borrowings (Scotland)

Table 1 – key performance information					
Process	No. of cases commenced in year	No. of cases completed in year	No. cases outstanding at year-end	% completed in year	Average cases per fee staff member
Deaths – initial letter acknowledging death of member					
Deaths – letter notifying amount of <u>dependants</u> pension					
Retirements – letter notifying estimate of retirement benefits					
Retirements – letter notifying actual retirement benefits					
Retirements – process and pay pension benefits on time					
Deferment – calculate and notify deferred benefits					
Transfers in/out – letter detailing transfer quote					
Refund – Process and pay a refund					
Divorce quote – letter detailing cash equivalent value and other benefits					
Divorce settlement – letter detailing implementation of pension sharing					

Table 2 – key performance indicators					
Process	KPI	%	Legal requirement	%	
Deaths – initial letter acknowledging death of member	5 days		2 months		
Deaths – letter notifying amount of <u>dependants</u> pension	10 days		2 months		
Retirements – letter notifying estimate of retirement benefits	15 days				
Retirements – letter notifying actual retirement benefits	15 days				
Retirements – process and pay pension benefits on time	15 days				
Deferment – calculate and notify deferred benefits	30 days				
Transfers in/out – letter detailing transfer quote	10 days				
Refund – Process and pay a refund	10 days				
Divorce quote – letter detailing cash equivalent value and other benefits	45 days				
Divorce settlement – letter detailing implementation of pension sharing order	15 days				
Joiners – notification of date of enrolment	40 days				

Table 3 – unit cost per member					
Process	2013/14	2014/15	2015/16	2016/17	2017/18
<b>Investment Management Expenses</b>					
Total cost (£'000)					
Total membership (No.)					
Cost per member (£)					
<b>Administration Costs</b>					
Total cost (£'000)					
Total membership (No.)					
Cost per member (£)					
<b>Overnight and Governance Costs</b>					
Total cost (£'000)					
Total membership (No.)					
Cost per member (£)					
Total cost per member (£)					

## Asset Pools (1)

	Direct £000s	Indirect £000s	Total £000s	Cumulative £000s
<b>Set up costs:</b>				
Recruitment				
Legal				
Procurement				
Other support costs eg IT, accommodation				
Share purchase/subscription costs*				
Other working capital provided eg loans				
Staff costs**				
Other costs				
<b>TOTAL SET UP COSTS</b>				
<b>Transition costs:</b>				
Transition fees				
Taxation (seeding relief)				
Other transition costs				
<b>TOTAL TRANSITION COSTS</b>				

	Asset Pool			Non-Asset Pool			Fund Total	
	Direct £000s	Indirect £000s	Total £000s	Direct bps	Indirect bps	Total bps	£000s	bps
<b>Management fees</b>								
ad valorem								
performance								
research								
PRU/PS compliance								
<b>Asset pool shared costs</b>								
<b>Transaction costs</b>								
commissions								
acquisition/ issue costs								
disposal costs								
registration/filing fees								
taxes and stamp duty								
<b>Custody</b>								
<b>Other</b>								
<b>Total £000</b>								

Asset category	Opening value		Closing value		Performance		Passive	Local
	£000s	%	£000s	%	Gross	Net	Index*	Target
					%	%	%	%
<b>Asset Pool managed investments</b>								
Pooled investment vehicles:								
Active listed equity								
Active fixed income								
Passive listed equity								
Passive listed income								
Private debt								
Property								
Unlisted equity								
Infrastructure								
Cash								
Multi-Asset Funds/ Diversified Growth Funds								
Other								
<b>Total</b>								
<b>Non-Asset Pool managed investments</b>								
Pooled investment vehicles:								
Active listed equity								
Active fixed income								
Passive listed equity								
Passive listed income								
Private debt								
Property								
Unlisted equity								
Infrastructure								
Cash								
Multi-Asset Funds/ Diversified Growth Funds								
Other								

## Asset Pools (2)

**Calculating price and quantity variances for an asset portfolio transferred to an asset pool at 1/10/16, as at 31/3/18**

Value of assets at 1/10/16	£112m		
ad valorem fee rate	55bp per £1m		
Value of assets at 31/3/18	£156m		
ad valorem fee rate	50bp per £1m on first £100m 45bp per £1m on next £30m 40bp per £1m on next £30m		
Fund			
<b>Price variance</b>			
Current fund value at old rate	£156m x £0.0055 =		£858,000
Current value at new fee rate	£100m x £0.0050 = £500,000 £30m x £0.0045 = £135,000 £26m x £0.0040 = £104,000		
			£739,000
<b>PRICE VARIANCE</b>			<b>£119,000</b>
<b>Quantity variance</b>			
Old rate x (old fund value - new fund value) =	£0.0055 x (£112m - £156m)		
<b>QUANTITY VARIANCE</b>			<b>(£242,000)</b>
<b>Total variance</b>			
<b>TOTAL VARIANCE</b>	Old fees - new fees = £616,000 - £739,000 =		<b>(£123,000)</b>

**Calculating price and quantity variances for an asset portfolio transferred to an asset pool at 1/10/16, as at 31/3/18**

Value of assets at 1/10/16	£112m		
ad valorem fee rate	55bp per £1m		
Value of assets at 31/3/18	£156m		
ad valorem fee rate	50bp per £1m on first £100m 45bp per £1m on next £30m 40bp per £1m on next £30m		
Fund			
<b>Price variance</b>			
Current fund value at old rate	£156m x £0.0055 =		£858,000
Current value at new fee rate	£100m x £0.0050 = £500,000 £30m x £0.0045 = £135,000 £26m x £0.0040 = £104,000		
Performance fee			£641,143
			£1,380,143
<b>PRICE VARIANCE</b>			<b>(£522,143)</b>
<b>Quantity variance</b>			
Old rate x (old fund value - new fund value) =	£0.0055 x (£112m - £156m)		
<b>QUANTITY VARIANCE</b>			<b>(£242,000)</b>
<b>Total variance</b>			
<b>TOTAL VARIANCE</b>	Old fees - new fees = £616,000 - £1,380,143 =		<b>(£764,143)</b>

Asset Pools (3): Comparison of Costs and Savings

(a) Total expected costs and savings (as per Business Case submissions)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Set up costs	X	X							
Transition costs		X	X	X	X	X			
Free savings			(X)	(X)	(X)	(X)	(X)	(X)	(X)
Net savings realised	X	X	X	X	(X)	(X)	(X)	(X)	(X)

(b) Expected vs actual costs and savings to date (this table would be extended in future years as more actual data becomes available). NB If actual and expected figures are significantly different an explanation should be provided).

	2016/17				2017/18			
	Actual		Budget		Actual		Budget	
	In-year	Cumulative to date	In-year	Cumulative to date	In-year	Cumulative to date	In-year	Cumulative to date
	£000	£000	£000	£000	£000	£000	£000	£000
Set up costs (1)	X	X	X	X	X	X	X	X
Transition costs (1)			X	X	X	X	X	X
Free savings (2)					(X)	(X)	(X)	(X)
Net savings realised	X	X	X	X	X	X	X	X

(1) – should agree to Pool Set up Costs table above (2) – should agree to savings variance analysis below  
NB. Example is based on a pool outside London in the early stages of transition where fee savings have yet to be realized.

Scheme Advisory Board – Code of Transparency

- ✓ In England and Wales a Voluntary Code of Transparency was launched in 2017
- ✓ Templates have been developed for Fund Managers to complete so that **ALL** cost data is consistently identified and collected and reported
- ✓ LGPS should report information received from fund managers in the Investments Section of their annual report

REGULATED INVESTMENT COST COLLECTION TEMPLATE

For use by regulated investment managers

Investment Manager Name: \_\_\_\_\_

Investment Manager Address: \_\_\_\_\_

Investment Manager Contact: \_\_\_\_\_

Investment Manager Email: \_\_\_\_\_

Investment Manager Phone: \_\_\_\_\_

Investment Manager Fax: \_\_\_\_\_

Investment Manager Website: \_\_\_\_\_

Investment Manager Logo: \_\_\_\_\_

Investment Manager Name: \_\_\_\_\_

Investment Manager Address: \_\_\_\_\_

Investment Manager Contact: \_\_\_\_\_

Investment Manager Email: \_\_\_\_\_

Investment Manager Phone: \_\_\_\_\_

Investment Manager Fax: \_\_\_\_\_

Investment Manager Website: \_\_\_\_\_

Investment Manager Logo: \_\_\_\_\_



## Annual Report contents – common problems

- ✖
 Key information not included or out of date
  - No annual and/or 3 year financial forecasts or cash flow summaries
  - No data on quality of administration and whether targets have been met
  - No info on transparency agenda and hidden costs
  - No information on risk management
- ✖
 No elected member input – no formal approval or sign off
- ✖
 No explanation of how governance arrangements work in practice or the role of the local pensions board
- ✖
 Long or complex documents copied in without summarising key points or explaining how issues are being addressed

Any Questions?



## Preparing Local Government Pension Fund accounts and annual reports

2018/19

**Peter Worth**  
Worth Technical Accounting Solutions

**Neil Sellstrom**  
CIPFA Pensions Advisory Network