

Local Government Pension Funds: 2018-19 accounting update

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This session will cover:

2018/19 Code changes

LGPS example accounts

Asset pools

Annual report guidance

LGPS example accounts

- Updated for 2018/19
- Reflects Code changes and Post Pool reporting guidance
- Includes disclosure and consistency checklists
- Available from CIPFA website



2018/19 Code changes affecting LGPS

- Separate disclosure of gains and losses from derecognition of assets at amortised cost (para 7.3.2.14)
- IFRS 9 implementation (Chapter 7)
- 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)

Gains and Losses from de-recognition of assets held at amortised cost

- **NOT** investment assets
- **MAY** apply to 3rd party loans or money market transactions

NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS ⁴²		
2017/18		2018/19
£000		£000
	Financial assets	
845,434	Fair value through profit and loss	289,556
	Amortised cost – realised gains on derecognition of assets	
	Amortised cost – unrealised gains	12,368
	Financial liabilities	
(12,446)	Fair value through profit and loss	(1,567)
	Amortised cost – realised losses on derecognition of assets	
	Amortised cost – unrealised losses	
832,998	Total	300,357

IFRS 9 – 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 (Code para 7.4.3.3)

FI classification – pension funds

	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
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

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		31 March 2019
£000		£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
46,675	Total future lease payments due under existing contracts	43,484

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.

Lifetime tax allowance

- 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 (joins)	1,463	
7,786	Sundry debtors	4,554	
156	Prepayments	159	
32,394	Total	15,621	

Asset pools

Investment mandate transferred to pool for fund management

Investment in asset pool vehicle

NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER²⁹

Market value 31 March 2018			Market value 31 March 2019		
£000	%		£000	%	
Investments managed by XYZ regional asset pool:					
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	
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	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	

Accounting for pool set-up costs

Options include:

- Charge costs to fund account if not material
- Carry investments in limited companies at Fair Value
- OR at cost if Fair Value cannot yet be estimated
- Classify as either a long or short term investment
- Decide whether the investment meets the definition of a financial instrument (eg can it be sold on?)
- If so, determine FVTPL or FVOCI classification

All 8 pools are different so each LGPS will need to decide accounting treatment locally and (if material) disclose in:

- accounting policies
- critical judgements

IFRS 9 and regional asset pools

	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

- Updated for 2018/19
- Includes disclosure checklist
- Main changes are:
 - ✓ Asset pooling
 - ✓ Administration



- Must, should and may approach:

Must	Compliance is mandatory. Any non-compliance should be clearly identified in the annual report and an explanation provided.
Should	Compliance is anticipated but is discretionary. Where non-compliance may of significant or material for the readers the non-compliance should be identified and explained.
May	Compliance is recommended but is discretionary.

<p>Overall Scheme management</p> <ul style="list-style-type: none"> • Contact details • Risk management information • Membership numbers • New pensioner details • Employing body details • Contribution rates • Policies & Guidance for employers • Communication Strategy (England) 	<p>Investment management</p> <ul style="list-style-type: none"> • Funding Strategy Statement • Investment Strategy Statement • Asset allocations • Investment performance • Investment management costs • Transition to regional asset pools <ul style="list-style-type: none"> ➢ Set up costs & expected savings ➢ Pooled/non-pooled investment returns
<p>Governance</p> <ul style="list-style-type: none"> • Governance compliance statement • Governance arrangements • Role of local pension board 	<p>Statement of Accounts External audit opinion Funding levels and actuary's report</p>
<p>Financial performance</p> <ul style="list-style-type: none"> • Current year outturn vs budget • Financial forecasts • Analysis of administration and governance costs • Analysis of non-investment assets and liabilities • Pension overpayments & recoveries 	<p>Scheme Administration</p> <ul style="list-style-type: none"> • Caseload statistics • Outsourcing arrangements • Unit costs and staffing data • Performance against key targets • Complaints procedure • Pensions admin strategy (optional)

Annual Report contents – common problems

- ✘
Key information not included or out of date
 - No financial forecasts, budgets 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

The screenshot shows a web browser window with the URL <https://www.cipfa.org/services/networks/pensions-network/documents-and-guidance/proposals-for-post-pool-reporting>. The page title is "Proposals for Post Pool Reporting" and the date is "25-05-2018". The main content area contains the following text:

This paper has been issued by CIPFA as good practice which is to be incorporated into 2018/19 Annual Report guidance for local government pension funds. It would be helpful, however, if funds could also apply the guidance when preparing their 2017/18 annual reports and feed back any practical issues encountered. Proposals can then be refined as necessary before the Annual Report guidance is finalised.

This paper sets out proposals for revised reporting for LGPS pension funds to meet a number of objectives.

The purpose is to provide guidance on how costs currently reported by a number of separate entities can be identified and presented in a way that more transparently explains both the method of management and the full cost of investment transactions over time.

Below the text is a download button for the PDF file "Proposals_for_post_pool_reporting" (154 KB) and a "Download now" button. There are also social media sharing icons for Twitter, LinkedIn, Facebook, and a print icon.

www.cipfa.org/services/networks/pensions-network/documents-and-guidance/proposals-for-post-pool-reporting

Asset Pools

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

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

Asset category	Opening value		Closing value		Performance		Passive Index*	Local Target
	£000s	%	£000s	%	Gross %	Net %		
Asset Pool managed investments								
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								
Total								
Non-Asset Pool managed investments								
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								

PLUS narrative information about progress made to date on pooling

Scheme Administration

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 dependants pension					
Retirements – letter notifying estimate of retirement benefits					
Retirements – letter notifying actual retirement benefits					
Retirements – process and pay pension benefits on time					
Deferral – 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 order					

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 dependants 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			
Deferral – 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
Investment Management Expenses					
Total cost (£'000)					
Total membership (fem)					
Cost per member (£)					
Administration Costs					
Total cost (£'000)					
Total membership (fem)					
Cost per member (£)					
Oversight and Governance Costs					
Total cost (£'000)					
Total membership (fem)					
Cost per member (£)					
Total cost per member (£)					

Any questions?

