

6.5 ACCOUNTING AND REPORTING BY PENSION FUNDS

6.5.1 Introduction

- 6.5.1.1** The objective of IAS 26 *Retirement Benefit Plans* is to provide guidance on the form and content of the financial statements prepared by retirement benefit plans (which were referred to as Pension Funds in the 2009 SORP). However, IAS 26 does not require retirement benefit plan statements to be prepared; rather it requires IAS 26 to be applied ‘where such statements are prepared’. It complements IAS 19 *Employee Benefits*, which deals with the determination of the cost of retirement benefits in the financial statements of employers. Authorities shall account for retirement benefit plans in accordance with IAS 26, except where interpretations or adaptations to fit the public sector are detailed in the Code.
- 6.5.1.2** IAS 26 (unlike the Pension SORP under UK GAAP, on which the local authority SORP requirements were based) does not set out to comprehensively specify the requirements for preparing financial statements for a retirement benefit plan; and other relevant provisions of IFRS apply to the extent that they are not superseded by specific IAS 26 requirements. So, for example, to the extent that they are not superseded by specific IAS 26 requirements:
- the IFRS financial instruments standards (IAS 39, IAS 32 and IFRS 7) govern the recognition, measurement, presentation and disclosure of financial instruments (although many requirements are inapplicable since all material financial instruments are carried at fair value through profit or loss), and
 - the section of IAS 19 on post-employment benefits governs the measurement of a plan’s obligation to provide pension benefits.
- 6.5.1.3** Similarly, this section of the Code does not by itself specify all the requirements for preparing retirement benefit plan financial statements; other relevant provisions of the Code apply to the extent they are not superseded by this section of the Code. However, to facilitate preparation of retirement benefit plan statements, this Code includes some requirements drawn from other parts of IFRS and legislation where these are clearly applicable (eg because a plan holds financial instruments) in addition to specific IAS 26-based requirements.
- 6.5.1.4** Under IAS 26 and the Code, a retirement benefit plan is a reporting entity separate from the employers of the participants in the fund for financial reporting purposes. This is congruent with 2009 SORP, which required authorities that administer pension funds (administering authorities) to include pension fund accounts in their Statements of Accounts. Retirement benefit plans are more commonly referred to in the UK as pension funds and ‘pension fund’ is the terminology adopted by the Code.

Pension fund annual reports

- 6.5.1.5 Under the Local Government Pension Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (as amended), administering authorities of LGPS funds are required to prepare a pension fund annual report. The annual report is not required to be included in the administering authority's main Statement of Accounts, but is required to be published separately. Regulations¹ require pension fund annual reports to include a 'Fund Account and Net Assets Statement with supporting notes and disclosures prepared in accordance with proper practices'.
- 6.5.1.6 The proper practices for the preparation of both the pension fund accounts included in an administering authority's Statement of Accounts and those required to be included in the pension fund annual report are contained in the Code.
- 6.5.1.7 After consulting with key stakeholders on the matter, CIPFA/LASAAC has concluded that the statutory requirement for administering authorities to prepare pension fund annual reports does not change the requirement for them to include pension fund accounts in their Statements of Accounts. CIPFA/LASAAC has raised with key stakeholders the issue of whether for the future legislation should be amended to allow administering authorities that publish an annual pension fund report containing pension fund accounts prepared in accordance with proper practices not to include pension fund accounts in their main Statement of Accounts, but rather to disclose how the pension fund annual report can be accessed or obtained. ~~At the time the Code was developed, the Scottish Government was consulting on this matter. Should the Scottish Government amend the legislation as discussed above, administering authorities in Scotland will include a reference to the pension fund annual report rather than including the pension fund accounts in their main Statement of Accounts. The Scottish Government has specified in Finance Circular 1/2011 that Scottish authorities administering Local Government Pension Schemes should publish separate financial statements for these schemes. The statutory guidance stipulates the minimum disclosure requirements within the administering authority's financial statements. These disclosures are set out in paragraph 6.5.5.2. The statutory guidance confirms that the Code will continue to be regarded as proper accounting practices to be observed in the preparation and publication of Scottish local authority pension fund accounts.~~

¹ Section 76B of the Local Government Pension Scheme Regulations (England and Wales) or Regulation 31A of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.

6.5.5 Disclosures for Defined Benefit Pension Funds (Excluding Police and Fire and Rescue Services Pension Funds)

- 6.5.5.1 The financial statements of a defined benefit retirement benefit fund (excluding police and fire and rescue services pension funds) shall contain the following information, if applicable and if not disclosed on the face of the financial statements:
- a) A description of the fund and the effect of any changes in the fund during the period.
 - b) A summary of significant accounting policies.
 - c) Assets at the end of the period suitably classified (see paragraph 6.5.3.4 for the minimum requirements).
 - d) The basis of valuation of assets for each significant class of asset.
 - e) Where investments are held for which an estimate of fair value is not possible, disclosure shall be made of the reason why fair value is not used.
 - f) A reconciliation between the opening and closing value of investments analysed into meaningful categories such as by major asset class, named investment managers or investment strategy. For investments that have purchase costs or sale proceeds, the total amount of sales and purchases should be disclosed. For derivatives, the nature of the amounts included in purchases and sales should be explained.
 - g) The market value (current bid price for quoted securities and unitised securities) of the assets (at the Balance Sheet date) which were under the management of fund managers should be disclosed, as should the proportion managed by each manager. Where a market value is not available, assets should be valued at fair value in accordance with the valuation basis specified by the Code.
 - h) An analysis of investment assets between 'UK' and 'overseas' and between 'quoted' and 'unquoted'.
 - i) The amount of sales and purchases of investment assets should be disclosed including the market value of futures and options at the Balance Sheet date (if any).
 - j) A breakdown of derivative contracts by their main types including futures, options, forward foreign exchange contracts and swaps. A summary of the key terms and notional amount of the derivative contracts held at the year end. An explanation of the objectives and policies for holding derivatives and the strategies for achieving those objectives that have been followed during the period.
 - k) The effective date of revaluation of property assets; whether an independent valuer was used; the methods and significant assumptions applied in estimating the fair value; the extent to which the item's fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's-length terms or were estimated using other valuation techniques.
 - l) Details of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security.
 - m) Liabilities other than the actuarial present value of promised retirement benefits.
 - n) A description of the funding policy, ie the basis upon which the contribution rate has

been set for both the administering and the scheduled body.

- o) An indication of the actuarial position of the fund, including the relationship between the actuarial present value of promised retirement benefits and the net assets available for benefits, and the policy for funding the promised benefits.
- p) A description of the significant actuarial assumptions made and the method used to calculate the actuarial present value of promised retirement benefits.
- q) The total contributions receivable and benefits payable analysed between the administering authority, scheduled bodies and admitted bodies.
- r) Information in respect of material transactions with related parties, not disclosed elsewhere, including investments and loans made at any time during the period.
- s) The total amount of stock released to a third party under a stock lending arrangement within a regulated market at the period end, together with a description of the related collateral.
- t) The amount and nature of any material contingent assets, liabilities and contractual commitments of the scheme at the period end. Details of any material non-adjusting events occurring subsequent to the period end.
- u) The amount of additional voluntary contributions paid by members during the year and the value at the Balance Sheet date of separately invested additional voluntary contributions. It should be disclosed that these amounts are not included in the pension fund accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831).

Statutory Disclosures Required by Administering Authorities in Scotland in the Local Authority Financial Statements

6.5.5.2 Administering authorities in Scotland are required by statutory guidance, (Scottish Government Finance Circular No. 1/2011, Accounting for Local Authority Pensions), to disclose the following in the notes to the local authority financial statements;

- a) A statement to the effect, that the local authority is an administering authority for the Local Government Pension Scheme.
- b) A statement listing the pension funds it is responsible for together with a general description of each fund and its membership.
- c) A statement setting out the statutory requirements for the publication of a separate pension fund annual report, and the contents of that report.
- d) A note setting out how the pension fund annual report can be accessed or obtained.

6.5.7 Changes since the 2010/11 Code

6.5.7.1 The Code has been updated to reflect changes in pension legislation introduced in Scotland.

6.5.7.2 The Local Government Pension Scheme Amendment (Scotland) Regulations 2010 (SSI

2010 No. 234) introduced the requirement for LGPS administering authorities in Scotland to produce a pension fund annual report.

6.5.7.3 The 2011/12 Code Update (and the 2012/13 Code) has been amended to reflect the introduction of statutory guidance on accounting for local authority pension funds in Scotland. The statutory guidance was issued as Finance Circular 1/2011 after the publication of the 2011/12 Code. The statutory guidance specifies the minimum disclosures required in administering authority financial statements.

6.5.7.4 The Police Pension Account (Scotland) Regulations 2010 (SSI 2010 No.232) introduced the requirement for police authorities to operate a police pensions account, whilst the Firefighters' Pension Scheme Amendment (Scotland) (No. 2) Order 2010 (SSI 2010 No.332) and the Firefighters' Pension Scheme (Scotland) Order 2007 Amendment (No. 2) Order 2010 (SSI 2010 No.333) introduced the requirement for fire authorities to operate a firefighters' pension account.

6.5.7.5 Whilst these requirements are included in the 2011/12 Code and the 2011/12 Code Update for the first time, the regulations, ~~and~~ orders and statutory guidance apply from 1 April 2010.