

Accounting Update - 2015

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Accounting Update 2014

- Accounting for LGPS management costs
- Annual reports guidance
- Example Accounts

Accounting for LGPS management expenses

Why do we need this?

- Inconsistency between funds
- Lack of comparability
- Under-reporting

Accounting for LGPS management expenses

- Three categories of costs:

Investment Management expenses

Oversight and Governance

Pensions Administration

Accounting for LGPS management expenses

- Robust definitions
- Restatement of accounting requirements
- Examples
- Disclosure suggestions

Accounting for LGPS management expenses

Management costs

The administering authority incurred costs in managing the fund for the period ending 31 March 2015 as follows:

Cost category	2014-15	2013-14
	£000	£000
Administrative costs	xxx	xxx
Investment management expenses	xxx	xxx
Oversight and governance costs	xxx	xxx
Total management expenses	x,xxx	x,xxx

The above analysis has been prepared in accordance with the CIPFA guidance on LGPS management costs.

The investment management expenses above includes £x,xxx,xxx in respect of performance-related fees paid/payable to the fund's investment managers (2013-14: £x,xxx,xxx). It also includes £xxx,xxx in respect of transaction costs (2013-14: £xxx,xxx).

Accounting for LGPS management expenses

Status?

- Currently, good practice guidance but the Code Board is considering referencing the guidance in the Code of Practice

Annual reports guidance

- Updated in 2014 for application in 2013-2014 reports
- No changes in 2015

Annual reports guidance

Summary of changes:

- The context has changed

Annual reports guidance

Summary of changes:

- The context has changed
- Cross-referencing/removing duplication

Annual reports guidance

Summary of changes:

- The context has changed
- Cross-referencing/removing duplication
- Changes to membership and contributions data requirements

Annual reports guidance

Summary of changes (SSAB-driven):

- Employer analysis
- Asset analysis

Example accounts

Key changes:

- Fund account

Example accounts

Deals with members, employers and others directly involved in the fund		
(193,229) 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	48,896
250,394		281,476
22,701		39,762
14,008 Management expenses	11	13,270
Returns on investments		
(39,167) Investment income	12	(52,660)
604 Taxes on income	13	773
Profit and losses on disposal of investments and changes (820,896) in the market value of investments	15a	(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		(299,299)

Example accounts

Key changes:

- Fund account
- Accounting policies

Example accounts

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Example accounts

f) Management expenses

The Code of Practice does not require any breakdown of pension fund administrative expenses. However in the interests of greater transparency, the Council discloses its pension fund management expenses in accordance with CIPFA guidance on Accounting for LGPS management costs.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund..

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund

Example accounts

Key changes:

- Fund account
- Accounting policies
- Note 5: Assumptions and Uncertainty

Example accounts

NOTE 5: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY [CODE PARAS 3.4.2.83 AND 3.4.2.84]

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

Example accounts

Key changes:

- Note 6: Events after the reporting date

Example accounts

NOTE 6: EVENTS AFTER THE REPORTING DATE [CODE PARA 3.8.4.1]

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and*
- b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).*

For example if there had been a marked decline in the global stock markets which would impact upon the market value of the fund's investments were they to be valued as at the date the accounts were authorized for issue, this would be deemed a non-adjusting post-balance-sheet event and would be disclosed in this note.

An example of an adjusting event would be if new information came to light regarding the methodology employed in the valuation of an asset.

Example accounts

Key changes:

- Note 6: Events after the reporting date
- Note 7: Contributions

Example accounts

NOTE 7: CONTRIBUTIONS RECEIVABLE [CODE PARA 6.5.5.1 Q)]

By type

2013/14		2014/15
£000		£000
41,810	Employees normal contributions	54,708
101,750	Employers normal contributions	106,100
46,650	Employers deficit recovery contributions	50,625
3,019	Employers augmentation contributions	5,043
193,229		216,476

Example accounts

Key changes:

- Note 6: Events after the reporting date
- Note 7: Contributions
- Note 11: Management expenses

Example accounts

NOTE 11: MANAGEMENT EXPENSES

2013/14		2014/15
£000		£000
3,948	Administrative costs	4,248
9,215	Investment management expenses	8,137
845	Oversight and governance costs	885
14,008		13,270

This analysis of the costs of managing the Ellebeau Pension Fund during the period has been prepared in accordance with CIPFA guidance.

The investment management expenses above includes £800,000 (2014/15: £900,000) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £987,000 in respect of transaction costs (2013/14: £835,000).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 15a - Reconciliation of movements in investments and derivatives).

Example accounts

Key changes:

- Note 15d: Property holdings

Example accounts

Note 15d: Property holdings [Code para 4.4.4.2 and 4.2.4.2]

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

Year ending 31 March 2014		Year ending 31 March 2015
£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		43,484

Example accounts

Key changes:

- Note 15d: Property holdings
- Note 17: Nature and extent of risk

Example accounts

Asset type	Carrying amount as at 31 March 2015	Effect on asset values	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalents	12,850	-	-
Cash balances	88,027	-	-
Fixed interest securities (10 year)	416,672	(41,670)	41,670
Total change in assets available	517,549	(41,670)	41,670

Income source	Amount receivable in year ending 31 March 2015	Effect on income values	
		+100 BPS	-100 BPS
	£000	£000	£000
Fixed interest securities	12,821	-	-
Cash deposits/cash and cash equivalents	298	56	(56)
Total change in income receivable	13,119	56	(56)

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value and vice versa. Changes in interest rates do not impact the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Example accounts

A correction:

NOTE 14: INVESTMENT EXPENSES

2013/14		2014/15
£000		£000
8,945	Management fees	7,837
112	Custody fees	128
51	Performance monitoring service	57
107	Actuarial fees – investment consultancy	115
9,215		8,137

Example accounts

Should look like this:

NOTE 14: INVESTMENT EXPENSES

2013/14		2014/15
£000		£000
8,945	Management fees	7,837
270	Custody fees	300
9,215		8,137

Questions ?

CIPFA

performance
in public services

Thank you

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