

Acknowledgements

This guidance has been prepared by the CIPFA Pensions Panel and is based on initial work undertaken by a specially convened joint CIPFA/Pensions Research Accountants Group (PRAG) working party. The CIPFA Pensions Panel would like to acknowledge the contribution of everyone involved.

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Background

The initial work on this guidance was undertaken by a specially convened CIPFA/PRAG (Pensions Research Accountants Group) joint working party, has subsequently been updated and amended by the CIPFA Pensions Panel, working with a working party established by the Shadow LGPS Advisory Board .

The purpose of this guidance is to assist administering authorities and others with the preparation and publication of the annual pension fund report required by Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008¹ and in Scotland, Regulation 31A of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008² (the Administration Regulations).

It is important to stress from the outset that the guidance represents a general framework for pension fund administering authorities to meet their statutory obligation to prepare and publish an annual report for the pension fund. It is not to be seen as limiting the way in which the information is to be set out in terms of formatting and presentation. For this reason this guidance confines itself to highlighting the topics to be covered in each section of the annual report (as required under the Administration Regulations) and does not prescribe the format or layout in which the information is presented. It is important that individual pension fund administering authorities continue to adopt their own house style to ensure that the annual report is consistent with other publications and documents published in their name.

The guidance uses a combination of descriptive text and cross-references to existing guidance to explain how each of the requirements for publication listed in the pension fund annual report provisions should be achieved.

CIPFA will keep the content of this guidance under review in the light of administering authorities' and other stakeholders' experiences of applying the guidance. It will be updated as necessary to reflect this and any subsequent legislative changes.

¹ For reporting periods beginning 1 April 2014 and beyond, the statutory requirement in England and Wales can be found at Regulation 57 of The Local Government Pension Scheme Regulations 2013. References in this guidance to Regulation 34 should be substituted for Regulation 57 of The Local Government Pension Scheme Regulations 2013 for 1 April 2014 onwards. The relevant extract from the 2013 Regulations can be found at Annex A.

² Although there is no equivalent regulation covering Northern Ireland, the organisation responsible for the administration of the LGPS in Northern Ireland, NILGOSC, does produce a similarly constructed annual report.

Statutory basis and requirements

The requirement for, content of, and publication arrangements for LGPS pension fund annual reports in England and Wales was initially introduced under Regulation 34 of the LGPS (Administration) Regulations 2008, as shown below.

Pension fund annual report

34.—(1) *An administering authority must, in relation to each year beginning on 1st April 2008 and each subsequent year, prepare a document (“the pension fund annual report”) which contains—*

- (a) a report about the management and financial performance during the year of each of the pension funds maintained by the authority;*
- (b) a report explaining the authority’s investment policy for each of those funds and reviewing the performance during the year of the investments of each fund;*
- (c) a report of the arrangements made during the year for the administration of each of those funds;*
- (d) for each of those funds, a statement by the actuary who carried out the most recent valuation of the assets and liabilities of the fund in accordance with regulation 36 (actuarial valuations and certificates), of the level of funding disclosed by that valuation;*
- (e) the current version of the statement under regulation 31 (governance compliance statement);*
- (f) for each of those funds, the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices;*
- (g) an annual report dealing with—*
 - (i) the extent to which the authority and the employing authorities in relation to which it is the administering authority have achieved any levels of performance set out in the pension administration strategy in accordance*

with regulation 65(2)(b), and

- (ii) such other matters arising from their pension administration strategy as they consider appropriate;*
- (h) the current version of the statement referred to in regulation 35 (funding strategy statement);*
- (i) the current version of the statement under regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (statement of investment principles);*
- (j) the current version of the statement under regulation 67 (statements of policy concerning communications with members and employing authorities) [including non-Scheme employers]; and*
- (k) any other material which the authority considers appropriate.*

(2) The authority must publish the pension fund annual report on or before 1st December following the year end.

(3) In preparing and publishing the pension fund annual report, the authority must have regard to guidance given by the Secretary of State.

The equivalent Scottish regulation (Regulation 31A) follows a similar format with the following exceptions:

Regulation 31A(1)(c) includes a specific requirement to disclose '*details of any borrowings of the funds outstanding at the end of the accounting period*' in addition to a report on the arrangement for the administration of the fund.

There is no statutory requirement for Scottish pension fund administering authorities to include a scheme communications policy statement within the pension fund annual report, as there is no requirement for such a policy under Scottish legislation. However, Scottish pension fund administering authorities may wish to include such a report on a discretionary basis.

Status of this guidance

In England and Wales, the Department for Communities and Local Government has adopted this guidance as statutory guidance for the purposes of Regulation 34(3) (regulation 57(3) in the 2013 Regulations).

In Scotland and Northern Ireland, this guidance is advisory only. However, CIPFA encourages those funds to adopt the guidance on a 'best practice' basis.

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Publication

MANNER OF PUBLICATION

The requirement to prepare and publish a pension fund annual report was introduced in the knowledge that a significant majority of administering authorities already published comprehensive annual reports, and that there are pre-existing statutory requirements to publish many of the items listed in the Administration Regulations, including the funding strategy statement, the statement of investment principles, the pension fund financial statements (as an adjunct to those of the administering authority), the governance compliance statement, the communication policy (in England and Wales), etc.

In respect of the annual report, the term 'publish', where it appears in the Administration Regulations, can be taken to include:

publication by electronic means; for example, on the administering authority's website (provided that the document is presented as a whole)

in full as a hard copy

a summary report, supported by a full report in electronic format on the administering authority's website.

TIMING OF PUBLICATION

LGPS Regulations require the annual report to be published by 1 December each year. However, in practice, administering authorities may wish to align the publication date with that for the main administering authority statement of accounts (30 September). One key reason for doing so is that the authority's auditors will be unable to finalise the audit opinion for the administering authority as whole until they are satisfied that the financial statements in the annual report are the same as those reported in the administering authorities accounts, and that the annual report narrative is consistent with the financial statements themselves.

AUTHORISATION

The annual report is a major component of a LGPS fund's communication with scheme stakeholders and the wider public. Consequently, although not specifically required in the Administration Regulations, good practice would dictate that the annual report be formally reviewed by those charged with governance of the fund and signed off by the chairman of the pensions committee (or equivalent governing

body) and the director of finance (or equivalent).

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The guidance

INTRODUCTION

This guidance follows the structure of Regulation 34 (Regulation 31A in Scotland) with a section for each of the requirements listed a) to k) in the Regulation (a) to j) in Scotland).

A: MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

Scheme management and advisers

The report should list the names and contact details for:

the officers responsible for the fund

the investment managers used by the fund and, where applicable, whether any elements of the fund are managed internally

the fund custodian bank (or banks)

the fund AVC providers

the fund actuary

the fund legal advisors

the bankers to the fund

the fund accountant/director of finance

the fund auditor

the scheme administrators

any independent advisers retained by the fund (eg for investment and governance).

Risk management

The report should contain a commentary on the arrangements for the management of fund administrative, management and investment risk. This commentary should be consistent with but expand upon the risk disclosures regarding the use of financial instruments required in the financial statements.

The report should explain:

how risk management is integrated within the governance structure

how risks are identified, managed and reviewed

a summary of the key risks and what actions are being taken to mitigate those risks
the approach taken to managing third party risk such as late payment of contributions and how assurance is sought over third party operations, eg AAF 01/06 and SSAE16 (formerly SAS70) reports

how investment risk is managed:

appropriate advice sought

action taken to review performance against the investment strategy on a regular basis (see the statutory requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009 and the LGPS (Management and Investment of Funds)(Scotland) Regulations 2010).

Financial performance

Pension funds will normally prepare an annual and a three-year budget for the forecast of income and expenditure into and out of the fund in line with the triennial valuation cycle. This report should identify performance against budget and highlight and explain any significant variances. The budget should cover both the net operational expenses of administering the fund, identifying as a minimum staff, premises, IT, supplies and services, costs of democracy and any other costs and income, together with the main constituents of the fund accounts including benefits payable, transfers out, operational and investment management expenses, other expenses, plus income from contributions from members and employers, transfers in and investment income, showing a net inflow or outflow to the fund.

Funds may wish to include indicative forecasts of less controllable or predictable items such as transfer values and investment income forecasts. In the latter case investment income forecasts could be linked to investment strategy and market performance reports.

The report should provide:

a brief commentary on the movement in assets and liabilities (in a valuation year) (further detail on the asset movements will be contained in the investment report)

an analysis of amounts due to the fund from employers:

an analysis of the timeliness of receipt of contributions (value and percentage received on or before the due date; aging of overdue contributions, etc)

whether the option to levy interest on overdue contributions has been exercised and, if so, on whom and how much

a budget v outturn report on the administrative costs of the fund during the year, including investment management expenses

a forecast v outturn report on the fund cash flows and asset values

in line with the reporting undertaken in the unfunded public sector schemes, a five-year analysis of pension overpayments, recoveries and any amounts written off,

including the results of participation in National Fraud Initiative (NFI) exercises (data matches, overpayments identified, actions taken, etc).

Administrative management performance

This section of the annual report includes:

key administration performance indicators used by the pension fund, such as:

- the number and trend of the top 10 case types
- the percentage completed on time against targets
- trends and performance against targets for satisfaction levels of employers and members
- numbers of complaints and the numbers of complaints as a percentage of workload

financial indicators of administrative efficiency, which could include:

- unit costs per member broken down by active, deferred and pensioner member, and including and excluding investment management expenses
- benchmarking of unit costs against appropriate comparators

key staffing indicators, such as:

- staff numbers and trends
- staff to fund-member ratios
- average cases per member of staff
- membership numbers and trends, including numbers and trends of contributors, deferred members, pensioner members and dependents

a five-year analysis of the fund's membership data (active, deferred and pensioner) with an analysis of pensioners in receipt of enhanced retirement benefits (ill health/early retirement enhancements). The membership analysis should also include an age profile of members within five-year bandings

a list of contributing employers and the amount of contributions received from each during the year (split by employers and employees – employees to be split by contribution band).

B: INVESTMENT POLICY AND PERFORMANCE REPORT

The investment policy and performance report is intended to demonstrate how the investment strategy has been put into practice during the year and how this links to the statement of investment principles.

The planned asset allocation should be stated along with the actual asset allocation for the beginning and end of the financial year in question, together with explanations for significant changes in the year. Asset allocations should be split by major asset classes in line with the categories employed in the financial statements. Investment performance should be disclosed for each asset class (as

defined in the Net Assets Statement in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom*, paragraph 6.5.3.4) and fund manager against the benchmarks set for 1 year, 3 years and 10 years.

The fund's responsible investment policies and any environmental, social and governance issues should be disclosed along with voting arrangements, and other initiatives such as engagement with companies and any collaborative ventures with other funds. The report should also outline the fund's approach to the UK Stewardship Code.

To support the policy disclosures, the report should also:

list any bodies of which the fund is member, subscriber or signatory, such as NAPF, LAPFF, UKSIF, UNPRI, etc

record where and how voting rights have been exercised

where a commitment to responsible investment is stated, what actions have been taken to pursue these aims

what actions the fund has taken to demonstrate compliance with the Myners principles.

This section of the report should include details of investment administration and custody, providing more detail than in A) above and describing who looks after which part of the portfolio.

This section of the report should also include a commentary on any matters relating to the implementation and application of the funding strategy statement during the reporting period, such as:

the implementation of any contribution increases

the management of admitted bodies

any bonds or any other secured funding arrangements entered into.

C: SCHEME ADMINISTRATION REPORT

The scheme administration section of the annual report should be a review of administration arrangements for the pension fund including a description of the key areas of technology used by the fund, such as information available on websites, self-service options and information sources.

The report should detail, for each of the following, a broad outline of the arrangements (including who undertakes the activity and where responsibility lies) for:

scheme member administration (including data quality) and if outsourced, to whom it is outsourced and why

pensioner administration

arrangements for gathering assurance over the effective and efficient operation of these operations.

The report should contain an outline of the fund's internal dispute resolution procedure including an analysis of new dispute cases raised during the reporting period and their resolutions (where applicable).

D: ACTUARIAL REPORT ON FUNDS

Regulation 36 of the Administration Regulations 2008 (Regulation 62 of The Local Government Pension Scheme Regulations 2013) (Regulation 32 in Scotland) requires that all LGPS funds commission a valuation of all of their funds on a specified date every three years.

For the purpose of the annual report, Regulation 34 only requires a statement by the actuary of the level of funding of the pension fund as reported at the last triennial valuation. However, pension fund administering authorities should also include:

- an executive summary of the last triennial valuation report and where the full version of the actuarial report can be obtained

- the results of any interim valuation

- any monitoring of key variables such as longevity experience, ill health retirements and use of discretionary powers impacting on the fund's solvency.

E: GOVERNANCE COMPLIANCE STATEMENT

Regulation 31 of the LGPS (Administration) Regulations 2008 (Regulation 55 of The Local Government Pension Scheme Regulations 2013) (Regulation 27 in Scotland) prescribes the content of the statement which is required to be included in this section of the annual report.

The statement should include:

- an outline of the governance structure and the roles and responsibilities of each element within the structure (including whether the element is executive or advisory:

 - pensions panel/pensions committee

 - any related sub-committees

- membership of the pensions panel/committee and any associated sub-committees within a matrix showing for each member:

 - voting rights

 - attendance at meetings

 - training received during the reporting period

policy and processes for managing any conflicts of interest.

The Administration Regulations only require pension fund administering authorities to include a copy of their latest statement in their annual report. However, authorities may wish to include some form of commentary and additional information to illustrate the policies in everyday terms for the general reader. That apart, administering authorities have a wide discretion as to how the information is to be presented and in what format.

F: FUND ACCOUNT, NET ASSETS STATEMENT AND NOTES

The Administration Regulations require that an administering authority include in the annual report a fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices for each of its pension funds. The financial statements are drawn up in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom* issued by CIPFA/LASAAC (which sets out proper practices to be followed).

Currently in England and Wales, the primary financial reporting of the pension fund is through the annual statement of accounts for the pension fund administering authority prepared in accordance with Regulation 7 of the Accounts and Audit (England) Regulations 2011. Therefore the pension fund accounts in the annual report should match those in the annual statement of accounts.

G: PENSIONS ADMINISTRATION STRATEGY REPORT

This section of the annual report should set out performance achieved against standards or targets set out in the pensions administration strategy in its dealings with members and employer bodies.

Pension fund administering authorities have discretion as to whether or not they prepare a pensions administration strategy. Where such a strategy is produced, Regulation 65(2)(b) of the Administration Regulations 2008 (Regulation 59 of The Local Government Pension Scheme Regulations 2013) (Regulation 60A in Scotland) specifies the matters to be included.

The annual report should describe the service standards agreed in any service level agreements with fund employers and report performance against those standards by employer. Examples might be:

- the provision of named pensions contacts for employer
- the provision of an employer discretions policy document
- the submission of statements of compliance regarding the administration of the

scheme within the employer

the timeliness of data submissions by the employer

the timeliness of employer responses to fund queries.

The report should also set out any use of powers to seek compensation from employers in respect of any service standard breaches.

As the production of a pensions administration strategy is not a mandatory requirement; this section of the report will only apply to those funds with a strategy in place.

H: FUNDING STRATEGY STATEMENT

Since 2004, administering authorities have been required to prepare, publish and maintain funding strategy statements (FSS) under Regulation 35 of the Administration Regulations 2008 (Regulation 58 of The Local Government Pension Scheme Regulations 2013) (Regulation 31 in Scotland). The Regulation requires the pension fund administering authority to keep its statement under review and to make such revisions as are appropriate following a material change either:

to its policy on matters covered by the statement, or

to the statement of investment principles.

It is possible, therefore, that an authority may publish more than one FSS during the reporting period but, for the purposes of the pension fund annual report, it is recommended that the statement as it stood at the **beginning** of the reporting period should be reproduced in full with any revisions either shown in a separate section, if the revisions are major, or as highlighted text in the published statement itself, if minor.

I: STATEMENT OF INVESTMENT PRINCIPLES

Pension fund administering authorities are required to prepare, maintain and publish a statement of investment principles (SIP) under Regulation 12 of the LGPS (Management and Investment of Funds) Regulations 2009 (Regulation 12 of the LGPS (Management and Investment of Funds)(Scotland) Regulations 2010).

Regulation 34 of the Administration Regulations requires that this section of the annual report include the current version of the SIP. The content of the SIP is specified in Regulation 12 of the LGPS (Management and Investment of Funds) Regulations. The SIP sets out the authority's principles for investing fund monies. In doing so it should:

state the extent to which it complies with statutory guidance for producing the SIP, including any reasons for non-compliance. The CIPFA publication *Investment Decision Making and Disclosure in the Local Government Pension Scheme: A*

Guide to the Application of Myners Principles constitutes the relevant statutory guidance

link with the investment policy and performance section of the annual report (Section B)

link with the financial instrument risk disclosures included in the pension fund accounts (Section F).

J: COMMUNICATIONS POLICY STATEMENT

For English and Welsh pension fund administering authorities, Regulation 67 of the Administration Regulations requires them to prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities.

The requirement to include this statement in the pension fund annual report is not intended to have any effect on the way in which individual administering authorities have chosen to publish the statement in the past under Regulation 67.

The report should contain a commentary on how the fund has met the commitments set out in the communications policy statement including:

how scheme information has been provided to members, their representatives and employers.

in what format and how frequently information has been provided

what steps the fund has taken to promote scheme membership to prospective members.

K: ANY OTHER APPROPRIATE MATERIAL

Although Regulation 34 (Regulation 31A in Scotland) of the Administration Regulations prescribes what must be included in the pension fund annual report, this needs to be seen as a minimum requirement with administering authorities free to include other information as they see fit. For example, funds may wish to include in this section:

the statement of compliance with the CIPFA *Code of Practice on Public Sector Pensions Finance Knowledge and Skills*

evidence to demonstrate compliance with the code of practice, such as a report on officer and member training undertaken during the year (if not reported elsewhere), skills and knowledge reviews undertaken, etc

the role played by the administering authority's internal auditors in providing assurance and managing risk, and a summary of assurance activity undertaken during the year (including any key points arising from such reviews or from the review of AAF01/06 or SSAE16 reports)

a commentary on how employer discretions have been exercised in the reporting period

a glossary of commonly used pension fund terms to aid readers.

Specific requirements

To assist in the production of the scheme annual report compiled by the LGPS Scheme Advisory Board, funds are required to include the following in this section:

1. A summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members). The data should be shown in tabular format as follows:

	Active	Ceased	Total
Scheduled body	xx	xx	xxx
Admitted body	xx	xx	xxx
Total	xxx	xxx	xxx

2. The number of the members in the fund analysed by active, deferred, pensioner and undecided leavers (i.e. those members who are no longer accruing service and to whom a refund of contributions or transfer out may be due)

3. An analysis of fund assets as at the reporting date, analysed as follows:

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	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities				
Bonds				
Property (direct holdings)				
Alternatives				
Cash				
Total				

An analysis of investment income accrued during the reporting date, analysed as follows:

	UK	Non-UK	Global	Total
	£000s	£000s	£000s	£000s
Equities				
Bonds				
Property (direct holdings)				
Alternatives				
Cash				
Total				

In the above tables:

“Alternatives” are taken to mean holdings in private equity, hedge funds, pooled property funds, infrastructure funds, derivatives and other assets not falling into any other category.

"Global" holdings are those that include an element of both overseas and UK listed assets

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Annex A

In England and Wales, the statutory basis for LGPS fund annual reports for reporting periods beginning 1 April 2014 is Regulation 57 of The Local Government Pension Scheme Regulations 2013, which is reproduced below:

Pension fund annual report

57. (1) An administering authority must, in relation to each year beginning on 1st April 2014 and each subsequent year, prepare a document (“the pension fund annual report”) which contains—
- (a) a report about the management and financial performance during the year of each of the pension funds maintained by the authority; .
 - (b) a report explaining the authority’s investment policy for each of those funds and reviewing the performance during the year of the investments of each fund; .
 - (c) a report of the arrangements made during the year for the administration of each of those funds; .
 - (d) for each of those funds, a statement by the actuary who carried out the most recent valuation of the assets and liabilities of the fund in accordance with regulation 62 (actuarial valuations of pension funds), of the level of funding disclosed by that valuation; .
 - (e) the current version of the statement under regulation 55 (governance compliance statement); .
 - (f) for each of the funds, the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices; .
 - (g) an annual report dealing with— .
 - (i) the extent to which the authority and the Scheme employers in relation to which it is the administering authority have achieved any levels of performance set out in a pension administration strategy in accordance with regulation 59 (pension administration strategy), and .
 - (ii) such other matters arising from a pension administration strategy as it considers appropriate; .
 - (h) the current version of the statement referred to in regulation 58 (funding strategy statement); .
 - (i) the current version of the statement under regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (statement of investment principles)(1); .
 - (j) the current version of the statement under regulation 61 (statements of policy

- concerning communications with members and Scheme employers); and .
- (k) any other material which the authority considers appropriate. .
- (2) The authority must publish the pension fund annual report on or before 1st December following the Scheme year end.
- (3) In preparing and publishing the pension fund annual report, the authority must have regard to guidance given by the Secretary of State.

(1) S.I. 2009/3093.

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