

## 6.5 ACCOUNTING AND REPORTING BY PENSION FUNDS

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### 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 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statements for a retirement benefit plan; and other relevant provisions of IFRS apply to the extent that they are not superseded by specific IAS 26 requirements. So, for example, to the extent that they are not superseded by specific IAS 26 requirements: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 (as adapted by the Code)) govern the recognition, measurement, presentation and disclosure of financial instruments as specified in section 7.4 of the Code (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 (as adapted by the Code) on post-employment benefits governs the measurement of a plan's obligation to provide pension benefits.
  - the IFRS 13 scope exclusion for fair value investment disclosures for IAS 26 has been removed and IFRS 13 has been adapted in section 2.10 of the Code, therefore IFRS 13 fair value measurement disclosures apply to those investments.
- 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retirement benefit plan financial statements; other relevant provisions of the Code apply to the extent they are not superseded by this section of the Code.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.

### ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code

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

- 6.5.15 Under the Local Government Pension Scheme Regulations 2013 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. Regulations<sup>1</sup> 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'*.
- 6.5.16 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.
- 6.5.17 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.
- 6.5.18 The Scottish Government has specified in Finance Circular ~~16/2011~~ 2015<sup>2</sup> 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 6.5.5.34. The guidance that accompanies 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.

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<sup>1</sup> 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.

<sup>2</sup> The original requirements for this move were contained in Scottish Government Finance Circular 1/2011. This was replaced by Circular 6/2015.

## ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code

### 6.5.2 Adaptation for the Public Sector Context

#### Requirement to prepare pension fund accounts

6.5.21 IAS 26 does not require pension fund accounts to be prepared or indicate the circumstances that it would be appropriate to prepare pension fund accounts. Local policing bodies (local policing bodies in this section of the Code are those bodies defined in section 96 of the Police and Social Responsibility Act 2011) and fire and rescue service pension funds are single employer and unfunded and therefore the benefit of preparing IAS 26 compliant pension fund accounts is reduced since the police or fire and rescue services main Statement of Accounts will contain much of the relevant information. The Code does not require local policing bodies and fire and rescue service authorities to prepare IAS 26 based pension fund accounts. However, each individual local policing body and fire and rescue service authority (FRSA) in England and Wales is required by legislation to operate a pension fund and include pension fund accounts in its Statement of Accounts. This requirement was introduced in 2007/08 in England and Wales, when the funding arrangement changed from one where the police or FRSA met pension benefits directly, to one where the employer was required to pay an employer's contribution at a specified percentage rate and operate a pension fund.

6.5.22 For pension funds participating in the following pension schemes, pension fund accounts in accordance with paragraphs 6.5.3.1 to 6.5.5.1 of the Code shall be prepared by the local authority that administers the Pension Fund:

- a) the Local Government Pension Scheme (in England and Wales)
- b) the Local Government Pension Scheme (in Scotland).

For pension funds participating in the following pension schemes, pension fund accounts in accordance with paragraphs 6.5.6.1 to 6.5.6.6 shall be prepared:

- a) the Firefighters' Pension Scheme for England
- b) the Firefighters' Pension Scheme for Wales
- c) the Police Pension Scheme in England and Wales.

#### Valuation of financial instruments

6.5.23 IAS 26 is a very old standard dating back to 1988 and one of its provisions is incompatible with the much more recently issued IAS 19. IAS 26 includes an option to carry securities that have a fixed redemption value and that have been acquired to match the obligations of the plan, or specific part thereof '*at amounts based on their ultimate redemption value assuming a constant rate to maturity*'. IAS 19 does not permit this and the option shall not be used under the Code.

6.5.24 IAS 26 requires marketable securities to be carried at market value; the Code clarifies that the market value that shall be used is the bid price in accordance with the provisions of IAS 39 *Financial Instruments: Recognition and Measurement* for determining the fair value of financial instruments.

## ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code

### Analysis of investment assets and income

6.5.25 Paragraph 35 of IAS 26 requires the net assets available for benefit at the end of the period to be *'suitably classified'*. In order to ensure comparability between different local authority pension fund disclosures in this key area, requirements based on the *Financial Reports of Pension Schemes – A Statement of Recommended Practice 2015 (2015 Pension SORP)* have been included. For similar reasons, an analysis of investment income based on the Pension SORP has been adopted by the Code to ensure authorities also disclose comparable information in this area.

### Additional voluntary contributions

6.5.26 The matter of additional voluntary contributions (AVCs) paid by members and separately invested outside the pension fund is not covered by IAS 26. The Code requires note disclosure of such AVC transactions. The Code note is based on the similar *2009-2015 Pension SORP* disclosure.

### Actuarial present value of promised retirement benefits

6.5.27 IAS 26 requires the *'actuarial present value of promised retirement benefits'* to be disclosed, which is the IAS 26 terminology for what IAS 19 refers to as the *'defined benefit obligation'*. IAS 26 permits the valuation to be based on either current salary levels or projected salary levels. IAS 19 (and the Code) requires projected salary levels to be used when measuring the defined benefit obligation of an employer. Therefore, for consistency between what the employers participating in a pension fund disclose in their Statements of Accounts, and what the pension fund discloses as the *'defined benefit obligation'* for the pension fund accounts as a whole, the option to use current salary levels is not permitted when measuring the actuarial present value of promised retirement benefits of a pension fund.

6.5.28 IAS 26 requires the actuarial present value of promised retirement benefits to be disclosed. However, it gives three options for disclosure:

- **Option A** – in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit
- **Option B** – in the notes to the accounts
- **Option C** – by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS 26 requires the most recent valuation (which should be based on IAS 19, not the pension fund's funding assumptions) to be used as a base and the date of the valuation disclosed. The Code Board is of the view that the options B and C outlined above do not require the assets and liabilities in the pension fund to

## **ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code**

represent the position at the end of the reporting period. The Code Board's preferred approach is Option A in order that the assets and liabilities in the pension fund are disclosed at the end of the reporting period. However, the Code permits the use of options B and C.

6.5.29 In the Code Board's view, it would be unhelpful to present as a surplus or deficit on the pension fund an amount derived by comparing the pension fund's assets at the Balance Sheet date with its pension liabilities at an earlier date. Option A may only be used where the actuarial present value of promised retirement benefits being disclosed is at the end of the reporting period. However, Option A does not require a full actuarial valuation to be undertaken every year; the same actuarial techniques for rolling forward the last full triennial actuarial revaluation used to estimate individual employers' IAS 19 pension liabilities between triennial revaluations may be used.

### **Financial instruments**

6.5.210 There is a general requirement under IFRS to disclose matters that are material to an understanding of the financial position and financial performance of an entity, as well as specific requirements in IFRS 7 to report on the risks to which financial instruments expose the entity. With regard to this, investments in non-sterling securities are subject to extra risk in the form of exchange rate risk; and stock lending is in the nature of a trading activity rather than an investing activity, and entails counter-party default risks. Note disclosures concerning these have been included in the Code.

## **6.5.3 Accounting Requirements (excluding police and fire and rescue service pension funds)**

6.5.31 Pension funds may be either defined contribution funds or defined benefit funds. Defined contribution funds, if they occur at all, are rare in local authorities: all the pension schemes in which significant numbers of local authority employees participate provide pension benefits on a defined benefit basis. Defined contribution pension funds are not covered in detail by the Code; should they occur the requirements of IAS 26 shall be followed.

### **Scottish Administering Authorities**

6.5.32 Scottish authorities administering local government pension schemes are required to publish separate financial statements. Scottish local authorities shall therefore provide separate financial statements under the reporting requirements of this Code (and specifically this section of the Code). Statutory guidance for the reporting requirements of separate financial statements is provided under Scottish Local Government Finance Circular No. 6/2015.

## ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code

### Valuation of plan assets for all plans

**6.5.3.23** Pension fund investments shall be carried at fair value. In the case of marketable securities, fair value shall be market value and the current bid price shall be used.

### Defined benefit pension funds

**6.5.3.34** The objective of reporting by a defined benefit pension fund is periodically to provide information about the financial resources and activities of the pension fund that is useful in assessing the relationships between its benefit obligations and the accumulation of resources available to meet those benefit obligations over time.

**6.5.3.45** The financial statements of a defined benefit pension fund shall contain:

- a) A **fund account** disclosing changes in net assets available for benefits (see paragraphs 6.5.3.6 and 6.5.6.6). Where presentation Option A (see paragraph 6.5.2.8) is followed the change in the actuarial present value of promised retirement benefits for the period and the resulting surplus or deficit for the period is also shown.
- b) A **net assets statement** showing the assets available for benefits at the ~~year~~ end year-end (see paragraphs 6.5.3.6 and 6.5.6.6). Where presentation Option A (see paragraph 6.5.2.8) is followed, the actuarial present value of promised retirement benefits and the net pension liability or asset at the period end is also shown.
- c) **Notes to the accounts** - (see paragraphs 6.5.5.1 and 6.5.6.7).

### Defined Benefit Pension Funds (excluding police and fire and rescue services pension funds)

6.5.3.6 The presentation and disclosure requirements for Defined Benefit Pension Funds (excluding police and fire and rescue services pension funds) are shown below.

#### **a) Fund Account**

Note: the major categories are indicated in bold. The unbolded items ~~may~~ shall be analysed in the notes to the accounts, if not shown on the face of the Fund Account or Net Assets Statement.

#### **Contributions**

- Employer contributions
- Member contributions

#### **Transfers in from other pension funds**

- Group Transfers from other schemes or funds
- Individual Transfers from other schemes or funds

#### **Other income**

## ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code

### Benefits

- Pensions
- Commutation of pensions and lump sum retirement benefits
- Purchased annuities
- Lump sum death benefits

### Payments to and on account of leavers

- Refunds to members leaving scheme or fund
- Payments for members joining state scheme or fund
- Group transfers to other schemes or funds
- Individual transfers to other schemes or funds

### Other payments

#### ~~Administrative Management~~ expenses<sup>3</sup>

Subtotal: Net additions/(withdrawals) from dealings with members (Net amount of income or expenditure represented by the items above)

### Investment income

- Dividends from equities
- Income from bonds
- Net rents from properties (any material netting off should be disclosed)
- Income from pooled investment vehicles
- Income from derivatives
- Interest on cash deposits
- Share of profit/losses from associates and joint ventures
- Other

~~Interest from fixed interest securities~~

~~Dividends from equities~~

~~Income from index-linked securities~~

~~Income from pooled investment vehicles~~

<sup>3</sup> The Code uses the term management expenses as this is a better description of the costs incurred by pension funds; however, this has the same meaning as administrative expenses in IAS 26.

<sup>4</sup> ~~The Code refers to 'administrative expenses' in accordance with the requirements of IAS 26.~~ CIPFA has issued guidance, *Accounting for Local Government Pension Scheme Management Costs*. This guidance does not change the accounting requirements for administrative expenses in IAS 26 but describes them instead as 'management expenses or costs'. It does, however, suggest additional disclosure requirements. CIPFA/LASAAC recommends that local authorities have due regard to this guidance.

## ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code

~~Net rents from properties~~

~~Interest on cash deposits~~

~~Share of profit/losses from associates and joint ventures~~

~~Income from derivatives~~

~~Other (for example stock lending or underwriting)~~

Profit and losses on disposal of investments and changes in value of investments

**Taxes on income**

**Subtotal: Net return on investments**

**Net increase (decrease) in the net assets available for benefits during the year**

**Note:** only where presentation Option A has been adopted (see paragraph 6.5.2.8) also show the following.

**Change in actuarial present value of promised retirement benefits**

Vested benefits

Non-vested benefits

**Surplus/(deficit) on the pension fund for the year**

### **b) Net Assets Statement**

**Investment assets**

~~▪ Fixed interest securities (analysed between public sector and other)~~

▪ Equities (including convertible shares)

~~Index-linked securities (analysed between public sector and other)~~

▪ Bonds

▪ Pooled investment vehicles (analysed between unit trusts, unitised insurance policies and other managed funds (including open-ended investment trusts, OEICs, and assets held in limited liability – partnerships), showing separately those funds invested in property)

▪ Derivative contracts (including futures, options, forward foreign exchange contracts and swaps)

▪ Property

▪ Insurance policies (with profit contracts, unitised with-profits contracts and annuity and deferred annuity contracts)

▪ Loans

▪ Other investments (such as works of art)

▪ Cash deposits (including fixed term deposits, certificates of deposit, floating rate notes and other cash instruments)

## **ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code**

- Other investment balances (such as debtors in respect of investment transactions where these form part of the net assets available for investment within the investment portfolio; and other assets and liabilities directly connected with investment transactions, accrued dividend entitlements and recoverable withholding tax, suitably analysed where material)

### **Investment liabilities**

- Derivative contracts (including futures, options, forward foreign exchange contracts and swaps)
- Other investment balances (such as creditors in respect of investment transactions and other liabilities directly connected with investment transactions)

### **Borrowings**

- Sterling
- Foreign currency

### **Current assets**

- Contributions due from employers
- Other current assets
- Cash balances (not forming part of the investment assets)

### **Current liabilities**

- Unpaid benefits
- Other current liabilities (such as accrued expenses, other than liabilities to pay pensions and other benefits in the future)

### **Net assets of the scheme available to fund benefits at the period end**

**Note:** only where presentation Option A has been adopted (see paragraph 6.5.2.8) also show the following.

Actuarial present value of promised retirement benefits

Vested benefits

Non-vested benefits

### **Net pension liability or asset at the reporting period end**

## **6.5.4 Statutory Accounting Requirements for Defined Benefit Pension Funds (excluding police and fire and rescue services pension funds)**

**6.5.4.1** There are no statutory accounting requirements for defined benefit pension funds (excluding police and fire and rescue service pension funds).

## **6.5.5 Disclosures for Defined Benefit Pension Funds**

### ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code

#### (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~~The significant accounting policies for the pension fund.
  - 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— see Section 2.10 and IFRS 13.
  - 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~~end of the reporting period (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; ~~and whether whether~~ an independent valuer was used; Reference should be made to section 2.10 for fair value disclosure requirements of investment properties. This would include but is not limited to:

### ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code

- 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 in an orderly transaction or were estimated using other valuation techniques (see section 2.10 and IFRS 13 for the valuation techniques and the levels within the fair value hierarchy which apply to the measurement of the fair value of the investment properties).
- ~~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 and split by members contributions, employers normal contributions, employers deficit recovery contributions and employers augmentation contributions.
  - 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

### ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code

included in the pension fund accounts in accordance with regulation 4(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

- v) CIPFA/LASAAC considers that it is vitally important that the cost of management expenses are clearly understood by the users of pension fund financial statements and therefore the Code recommends that the total amount of direct transaction costs of all significant asset classes (ie investment types) should be disclosed in the notes to the financial statements under the investments reconciliation table in f) above. It also recommends that the notes to the financial statements should include explanation to enable users to understand the nature of the transaction costs and how they arise for different types of investment.

#### Administering Authorities in Scotland – Management commentary and annual governance statement in the Abstract of Accounts

##### **Management commentary and annual governance statement – Scottish authorities**

6.5.5.2 Section 3.1 of the Code sets out the requirements in accordance with the Local Authority Accounts (Scotland) Regulations 2014 to provide a Management Commentary. The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (the Administration Regulations) require Scottish local authorities to include a report about the management and financial performance during the year of each of the pension funds maintained by the authority. Guidance issued by the Scottish Government, Scottish Government Finance Circular 7/2014 on the Local Authority Accounts (Scotland) Regulations 2014, recommends that one report is published in the Pension Fund Annual Report and Annual Accounts which satisfies the legislative requirements of both sets of regulations. Reporting requirements for administering authorities in Scotland are now provided under Scottish Government Finance Circular 6/2015.

6.5.5.3 Section 3.7 of the Code sets out the requirements in accordance with the Local Authority Accounts (Scotland) Regulations 2014 to provide an Annual Governance Statement. Scottish local government pension fund financial statements are required by the Administration Regulations to include a governance compliance statement. Scottish Government Guidance, issued in Scottish Government Finance Circular 7/2014, recommends that one report is published in the Pension Fund Annual Report and Annual Accounts which satisfies the legislative requirements of both sets of regulations. Reporting requirements for administering authorities in Scotland are now provided under Scottish Government Finance Circular 6/2015.

### **ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code**

#### **Statutory disclosures for administering authorities in Scotland in the local authority financial statements**

6.5.5.4 Administering authorities in Scotland are required by statutory guidance (Scottish Government Finance Circular ~~16/2014~~ 2015 *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.

#### **6.5.6 The Police Pension Scheme in England and Wales, the Firefighters' Pension Scheme in England, and the Firefighters' Pension Scheme in Wales**

6.5.6.1 The Police Pension Scheme in England and Wales, the Firefighters' Pension Scheme in England and the Firefighters' Pension Scheme in Wales are unfunded but authorities do not meet the pension outgo directly: rather they pay an employer's pension contribution based on a percentage of pay into the pension fund.

6.5.6.2 Subject to scrutiny and approval by the Secretary of State/Minister and Parliament/Welsh Government, central government pays pension top-up grant for the year up to the amount by which the amount payable from the pension fund/account for the year exceeded the amount receivable. The current expectation is that top-up grant of 100% of the deficit will be paid. Where the amounts receivable by the pension fund/account for the year exceeds the amounts payable, the surplus on the pension fund/account is payable to central government.

6.5.6.3 While the funding arrangements for the various pension schemes are similar, the regulations are not uniform with regard to the way the surplus or deficit on the pension fund/account for the year is funded.

##### **Police Pension Scheme (England and Wales)**

6.5.6.4 The funding arrangements for police pension funds are contained in the Police Pension Fund Regulations 2007 (SI 2007/1932). The regulations require that if the pension fund does not have enough funds to meet the cost of pensions in any year, ie the amount receivable by the pension fund for the year is less than the

### **ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code**

amount payable, the amount required to meet the deficit must be transferred from the local policing bodies to the pension fund. Subject to Parliamentary scrutiny and approval, up to 100% of this amount is then recouped by the local policing body in the form of a top-up grant paid by central government (the current expectation is that 100% grant will be paid). Conversely, if the police pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the local policing body, which in turn is required pay the amount to central government.

#### **Firefighters' Pension Scheme (England and Wales)**

6.5.6.5 The funding arrangements for the Firefighters' Pension Scheme for England are contained in the Firefighters' Pension Scheme (Amendment) (England) Order 2006 (SI 2006/1810). The funding arrangements for the Firefighters' Pension Scheme for Wales are contained in Part 13 of the Firefighters' Pension Scheme (Wales) Order 2007 (WSI 2007/1072). These orders require that every amount paid or repaid to or by an authority shall be credited or, as the case may be, debited, to their firefighters' pension fund. Therefore where the pension shows a deficit for year, the top-up grant is payable to the pension fund. Conversely, if the fund is in surplus for the year, an amount equal to the surplus is payable by the pension fund to central government. If the pension fund account is not balanced to nil by pension top-up grant receivable or by the amount payable to central government, the pension fund should be balanced to nil by a supplementary contribution from the authority to the pension fund or by the pension fund returning contribution to the authority.

6.5.6.6 The ~~minimum~~ presentation and disclosure requirements for police pension funds/accounts and firefighters' pension funds/accounts are shown below.

#### **Information to be included in the pension fund (England and Wales) accounting statements of local policing bodies and fire and rescue service authorities**

(The amounts that must be debited and credited to the Pension Fund/Account are specified by regulation. There are separate regulations for the Police Pension Scheme for England and Wales, the Firefighters' Pension Scheme for England, and the Firefighters' Pension Scheme for Wales. The underlying principles are broadly the same for all the schemes but the details of the way the amounts are determined may vary and the amounts should be determined in accordance with the relevant regulations in force for the financial year.)

#### **a) Fund Account<sup>5</sup> (England and Wales)**

##### **Contributions receivable**

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<sup>5</sup> Bullets have been added to this statement for ease of presentation they have not been tracked.

## **ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code**

- from employer
  - normal
  - early retirements
  - other (specify, eg reimbursement of unabated pensions of '30+' police officers)
- from members
- **Transfers in**
  - individual transfers in from other schemes
  - other (specify)
- **Benefits payable**
  - pensions
  - commutations and lump sum retirement benefits
  - lump sum death benefits
  - other (specify)
- **Payments to and on account of leavers**
  - refunds of contributions
  - individual transfers out to other schemes
  - other (specify)

**(For Firefighters' Pension Schemes in England and Wales) Sub-total: Deficit/Surplus for the year before top-up grant receivable/amount payable to central government**

**(For Firefighters' Pension Schemes in England and Wales) Top-up grant receivable/amount payable to central government**

**(For Police Pension Schemes) Additional funding payable by the local policing body/Police Operating Account to meet deficit/amount payable to the local policing body/Police Operating Account in respect of the surplus for the year**

**Net amount payable/receivable for the year**

### **b) Net Assets Statement<sup>6</sup> (England and Wales only)**

- **Current assets**
  - contributions due from employer
  - (for Firefighters' Pension Scheme) pension top-up grant receivable from central government

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<sup>6</sup> Bullets have been added to this statement for ease of presentation they have not been tracked.

### **ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code**

- (for Police Pension Scheme) funding to meet deficit receivable from local policing body
- other current assets
- **Current liabilities**
  - unpaid pension benefits
  - (for Firefighters' Pension Scheme) amount payable to central government
  - (for Police Pension Scheme) surplus for year payable to local policing body
  - other current liabilities (other than liabilities to pay pensions and other benefits in the future)

#### **Information to be disclosed in notes to the Pension Fund Accounts of local policing bodies and FRSAs**

**6.5.6.7 The following information shall be disclosed in the notes to the Pension Fund Accounts of local policing bodies and FRSAs:**

- a) (For Firefighters' Pension Funds in England and Wales) A general description of the fund's operations including the fact that there are no investment assets and that the fund is balanced to nil each year by receipt of pension top-up grant from central government if there is a deficit or by paying over the surplus to central government, together with an explanation of how the fund is administered and managed.
- b) (For Police Pension Funds in England and Wales) A general description of the fund's operations including the fact that there are no investment assets and that if there is a deficit for the year the fund is balanced to nil by the local policing body transferring an amount equal to the deficit to the pension fund, which it recoups from central government, or if there is a surplus for the year by transferring the surplus from the pension fund to the local policing body, which it pays over to central government, together with an explanation of how the fund is administered and managed.
- c) The accounting policies followed in dealing with items which are judged material in accounting for, or reporting on, the transactions and net assets of the fund/account together with the estimation techniques adopted that are significant.
- d) An explanation that the fund's/account's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. Information on where details of the authority's long-term pension obligations can be found in the main statements shall be disclosed.

## ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code

### 6.5.7 Changes since the ~~2014~~2015/15-16 Code

~~6.5.7.1~~ The ~~2015/16 Code~~2016/17 Code includes amendments ~~to reflect the changes to the requirements and guidance for financial reporting in relation to pension funds in Scotland as a result of the Local Authority Accounts (Scotland) Regulations 2014 and Scottish Government Finance Circular 7/2014~~as a result of the review of the Accounting and Reporting by Pension Funds Section of the Code. These amendments include:

- Update to the format of the fund account and the net asset statement to be consistent with the new 2015 Pensions SORP.
- Recommendations for a new disclosure on investment management transaction costs
- A new Annex setting out the application of other sections of the Code, and
- Other minor drafting improvements.

~~6.5.7.1~~ The 2016/17 Code also includes new updated references to Scottish Government Circular 6/2015.

## **ANNEX TO SECTION 6.5<sup>7</sup>**

### **Table: Overview of Application of other Sections of the Code to Pension Fund Statements**

**A6.5.1** This table is intended to assist local authorities in preparing their authority pension fund accounts preparers to identify the other sections of the Code which apply to them. Local authorities should ensure that they are content that they have identified all the material transactions that might occur and consider the relevant sections of the Code that apply to them.

Section or Chapter of the Code	Commentary on the Substantial Areas of Application for Local Authority Pension Funds
Chapter One: Introduction	<ul style="list-style-type: none"> <li>▪ The Code applies to administering authorities for the Local Government Pension Scheme and other pension funds in the United Kingdom.</li> <li>▪ Application to local authorities will be by means of the relevant accounts or accounts and audit regulations in England, Scotland and Wales.</li> <li>▪ Further details on the application of the requirements of the Code are also found in Section 6.5 of the Code.</li> </ul>
Section 2.1: Concepts	<ul style="list-style-type: none"> <li>▪ The Concepts section of the Code applies fully to the pension fund accounts, insofar as there are relevant transactions in the pension funds. It is unlikely, for example, that consideration of service potential in the definition of an asset or a liability will have substantial application to pension funds.</li> <li>▪ In relation to the objectives of the financial statements the focus will be on members, prospective members, deferred pensioners pensioners and other beneficiaries.</li> <li>▪ Materiality considerations in the Code apply equally to pension fund financial statements.</li> </ul>
Section 2.3: Government and Non-Government Grants	<ul style="list-style-type: none"> <li>▪ This will apply to section 6.5 where government grants are paid into pension funds, though the statutory accounting requirements are unlikely to apply to the pension fund itself.</li> </ul>

<sup>7</sup> Exposure Draft Footnote only – The Annex is wholly new and therefore has been presented without tracked changes to improve the readability of the new text.

### ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code

Section or Chapter of the Code	Commentary on the Substantial Areas of Application for Local Authority Pension Funds
Section 2.5: Local Government Reorganisation and Other Combinations	<ul style="list-style-type: none"> <li>▪ This is unlikely to apply to pension funds. However, the principles might apply under any reorganisation of pension funds.</li> </ul>
Section 2.7: Revenue Recognition	<ul style="list-style-type: none"> <li>▪ Income recognised in the pension fund would be recognised in accordance with this section of the Code.</li> </ul>
Section 2.8: Tax Income (Council Tax, Residual Community Charges, Non-Domestic Rates (NDR) and Rates)	<ul style="list-style-type: none"> <li>▪ Does not directly apply to pension funds.</li> </ul>
Section 2.9: Value Added Tax	<ul style="list-style-type: none"> <li>▪ Value Added Tax may apply to pensions fund transactions, for example, to purchases of services needed to support the fund.</li> </ul>
Section 2.10: Fair Value Measurement	<ul style="list-style-type: none"> <li>▪ The measurement and disclosure requirements for fair value apply but see particularly paragraph 6.5.2.4.</li> </ul>
Section 3.1: Narrative Report	<ul style="list-style-type: none"> <li>▪ This applies to local authority financial statements and therefore applies to pension funds within the local authority statements. Administering authorities in England and Wales are likely to wish to add additional brief commentary on the Pension Fund though this is likely to be met by the description of the Fund in paragraph 6.5.5.1 a).</li> <li>▪ Scottish local authorities – are required to provide a separate management commentary in the pension fund abstract of accounts – see Scottish Local Government Finance Circular No. 6/2015.</li> </ul>
Section 3.2: Statement of Responsibilities	<ul style="list-style-type: none"> <li>▪ This should be covered by the Statement of Responsibilities for the authority's main financial statements.</li> <li>▪ Local authorities in Scotland are likely to need a separate statement of responsibilities for the</li> </ul>

### ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code

Section or Chapter of the Code	Commentary on the Substantial Areas of Application for Local Authority Pension Funds
	pension fund abstract of accounts.
Section 3.3: Accounting Policies, Changes in Accounting Estimates and Errors	<ul style="list-style-type: none"> <li>▪ This section applies in full to local authority pension funds.</li> <li>▪ This includes the reporting requirements for:               <ul style="list-style-type: none"> <li>– Changes in accounting policies (paragraph 3.3.4.2)</li> <li>– Impact of accounting changes required by new standards that have been issued, but not yet adopted (paragraph 3.3.4.3)</li> <li>– Estimates (paragraph 3.3.4.4), and</li> <li>– Errors (paragraph 3.3.4.5).</li> </ul> </li> </ul>
Section 3.4: Presentation of Financial Statements	<ul style="list-style-type: none"> <li>▪ This section of the Code applies to local authority pension funds statements. However, the main financial statements are specified in section 6.5 of the Code ie paragraphs 6.5.3.6 and 6.5.5.6 (the latter for local policing bodies and FRSA's in England and Wales).</li> <li>▪ Section 6.5 also includes specific pensions fund statement disclosures at paragraph 6.5.5.1 (this paragraph does not apply to local policing bodies or FRSA's – the disclosures for these bodies are included under paragraph 6.5.5.7).</li> <li>▪ Items that are particularly important include reporting requirements for:               <ul style="list-style-type: none"> <li>– fair presentation (paragraphs 3.4.2.19 to 3.4.2.22 and 3.4.2.25))</li> <li>– going concern (paragraph 3.4.2.23 and section 2.1)</li> <li>– accruals accounting (paragraph 3.4.2.24 and section 2.1)</li> <li>– materiality (paragraph 3.4.2.26 to 3.4.2.27 and section 2.1)</li> <li>– comparative information (paragraph 3.4.2.30)</li> <li>– offsetting (paragraph 3.4.2.28 and also see section 7.4.5)</li> <li>– reclassification ( paragraphs 3.4.2.31 to 3.4.2.32)</li> </ul> </li> </ul>

### ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code

Section or Chapter of the Code	Commentary on the Substantial Areas of Application for Local Authority Pension Funds
	<ul style="list-style-type: none"> <li>– consistent presentation (paragraph 3.4.2.33 and section 2.1)</li> <li>– notes and their presentation (paragraphs 3.4.2.81 to 3.4.2.83)</li> <li>– basis of preparation (paragraphs 3.4.2.84 to 3.4.2.85)</li> <li>– significant accounting policies (paragraphs 3.4.2.84 and 3.4.2.86 and 6.5.5.1 b))</li> <li>– critical judgements (paragraph 3.4.2.85)</li> <li>– information about the assumptions an administering authority makes about the future, and other major sources of estimation uncertainty at the end of the reporting period (paragraph 3.4.2.87).</li> </ul>
Section 3.7: Statements Reporting Reviews of Internal Controls	<ul style="list-style-type: none"> <li>▪ For pension funds for administering authorities in England and Wales this should be covered by the Statement of Responsibilities in a local authority's main statement of accounts.</li> <li>▪ Scottish local government pension fund financial statements are required by the Administration Regulations to include a governance compliance statement. Scottish Government Guidance, issued in Scottish Government Finance Circular 7/2014, recommends that one report is published in the Pension Fund Annual Report and Annual Accounts which satisfies the legislative requirements of both sets of regulations. See also Scottish Local Government Finance Circular No. 6/2015.</li> </ul>
Section 3.8: Events After the Reporting Period	<ul style="list-style-type: none"> <li>▪ Applies fully to pension fund statements.</li> </ul>
Section 3.9: Related Party Disclosures	<ul style="list-style-type: none"> <li>▪ This section applies to pension fund financial statements in full.</li> <li>▪ Administering local authorities in England and Wales may be able to rely in part on cross referencing to the main financial statements. Particular related parties for the pension fund would need to be reported separately – see also</li> </ul>

### ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code

Section or Chapter of the Code	Commentary on the Substantial Areas of Application for Local Authority Pension Funds
	<p>paragraph 6.5.5.1 paragraph r).</p> <ul style="list-style-type: none"> <li>▪ Scottish pension fund abstract of accounts would need to apply section 3.9 in full and also report under paragraph 6.5.5.1 paragraph r).</li> </ul>
Section 4.1: Property, Plant and Equipment	<ul style="list-style-type: none"> <li>▪ It is unlikely that this section of the Code will apply substantially to pension funds as they will normally only hold property for investment purposes.</li> </ul>
Section 4.2: Leases and Lease Type Arrangements	<ul style="list-style-type: none"> <li>▪ This section of the Code will apply where the pension fund accounts for transactions as a lessor and may apply where the pension fund uses lease arrangements to support the work of the fund.</li> </ul>
Section 4.4: Investment Property	<ul style="list-style-type: none"> <li>▪ This section of the Code is likely to have a substantial application for pension funds. It therefore applies in full and is also likely to require cross reference to the fair value measurement requirements of section 2.10 of the Code and any relevant requirements under paragraph 6.5.5.1.</li> </ul>
Section 4.5: Intangible Assets	<ul style="list-style-type: none"> <li>▪ It is unlikely that this section of the Code will apply substantially to local authority pension funds.</li> </ul>
Section 4.7: Impairment of Assets	<ul style="list-style-type: none"> <li>▪ This section will apply where relevant circumstances exist, for example, it may apply to investment properties that are impaired, or to an impairment of a financial asset.</li> </ul>
Section 4.8: Borrowing Costs	<ul style="list-style-type: none"> <li>▪ It is considered unlikely that this section of the Code will apply to local authority pension funds.</li> </ul>
Section 4.9: Non-current Assets Held for Sale and Discontinued Operations	<ul style="list-style-type: none"> <li>▪ This section will apply where relevant transactions or circumstances exist.</li> </ul>
Section 4.10: Heritage Assets	<ul style="list-style-type: none"> <li>▪ It is unlikely that this section of the Code will apply substantially to pension funds as they will normally only hold property for investment purposes and not</li> </ul>

### ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code

Section or Chapter of the Code	Commentary on the Substantial Areas of Application for Local Authority Pension Funds
	for historical, artistic, technological or environmental purposes.
Section 5.1: Current Assets: Inventories	<ul style="list-style-type: none"> <li>▪ This section of the Code will apply to pension funds where relevant transactions or circumstances exist.</li> </ul>
Section 5.2: Current Assets: Work in Progress (Construction Contracts)	<ul style="list-style-type: none"> <li>▪ It is considered unlikely that this section of the Code will apply to local authority pension funds.</li> </ul>
Section 5.3: Debtors	<ul style="list-style-type: none"> <li>▪ This section of the Code will apply to pension funds.</li> </ul>
Section 6.1: Employee Benefits: Introduction and Definitions	<ul style="list-style-type: none"> <li>▪ The section of the Code applies where relevant transactions or circumstances exist.</li> </ul>
Section 6.2: Benefits Payable During Employment	<ul style="list-style-type: none"> <li>▪ This section might apply where relevant employee benefits (staff costs) are directly attributable to the pension fund.</li> </ul>
Section 6.3: Termination Benefits	<ul style="list-style-type: none"> <li>▪ This section might apply where relevant employee benefits (staff costs) are directly attributable to the pension fund.</li> </ul>
Section 6.4: Post-employment Benefits	<ul style="list-style-type: none"> <li>▪ Paragraph 6.5.1.2 notes that section 6.4 of the Code governs the measurement of a plan's obligation to provide pension benefits.</li> <li>▪ This section might apply where relevant employee benefits (staff costs) are directly attributable to the pension fund.</li> </ul>
Section 6.5: Accounting and Reporting by Pension Funds	<ul style="list-style-type: none"> <li>▪ Wholly applicable to pension funds.</li> </ul>
Section 7.1: Financial Instruments: Introduction, Scope, Recognition and Initial Measurement, Hedge Accounting, Derivatives and	<ul style="list-style-type: none"> <li>▪ Chapter seven applies fully to pension fund where relevant transactions exist. Paragraph 6.5.1.2 stipulates that the financial instruments standards (IAS 39, IAS 32 and IFRS 7) govern the recognition</li> </ul>

### ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code

Section or Chapter of the Code	Commentary on the Substantial Areas of Application for Local Authority Pension Funds
Embedded Derivatives and Definitions	of financial instruments (although it notes that many requirements are inapplicable since all material financial instruments are carried at fair value through profit or loss). Note that the relevant fair value measurement disclosures apply.
Section 7.2: Accounting for Financial Liabilities after Initial Recognition	<ul style="list-style-type: none"> <li>▪ See comments for section 7.1 and the requirements of paragraph 6.5.2.4 on the measurement of financial instruments).</li> </ul>
Section 7.3: Accounting for Financial Assets after Initial Recognition	<ul style="list-style-type: none"> <li>▪ See comments for section 7.1 and the requirements of paragraph 6.5.2.4 on the measurement of financial instruments).</li> </ul>
Section 7.4: Financial Instruments – Disclosure and Presentation Requirements	<ul style="list-style-type: none"> <li>▪ The disclosure requirements including the fair value disclosures apply in full insofar as the pension fund holds the relevant financial instruments. Note that the relevant fair value measurement disclosures apply.</li> </ul>
Section 8.1: Liabilities: Creditors	<ul style="list-style-type: none"> <li>▪ Applies in full where the relevant transactions exist.</li> </ul>
Section 8.2: Liabilities: Provisions, Contingent Liabilities and Contingent Assets	<ul style="list-style-type: none"> <li>▪ Applies in full where the relevant transactions exist (see also paragraph 6.5.5.1 t).</li> </ul>
Chapter 9: Group Accounts	<ul style="list-style-type: none"> <li>▪ It is possible that group accounts may be produced for pension fund financial statements. The pension fund account statement also allows for the possibility that income from associates and joint ventures may be recognised in the financial statements.</li> </ul>
Appendix 1: IFRSs with limited application to local authorities	<ul style="list-style-type: none"> <li>▪ IAS 12 <i>Income Taxes</i> (as amended), and SIC 25 <i>Income Taxes – Changes in the Tax Status of an Entity or its Shareholders</i> relate to taxes on an entity's income (for example, corporation tax) and may apply to the Pensions Funds.</li> <li>▪ IAS 21 <i>The Effects of Changes in Foreign Exchange</i></li> </ul>

**ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code**

Section or Chapter of the Code	Commentary on the Substantial Areas of Application for Local Authority Pension Funds
	<p><i>Rates</i> relates to accounting for exchange rates and exchange rate movements and will to apply to Pensions Funds.</p>

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## **2.10 FAIR VALUE MEASUREMENT**

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### **2.10.1 Introduction**

**210.11** Local authorities shall measure their assets and liabilities and provide disclosures in accordance with IFRS 13 *Fair Value Measurement* where another section of the Code requires or permits fair value measurement, except where adaptations to fit the public sector are detailed in the Code.

#### **Adaptation and application for the public sector context**

**210.12** There ~~are no adaptations~~ is only one adaptation to IFRS 13 for the public sector context (see paragraph 2.10.1.3 below). However, section 4.1 of this Code adapts IAS 16 to require that items of property, plant and equipment that are operational and therefore providing service potential for the authority are measured for their service potential at existing use value, existing use value – social housing or depreciated replacement cost (see section 4.1 of the Code), and not at fair value. Surplus assets (property, plant and equipment) are measured at fair value.

**210.13** This section of the Code adapts IFRS 13 by removing the scope exclusion on the disclosures for retirement benefit plan investments measured at fair value in accordance with section 6.5 (Accounting and Reporting by Pension Funds).

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#### **Scope**

**210.214** This section of the Code applies when another section of the Code requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except as specified in paragraphs 2.10.2.15 and 2.10.2.16.

**210.215** The measurement and disclosure requirements of this section of the Code do not apply to the following:

- a) share-based payment transactions within the scope of IFRS 2 *Share-based Payments*
- b) leasing transactions within the scope of section 4.2 (Lease and Lease Type Transactions) of the Code and IAS 17 *Leases*, and
- c) measurements that have some similarities to fair value but are not fair value, such as net realisable value in section 5.1 (Inventories) or value in use in section 4.7 (Impairment of Assets) of the Code.

**210.216** The disclosures required by this section of the Code are not required for the following:

- a) plan assets measured at fair value in accordance with sections 6.1 to 6.4 of

## ED 3 The Review of the Accounting and Reporting by Pension Fund Section of the Code

the Code

- ~~b) retirement benefit plan investments measured at fair value in accordance with section 6.5 (Accounting and Reporting by Pension Funds) of the Code, and~~
- ~~e**b**)~~ assets for which recoverable amount is fair value less costs of disposal in accordance with section 4.7 (Impairment of Assets) of the Code.

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### 2.10.6 Changes since the 2014/15 Code

- 2.10.6.1 The 2015/16 Code ~~introduced the requirements of IFRS 13 *Fair Value Measurement* as adapted for public sector circumstances~~removes the scope exclusion on the disclosures for retirement benefit plan investments measured at fair value in accordance with section 6.5 (Accounting and Reporting by Pension Funds).