

GUIDANCE ON PUBLICATION OF PENSION FUND ANNUAL REPORTS

PART I : INTRODUCTION

This guidance is issued to all administering authorities in England and Wales with statutory responsibilities under the Local Government Pension Scheme (Administration) Regulations 2008 SI 2008 No 239 (“the Administration Regulations”) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) SI 1998 No 1831, and other stakeholders, including employers and members. The purpose of the 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 Administration Regulations. It is important to stress from the outset that the Guidance represents a general framework within which fund authorities are expected to comply and is not to be seen as limiting in any way the way in which the information is to be presented in terms of formatting and presentation. It is important that individual funds 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.

The Secretary of State will keep the content of the Guidance under review in the light of administering authorities’ and other stakeholders’ experiences of applying the guidance. The Guidance will be updated as necessary to reflect this and any subsequent legislative changes.

PART II - STATUTORY BACKGROUND

Provision for the publication of the pension fund annual report commencing with the financial year 2008/09 and for subsequent years is covered by regulation 34 of the Administration Regulations 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 77 (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 they are the administering authority (“relevant employing authorities”) 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 under 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 the 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.

PART III – BACKGROUND

The pension fund annual report provision was primarily introduced to address concerns, raised initially by the Audit Commission, about the standard of LGPS pension fund audits and, in particular, the need for these funds to be audited separately as distinct from the general local authority audit. Section 7 of the Superannuation Act 1972 confers various powers on the Secretary of State to make regulations on pensions for local authority employees, but this does not extend to the way in which LGPS pension funds are audited. Within the remit of the Secretary of State’s regulation making powers under the 1972 Act, it was agreed that the main scheme regulations should be amended to require administering authorities to publish an annual pension fund report comprising the various reports and statements so that external auditors could conduct a comprehensive, separate audit of the pension fund.

The new provision was introduced on the basis that a significant majority of administering authorities already published comprehensive annual reports, including most of the items listed at regulation 34(1)(a) to (j). Care has also been taken to ensure that the administrative burden and cost of preparing and publishing these new reports is kept to a minimum, in the main, by allowing a number of different ways in which the report may be published. In this respect, it should be explained that the term “publish”, where it appears in regulation 34(2), can be taken to include publication by electronic means, for example, on the administering authority’s web site, or by a separate document that directs users to where each of the items listed in the regulation can be obtained. However, it is expected that administering authorities

will also continue to publish hard copies of either a summary or the composite report in the way that they have published annual reports in the past and to make those documents available upon request to fund members and fund employers or any other important stake holder groups they may identify.

Under regulation 34(1), the period to be covered by the first of these new pension fund reports is the financial year commencing 1 April 2008, which, by virtue of regulation 34(2), must be published by 1 December 2009.

For 2008/09, the Audit Commission will require auditors to treat the LGPS pension fund as a separate audit engagement, agreeing a separate audit plan and fee for the audit of the pension fund accounts and providing a separate report to those charged with the governance of the scheme. Consideration is also being given to the form of the audit opinion on the accounts. Some administering authorities will not see significant changes arising from these arrangements because of existing practices. However, the new arrangements will provide for transparent audit reporting on the pension fund accounts on a consistent basis across all funds.

It is expected that the annual report will be formally signed off by the Chairman of the Pensions Committee and the Director of Finance (or equivalents).

PART IV – GUIDANCE

A: MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

The first of these statements falls to be published under regulation 34(1)(a) of the 2008 regulations by 1st December 2009.

Scheme management and advisers

The report should list the names and contact details for:

- Officials responsible for the fund
- Investment managers
- Custodian/s
- AVC providers
- Fund actuary
- Legal advisors
- Bankers
- Accountant/Director of Finance
- Auditor
- Scheme administrators
- Any independent advisors (e.g. 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 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; how assurance is sought over third party operations (eg AAF 01/06 and SAS 70 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 & Investment of Funds) Regulations 1998).

Financial performance

Pension Funds will normally construct an annual and three year budget for the forecast of income and expenditure into and out of the fund. 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.

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.
- A forecast v outturn report on the fund cashflows

- (Optionally) A 5-year analysis of pension overpayments, recoveries and any amounts written off, including the results of participation in NFI exercises (data matches; overpayments identified; actions taken etc).

Management performance

Management performance should incorporate the key administration performance indicators, such as the number and trend of the top 10 case types, and other cases and percentage completed on time against targets. Other management performance indicators might include 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.

In addition, management performance should incorporate the key staffing indicators, such as staff numbers and trends, staff / fund member ratios and average cases per member of staff. The membership numbers and trends should be reported, including numbers and trends of contributors, deferred members, pensioner members and dependants.

The report should contain a 5 year analysis of the funds 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 5 year bandings.

The report should contain a list of contributing employers and the amount of contributions received from each (split by employers and employees – employees to be split by contribution band).

B : INVESTMENT POLICY AND PERFORMANCE REPORT

The first of these statements falls to be published under regulation 34(1)(b) of the 2008 regulations by 1st December 2009. Pension Funds may wish to state their principles and beliefs which underpin their investment and funding strategies. The asset allocation strategy 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, such as equities by major global regions (UK, Europe, US, Japan, other Far East and Emerging Markets and any passive currency hedging), fixed income by government and corporate bonds, Diversifying or Alternative Assets (including Property, Private Equity, Hedge Funds, Absolute Return Funds, Infrastructure Funds, Commodities, Active Currency and any others) and Cash. Investment performance should be disclosed for each major asset class and fund manager against the benchmarks set, both for 1 year, 3 years and 10 years.

The largest holdings of the Pension Fund should be disclosed together with the largest directly held equity holdings.

The Fund's policies in respect of Responsible Investment 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 list any bodies of which the fund is member or subscriber such as the NAPF, LAPFF, UKSIF, IIGCC etc. This might also include any concordats to which the scheme is signatory such as the UNPRI.

In addition to including a commentary on the implementation and application of their Funding Strategy Statement during the period in question, funds should also describe their strategy for managing risk, both in its wider sense for the Fund as a whole and in its narrower sense on investment mandates.

Funds may also wish to take the opportunity to consider future developments and anticipate how their funding and investment policies may develop in the future.

This 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. Other matters to be disclosed are:

- 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

C: SCHEME ADMINISTRATION REPORT

The first of these statements falls to be published under regulation 34(1)(c) of the 2008 regulations by 1st December 2009. CIPFA has previously published guidance on Pension Fund Decision Making; see CIPFA – Pension Fund Decision Making Guidance Note (2006)

(http://www.cipfa.org.uk/panels/pensions/download/LGPS_guidance_notes.pdf)

The guidance covers both the Governance Policy Statement (see section E below), the reporting structures of a Pensions Committee within a Council, Representation on Pension Committees, Voting Rights of Committee members and Trustee Training.

CIPFA provides further guidance on training by way of a Knowledge and Skills Framework for Councillors operating in a Trustee capacity and officers involved with the Fund.

In addition, the scheme administration report should incorporate a review of administration during the year by the Committee Chairman and senior officer, together with a description of the key uses of technology including information available on websites, self service options and information sources.

This section of the report should also include details of scheme administration costs, either in total or per scheme member, as reported in the SF3 annual statistical return for the period in question.

The report should detail, for each of the following, a broad outline of the arrangements for (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

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 FUND(S)

The first of these reports falls to be published under regulation 34(1)(d) of the 2008 regulations by 1st December 2009. All LGPS Funds are required to commission and publish a valuation of all of their Funds on a specified date every three years.

For the purposes of the Annual Report, Funds should publish an executive summary of the last formal triennial valuation report and in the intervening years, the results of any interim valuation that has been carried out and 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

The first of these statements fell to be published under regulation 73A of the 1997 regulations by 1st December 2008. With effect from 1st April 2008, the requirement was carried forward by regulation 31 of the administration regulations.

The annual report 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 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 of managing conflict of interest.

Regulation 31(3) prescribes the content of the statement which, by virtue of regulation 34(1)(e), must be published in compliance with statutory guidance issued by the Secretary of State. Regulation 34(1)(e) of the 2008 Regulations only requires fund authorities to include a copy of their latest statement in their Annual Report but it is expected that some form of commentary and additional information will also be given to illustrate the policy 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. It is suggested therefore that in preparing their pension fund annual report, administering authorities should adopt their own house style in presenting this, and other sections of the report.

F: FUND ACCOUNT AND NET ASSETS STATEMENT

Regulation 34(1)(f) requires an administering authority to prepare for each of its pension funds a fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices. These statements must be included in the pension fund annual report for 2008-09 (which must be published by 1st December 2009) and then for each subsequent year.

Administering authorities have for some years produced fund accounts and net asset statements for their pension funds for inclusion in the annual report of the local authority as a whole. These statements are drawn up in accordance with the Code of Practice on Local Authority Accounting issued by CIPFA (which sets out proper practices to be followed) and with the guidelines set out in the Statement of Recommended Practice (SORP): 'Financial Reports of Pension Schemes'.

The most recent revision of the SORP was published in May 2007 for application to accounting periods starting on or after 6 April 2007 and therefore, unless authorities chose early adoption, will not have been used in drawing up the financial reports of their pension funds for 2007-08. The main changes from the previous (2002) edition are that: the SORP has been updated to take account of the financial reporting standards issued in respect of investments (in particular the presentation requirements of FRS 25 'Financial Instruments: Disclosure and Presentation and parts of FRS 26 'Financial Instruments: Recognition and Measurement); derivatives are now required to be valued on a fair value basis; investments are required to be valued at their fair value and, where there is an active market, the bid price is usually the appropriate quoted market price; and there are amended and increased disclosure requirements.

Appendix 1 to the SORP provides at pages 63 to 70 an illustrative format of the accounts for a defined benefit scheme. The 2007 revision also makes reference to further guidance to be found in the document 'Accounting for Derivatives in Pension Schemes' published by PRAG.

The accounts should be accompanied by the independent auditor's report and by a statement of responsibilities signed by the Director of Finance (or equivalent). This should cover the Authority's Responsibilities, stating the following.

The authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs (usually that officer is the Director of Finance);
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- To approve the statement of accounts.

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this statement of accounts, the Director of Finance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice on Local Authority Accounting;
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

This statement is normally placed next to the audit report.

G: BENCHMARKING REPORT

The first of these statements falls to be published under regulation 34(1)(g) of the 2008 regulations by 1st December 2009. Funds should seek to benchmark both their investment performance (see B above) and their administration performance (see A and C above). This report could logically be included as part of A, B and C above.

The report should describe the service standards agreed in any service level agreements with fund employers and any use of the powers to seek compensation from employers in respect of any breaches of such standards.

H: FUNDING STRATEGY STATEMENT

Since 2004, administering authorities have been required to prepare, publish and maintain funding strategy statements, initially under regulation 76A of the 1997 regulations, but, since 1st April 2008, under regulation 35 of the administration regulations. Under that regulation, the authority is required to keep its statement under review and to make such revisions as are appropriate following a material change as described in regulation 35(2)(b). It is possible therefore that an authority may publish a number of statements throughout 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, for example, 1 April 2008, 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.

In March 2004, the CIPFA Pensions Panel published Guidance on Preparing and Maintaining a Funding Strategy Statement (Issue No 6), details of which can be found at

<http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/EN/product/LG027>.

This was followed by supplementary advice in November 2004, a copy of which can be found at

http://www.cipfa.org.uk/panels/pensions/funding_strategy_supplementary_comments.doc.

I: STATEMENT OF INVESTMENT PRINCIPLES

The requirement for administering authorities to prepare, maintain and publish Statements of Investment Principles (SIPs) was introduced in January 2000 into the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (Regulation 9A). The first of these reports was to be published by July that year. Later, in August 2002, administering authorities were further required to state the extent to which they complied with the ten investment principles recommended in the Myners review of institutional investment in the UK. In November 2008, the government published a second set of investment principles and established a new Investment Governance Group (IGG) to oversee the implementation of the new principles. Because of the special nature of the LGPS, a separate LGPS sub group of the IGG was set up to examine the need for scheme specific principles and to report to the IGG on its findings. At the time of writing, the LGPS principles have yet to be agreed, but when they are, the Scheme's regulations and the associated CIPFA guidance will need to be revised.

Authorities should report their compliance against the six new principles published by the government in 2008. Authorities may wish to include reference to the fact that those new principles may be subject to future change. For ease of reference, the principles are outlined below.

Principle 1: Effective Decision-Making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

Principle 2: Clear Objectives

Trustees should set out an overall investment objective(s) for the scheme that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities.

These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Principle 4: Performance Assessment

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers

Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Principle 5: Responsible Ownership

Trustees should adopt or ensure their investment managers adopt the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.

Trustees should report periodically to members on the discharge of such responsibilities.

Principle 6: Transparency and Reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

Trustees should provide regular communication to members in the form they consider most appropriate.

Since 2000, administering authorities will have developed their own individual style for maintaining and publishing these statements and there is no reason why their approach should change in the light of this latest requirement to include the SIP as part of the new pension fund annual report. However, for reference purposes only, an example of a SIP that fully satisfies the requirements of Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 is attached at Annex xx.

The report should contain a commentary on how any commitments made in the Statement of Investment Principles have been progressed during the reporting period (and would link to Section I) :

J: COMMUNICATIONS POLICY STATEMENT

Regulation 106B of the 1997 Regulations, introduced in December 2005, required administering authorities to prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities. The first statement had to be published by 1 April 2006.

On 1st April 2008, regulation 67 of the administration regulations carried forward this requirement into the 2008 scheme. Again, the requirement to include this statement in the new annual pension fund 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 106B. An example of a communications policy statement is attached at Annex B. [West Midlands example to be included]

The report should contain a commentary on how the fund has met the commitments set out in the communications policy statement it is required to publish under the provisions of regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2008, in particular:

- 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 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 publish a list of contact points and a glossary of commonly used Pension Fund terms to aid readers. Some schemes may wish to provide the following

- Outline of benefits and contributions structure; accrual rates; commutation options and the extent to which they have been exercised
- Ill-health and early departure provisions
- Permitted discretions and a commentary on how discretions have been exercised in the reporting period

Others may simply provide a name and address from whom and where details of benefits can be obtained.

For changes to benefits during the period, schemes may put in details or simply refer to member communications listing the changes. Future changes can be addressed in the same way.