

preparing the annual report

Guidance for Local Government
Pension Scheme Funds
2019 Edition



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Guidance for Local Government
Pension Scheme Funds
2019 Edition

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Foreword

When the requirement to publish an annual report was introduced into the Local Government Pension Scheme (LGPS) Regulations in 2013 it represented a major change. All LGPS funds now produce an annual report, promoting awareness of the scheme and providing members and stakeholders with relevant information in an accessible and consistent manner.

A great deal has changed since the last edition of this guidance was published in 2014. Asset pools, new legislation on investing, governance and benefits, and changes to year-end financial reporting have all brought new challenges for practitioners and there is a continued focus on funding levels and investment management costs.

This guidance is published in order to assist practitioners in meeting the requirements of the current regulatory framework, and to support the LGPS Advisory Board in the production of a scheme-wide annual report for England and Wales. Changes to the guidance since 2014 reflect national developments in terms of the following:

- New governance arrangements introduced by the Public Service Pensions Act 2013.
- CIPFA's working group on pension fund administration.
- Post Pool Reporting Guidance (for England and Wales).

Peter Moore,
Chair of CIPFA Pensions Panel

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Background and status

BACKGROUND

The purpose of this guidance is to assist local government pension funds with the preparation and publication of the annual report required by Regulation 57 of The Local Government Pension Scheme Regulations 2013 (England and Wales) and Regulation 55 of The Local Government Pension Scheme (Scotland) Regulations 2018.

The annual report is a key component of communication between pension funds and their stakeholders, who range from individual members and employing bodies to trades unions, government departments, analysts and commentators. In Scotland and Wales the pension fund accounts are no longer included in the administering authority's financial statements, therefore their annual reports must contain sufficient information to meet the demands of this diverse readership and to be read and understood in isolation.

The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015, with the publication of criteria and guidance on pooling of LGPS assets to deliver significantly reduced costs while maintaining overall investment performance and achieving benefits of scale. The pension funds have come together to form eight asset pools – further details can be found in the [MHCLG guidance on pooling](#). Pension funds in England and Wales are encouraged to use their annual report as a mechanism for informing readers about their pool and the fund's participation, by explaining:

- progress made to date in establishing asset pools, set up costs and transition of assets
- changes to investment costs and expected savings
- changes to asset allocation strategies, investment costs and yields brought about by pooling
- asset pool structures and governance arrangements.

This guidance represents a general framework for reference purposes only. It identifies the topics that need to be covered and provides illustrations of how these requirements could be addressed in practice but does not prescribe the format or level of detail required. There is no requirement for annual reports to follow the ordering or structure of this report, equally there is no 'correct' or 'recommended' length or layout. Funds are encouraged to develop their own reporting style depending on the preference of users, and to:

- adopt the use of graphs, charts and visuals as appropriate
- use cross-referencing within the document to avoid duplication where possible.

STATUS

In England and Wales, the Ministry for Housing, Communities and Local Government (MHCLG) has adopted this guidance as statutory guidance for the purposes of the 2013 Regulations. In Scotland this guidance is advisory only however those funds are encouraged to adopt it on a 'best practice' basis.

In applying this guidance pension funds should ensure that their annual report is suitable for their circumstances and readership. This will require the exercise of local judgement and decisions regarding the level of detail provided in the report or appendices, subject to the scope allowed by legislative requirements and the discretionary elements of this guidance.

This guidance uses the following terms for different elements:

Must	Compliance is mandatory. Any non-compliance should be clearly identified in the annual report and an explanation provided.
Should	Compliance is anticipated but is discretionary. Where non-compliance may be significant or material for the readers the non-compliance should be identified and explained.
May	Compliance is recommended but is discretionary.

This guidance is applicable to 2018/19 annual reports and later years. For items where data has not previously been collated, pension funds should exercise judgement regarding the costs and benefits of compiling data retrospectively and consider whether alternative data can be provided for 2018/19. Where significant variation from this guidance is considered appropriate an explanation should be provided.

For England and Wales this guidance includes recommendations and illustrations in relation to asset pooling arrangements. The MHCLG and the LGPS Scheme Advisory Board have indicated that they will, so far as possible, use data provided in pension fund annual reports to draft future national reports for the LGPS in England and Wales and to review progress made in implementing asset pools. Where annual reports do not provide sufficient or consistent information, these bodies have advised that pension funds may be contacted directly in order to obtain additional data.

STATUTORY REQUIREMENTS

In England and Wales, the statutory basis for LGPS annual reports for periods beginning on or after 1 April 2014 is Regulation 57 of the Local Government Pension Scheme Regulations 2013 (as amended), 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 and certificates), 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 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 Scheme employers 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 58 (Funding Strategy Statement);*
 - (i) [From 1st April 2017, the current version of the investment strategy statement as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016] (formerly the statement of investment principles);*
 - (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 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.*

In Scotland Regulation 55 of the LGPS (Scotland) Regulations 2018 mirrors the above requirements except that:

- Scottish pension funds are required to publish a statement of investment principles under the LGPS (Management and Investment of Funds) (Scotland) Regulations 2010 in place of an investment strategy statement
- Scottish pension fund annual reports are required to include details of external borrowing (Section N refers).

As stand-alone documents comprising year-end financial statements, annual reports in Scotland and Wales are required to contain specific information in order to meet the requirements of CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom (The Code or CoP), and the accounts and audit regulations in these jurisdictions. Section N provides further details.

Publication of annual reports

MANNER OF PUBLICATION

The annual report must be published as either a printed document or as an electronic publication on the pension fund or administering authority's website. The full document must be provided and not just a summary. Statutory requirements in England and Wales are to publish the following documents in full as part of the annual report:

- the funding strategy statement
- the investment strategy statement (in Scotland the statement of investment principles)
- the governance compliance statement, and
- the communication policy.

Other information may be provided using web-links or signposting to alternative sources of information as appropriate.

TIMING OF PUBLICATION

Regulations require the annual report to be published on or before 1 December in England, Wales and Scotland.

In Scotland and Wales, the pension fund annual report is the only publication required to contain the full year-end statement of accounts, whereas in England the pension fund accounts are also published as part of the administering authority's audited financial statements.

AUTHORISATION

Although not specifically required by legislation, the annual report should be formally reviewed by those charged with governance at the pension fund and authorised by the chair of the pensions committee and the director of finance (or their equivalents). This should not be confused with the separate process for the review and approval of the administering authority's annual accounts, which is a legal requirement under each jurisdiction's accounts and audit regulations.

Local pension boards, established in 2015, are not decision-making bodies but do have a specific remit under The Public Service Pensions Act 2013 to ensure that pension funds meet all relevant legal requirements. The Scheme Advisory Board for England and Wales has therefore recommended that part of their remit should be to review the financial statements and annual report prior to publication (see Schedule A of Scheme Advisory Board Guidance, published February 2015).

CHAPTER 3

The guidance

INTRODUCTION

This guidance follows the structure of Regulation 57 (Regulation 55 in Scotland) with a section for each of the requirements listed. There is no requirement for annual reports published by LGPS pension funds to follow the structure of this report.

A: OVERALL FUND MANAGEMENT

Scheme management and advisers

The report **must** list the names and, where appropriate, contact details for:

- officers responsible for the fund
- the asset pool and asset pool operator (England and Wales)
- investment managers used by the fund, including where applicable contact details for any elements of the fund which are managed internally
- the fund custodian and actuary
- additional voluntary contribution (AVC) providers
- legal advisors and bankers to the fund
- the fund accountant/director of finance
- the external auditor
- 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 identification and management of risk which is consistent with (and cross references to) disclosures regarding the use of financial instruments in the year-end accounts. Pension funds **may** for example wish to explain:

- how risk management is integrated within the governance structure
- how risks are identified, managed and reviewed
- what actions are being taken to mitigate the key risks identified
- assurance provided by the work of internal audit
- how investment risk is managed
- risks relating to investment pooling arrangements

- the approach taken to managing third party risk such as late payment of contributions
- how assurance is sought over third party operations, eg ISAE 3402 (formerly AAF 01/06) and SSAE16 (formerly SAS70) reports.

The 2018 CIPFA publication [Managing Risk in the LGPS](#) provides more detail on the identification, management and reporting of risks, and some examples of risk management disclosures are provided below for information:

a) Pension fund risk register

Risk area	Risk rating	Responsible officer	Mitigating actions
<p>Administration</p> <p>Third parties undertaking administration work do not maintain accurate and up to date membership records.</p>	●	Pensions administrator	Sample testing by internal audit of 1% of all files will enable accurate assessment of error rate and resources needed to clear administration backlog.
<p>Regulation</p> <p>MiFID II restricts investment options and increases IM costs.</p>	●	City treasurer	MiFID II training for all pension committee members and all staff involved in the opting up process.
<p>Investment</p> <p>Fund managers fail to achieve target returns.</p>	●	City treasurer	Independent monitoring of fund manager performance against targets. Fund manager performance is reviewed quarterly.

b) Controls assurance reports

Fund manager	Type of report	Assurance obtained	Reporting accountant
Bailie Gifford	ISAE 3402	Reasonable assurance	KPMG LLP
Hermes	ISAE 3402	Reasonable assurance	Deloitte LLP
Insight	ISAE 3402	Reasonable assurance	PwC LLP
Standard Life	ISAE 3402	Reasonable assurance	PwC LLP
Custodian			
Northern Trust	ISAE 3402	Reasonable assurance	KPMG LLP

c) Internal audit testing.

Benefit payments and lump sums	Annual testing	Yes	
Employee contributions	Annual testing	Yes	
Employer contributions	Annual testing	Yes	
Membership records	Annual testing	Yes	
Administration and Governance costs	Every 5 years	No	N/a
Investment management costs	Every 3 years	No	N/a

B: FINANCIAL PERFORMANCE

While other sections of the annual report consider the management of pension fund investments, this section **must** provide an overview of the fund's financial performance, focused primarily on income, expenditure and cash flows.

Pension funds **must** meet this requirement by providing an analysis or narrative explanation of in-year expenses and income together with a comparison over time or against budget. This **should** separately identify major categories of income and expenditure, for example:

- staff costs (both direct and internal recharges), premises, IT, supplies and services, costs of democracy and any other administration costs and miscellaneous income
- benefits payable, transfers in and out, investment management and governance expenses
- members' and employers' contributions
- net inflows and outflows to the fund in respect of dealings with members.

Pension funds **may** also wish to include forecasts of future income and expenditure, or cash flow forecasts. As a minimum, pension funds **should** explain the relationship between changes to costs and income and factors such as changes in membership numbers, age profile of pensioners, bulk transfers etc.

Pension fund annual reports **must** also include the following information:

- a brief commentary on any significant changes to non-investment assets and liabilities during the year
- employers' and employees' contributions as a % of pensionable pay, details of late and overdue contributions, and of whether the option to levy interest on overdue contributions has been exercised
- analysis of pension overpayments, recoveries and any amounts written off
- results of participation in National Fraud Initiative (NFI) exercises (data matches, overpayments identified, actions taken, etc)
- other examples of fraud, credit losses, provisions, contingent liabilities or impairments.

C: INVESTMENT POLICY AND PERFORMANCE REPORT

This section of the annual report is intended to demonstrate how the investment strategy statement has been put into practice during the year and how this links to the funding strategy statement. Readers **should** be able to understand the fund's investment management arrangements and the risks, returns and management costs associated with the investment portfolio.

The planned asset allocation **must** be provided along with the actual asset allocation for the beginning and end of the financial year in question, together with explanations for significant changes during the year. This section of the report **must** also include a commentary on the implementation and application of the funding strategy statement during the reporting period, or cross-refer to where this statement is provided in the annual report.

This section of the report **must** include details of investment administration and custodianship, and describe who looks after which part of the portfolio (if not already provided elsewhere). Investment performance for each fund manager or asset class **must** be reported alongside the information used by managers and members to assess fund performance such as:

- comparison with returns achieved by similar pension funds with appropriate narrative contextual information
- performance targets in fund manager's contracts where this is not commercially sensitive, or industry benchmarks for one year, three years and five years.

The pension fund **may** also wish to provide details of any environmental, social and governance issues, and other initiatives such as engagement with companies and any collaborative ventures with other funds. This might include, for example:

- the fund's response to the UK Stewardship Code
- details of any bodies of which the fund is an active member, subscriber or signatory, such as CIPFA, PLSA LAPFF, UKSIF, UNPRI, etc
- summary information on where and how voting rights have been exercised
- information on responsible investing
- actions taken to comply with Myners' investment principles or similar codes of practice.

The CIPFA publication [Accounting for Local Government Pension Scheme Management Expenses](#) (2016) recommends that this section of the annual report **should** also be used to:

- identify fees and costs incurred by third parties which affect overall investment returns
- explain the relationship between fees, risk and investment return
- indicate how the pension fund is responding to the Transparency Code, and the use being made of data provided by fund managers using the transparency code templates. See the Local Government Pension Scheme Advisory Board's [website](#) for further details.

D: SCHEME ADMINISTRATION

The scheme administration section of the annual report **must** cover the following areas:

- a statement on the value for money achieved by the administration function

- a summary of activities undertaken by the service during the year
- key performance data including data quality standards
- other qualitative information such as customer satisfaction levels, communication policies and the complaints procedure
- an explanation of organisational arrangements ie how the service is delivered.

Value for money statement

This statement **should** demonstrate the efficiency and effectiveness of each fund's scheme administration and the commitment to enhancing the value for money of this function. This **should** include reflecting on the level of resources and comparability of key performance indicators over time and to national averages. There **should** also be a comment on the current levels of data quality on common data standards which are fundamental for both the valuation of the funds' liabilities and how this is subsequently reported in the fund accounts and risk management arrangements.

Summary of activity

This section **should** outline the work undertaken by the administration section of the fund during the year. The pension fund **may**, for example, include information in respect of:

- major pieces of work/projects undertaken by the fund (eg guaranteed minimum pensions reconciliation exercises), summarising action taken during the year, progress achieved and next steps for the following year, where applicable
- technological or pensions administration systems developments taking place during the year, including details of the impact that they have/will have. For instance, moving from annual to monthly reporting systems or improvements in the timeliness and accuracy of data received from employers
- action being taken to improve data quality, outlining data quality audit arrangements and scores reported to The Pensions Regulator (TPR) in the TPR Scheme Return on Common and Scheme Specific Data.

Key performance data

This section of the annual report **should** cover the following:

Performance indicators	<ul style="list-style-type: none"> ■ Details of the most common casework areas ■ % of tasks completed against target.
Financial indicators	<ul style="list-style-type: none"> ■ unit costs per member including and excluding investment costs ■ benchmarking of unit costs against appropriate comparators (either formal benchmarking or informal peer comparison).
Staffing	<ul style="list-style-type: none"> ■ staff numbers (FTE) and staff to fund member ratios ■ average cases per member of staff.

A working party set up by CIPFA during 2018 is aiming to develop a process whereby scheme administration data can be captured on a consistent basis and shared between funds. This group has suggested that as a first step towards effective benchmarking all LGPS pension

funds **should** collect and publish in their annual reports a summary of the information included in Annex 2. For further details please contact the [CIPFA Pensions Network](#). As an alternative, data from SF3 forms or locally determined key performance indicators **may** be used. Whatever method is selected, the annual report **should** explain:

- the source of key performance data included in the annual report
- the services this information relates to
- which costs have been included or excluded and why
- what action has been taken to verify information provided by third parties
- the action has been or is being taken to maintain and improve performance levels.

Other information

As requested by the Local Government Pension Scheme Advisory Board, which wishes to collate this information for inclusion in its national annual report, the administration section of the annual report **must** also contain:

- analysis of the fund’s membership data (active, deferred, pensioner and undecided leavers – ie those members who are no longer accruing service and to whom a refund of contributions or transfer out may be due)
- details of new pensioners each year analysed by ill-health, early and normal retirement
- 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 but with some outstanding liabilities). This 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

Pension funds **may** also wish to provide details of:

- complaints received, and satisfaction levels for employers and members based on surveys, questionnaires or other feedback received
- a commentary on how employer discretions have been exercised in the reporting period eg added years’ service, early retirement or enhanced payments.

How the service is delivered

This section of the annual report **must** include a description of the key services provided to pensioners, members and employing bodies. This **should** cover, for example:

- areas where technology is used by the fund eg member and employer self-service portals
- key information sources for members such as websites, helpdesk facilities and workplace representatives

- for both scheme membership records and benefits administration, a broad outline of the arrangements in place including who undertakes each activity and how they can best be contacted
- arrangements in place for ensuring accuracy and confidentiality.

Where administration functions have been outsourced, annual reports **should** explain how these arrangements operate in practice and how the pension fund monitors these operations.

This section of the report **may** also contain:

- an outline of the fund's internal dispute resolution procedure, any new dispute cases arising during the year and how these have been resolved
- contact details for the Pensions Advisory Service and the Pensions Ombudsman
- information on how to access any policies or guidance produced by the LGPS for employing bodies or members.

E: ACTUARIAL REPORT ON FUNDS

All LGPS funds are required to commission a revaluation of all of their funds on a specified date every three years. Under Regulation 57 in England and Wales (Regulation 55 in Scotland) the annual report **must** disclose the current level of funding as reported by the actuary at the last triennial revaluation.

This section of the annual report **should** also include either the actuary's full report or a web-link to the actuary's report on the pension fund website. The pension fund **may** provide additional information as necessary to assist the reader, for example:

- a comparison between current and previous funding levels
- a comparison of funding levels with other local government pension schemes
- an explanation of what is being done to improve low funding levels
- details of any significant variations in funding levels between employing bodies
- the results of any subsequent interim valuations
- key assumptions underpinning the valuation such as pensioner longevity, asset returns and discount rates
- use of discretionary powers which are impacting on the fund's solvency.

F: GOVERNANCE

Regulation 55 of the LGPS Regulations 2013 (Regulation 53 in Scotland) prescribes the content of the governance compliance statement which **must** be included in the annual report. The governance compliance statement **should** outline the overall governance structure in place including:

- the respective roles and responsibilities of the pensions panel, pensions or investments committee, local pensions board and any related sub-committees or advisory panels, explaining whether each one is executive or advisory

- membership of each panel, board, committee or sub-committee with a matrix showing each member’s voting rights, record of attendance at meetings and details of training received during the reporting period
- how the CIPFA Knowledge and Skills Framework has been applied
- how oversight and governance of the asset pool takes place (see Section H)
- other key elements of the governance structure (eg key officers, risk management arrangements)
- policies and processes for managing conflicts of interest (eg codes of conduct, register of interests).

Some pension funds set out this information using a table or matrix as shown below:

	Chair	Vice chair	AB council Member	AB council member	CD council member	CD council member	EF council member	Other employer	Employee representative
Committees (three hours)									
Special Committee April 2017	✓	✓	✓	✓	✓	✓	✓	✓	✓
May 2017	✓	✓	✓	✓	✓		✓	✓	✓
July 2017	✓	✓	✓	✓	✓	✓	✓	✓	✓
Training attended									
Governance (one day)	✓	✓	✓	✓	✓	✓	✓		✓
Funding and actuarial (one day)		✓	✓	✓	✓	✓	✓	✓	✓
Investments (one day)		✓	✓	✓			✓	✓	✓
Accounting		✓		✓	✓		✓		✓

Either in the governance compliance statement itself or in a separate section of the annual report, pension funds **should** illustrate how governance works in everyday terms for the reader, eg by including:

- a commentary on the work undertaken during the year by both the pensions committee (or equivalent) and the local pension board
- a copy or summary of any annual report produced by the pensions committee (or equivalent) and/or the local pension board, or
- links to the above.

Other information may also be included, for example:

- explanations of how codes of conduct operate in practice
- details of training offered and take-up (training is mandatory for local pension board members but not for a pensions committee)

- how the fund meets the requirements of the CIPFA/SOLACE *Good Governance Framework*.

G: FUND ACCOUNT, NET ASSETS STATEMENT AND NOTES

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

Detailed guidance on the accounting and disclosure requirements for LGPS financial statements is published by CIPFA and [can be found online](#). This guidance includes a Code disclosure checklist.

In England, the primary financial reporting of the pension fund is currently through the annual statement of accounts for the pension fund administering authority, therefore the pension fund accounts in the annual report **must** match those in the administering authority's annual statement of accounts. In Scotland and Wales, the annual report is the only reporting route for the pension fund annual accounts.

H: ASSET POOLS (ENGLAND AND WALES)

In 2015 the Department of Housing, Communities and Local Government (as it then was) issued LGPS: Investment Reform Criteria and Guidance which set out how the government expected funds to establish asset pooling arrangements. The objective was to deliver:

- benefits of scale
- strong governance and decision making
- reduced costs and excellent value for money, and
- an improved capacity and capability to invest in infrastructure.

This has led to the creation of eight asset pools which have significantly changed the previous approach to investing, although it should be stressed that the responsibility for determining asset allocations and the investment strategy remains with individual pension funds.

In 2016 CIPFA and AON published *Investment Pooling Governance Principles*, in order to support LGPS funds through the transition to asset pools and specifically to ensure they continued to operate strong governance arrangements. There are a number of governance issues to consider with new pooling arrangements, specifically:

- the relationship between the pension fund and the asset pool
- the governance structure of the pool – most have decided to adopt joint committee arrangements for oversight and governance functions
- the role and involvement of administering authorities.

The following information relating to investment pooling arrangements must be set out in the annual report as part of the process of communicating with stakeholders*:

- opening and closing value and proportion of pooled assets by asset class
- opening and closing value and proportion of local assets by asset class

- net and gross performance of pooled assets by asset class
- total costs of pooled assets by asset class
- for actively managed listed assets, net performance by asset class net of total costs compared to appropriate passive indices over a one, three and five year period
- net and gross performance of local assets by asset class
- total costs of local assets by asset class
- asset transition during the reporting year
- transition plans for local assets
- pool set-up and transition costs, presented alongside in-year and cumulative savings from pooling
- ongoing investment management costs by type, with a breakdown between pooled assets and local assets

**in line with current draft guidance on asset pooling published by MHCLG (January 2019)*

This information **may** be presented all together or in separate sections of the annual report, as shown below:

MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

- Scheme management and advisors – **must** include name and contact details of the pool company.
- Risk management – **should** include risks relating to the investment pooling arrangements.
- Financial performance – information **must** include costs associated with the appointment and management of the pool company including set up costs, investment management expenses, and costs relating to the oversight committee – see below for further details.

INVESTMENT POLICY AND PERFORMANCE REPORT

This section of the annual report **must** highlight which areas of the portfolio are part of the investment pooling arrangement and which are not. Where assets are both pooled and not pooled, the report **must** provide key investment information separately.

GOVERNANCE COMPLIANCE STATEMENT

This **should** be an updated version including information relating to the pool governance body.

FUND ACCOUNT, NET ASSETS STATEMENT AND NOTES

In preparing this information, local authorities **must** account for pension funds in accordance with the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* which includes comment that preparers have due regard to CIPFA's *Accounting for Local Government Pension Scheme Management Expenses* (CIPFA, 2016).

All pool companies **should** be familiar with these requirements and provide information in line with CIPFA's management expenses guidance as well as with the Code of Practice. Consideration will also need to be given to identification and disclosure of costs relating to the pool governance body, training, administration and adviser costs.

INVESTMENT STRATEGY STATEMENT

The investment strategy statement **should** be updated to include the approach to asset pooling and the proportion of assets that will be invested through the pool. This **should** include the structure and governance arrangements and the mechanisms by which the administering authority can hold the pool to account.

ANY OTHER APPROPRIATE MATERIAL

This **may** include, for example, information relating to knowledge and skills and training relevant to asset pooling. All information relating to investment assets **must** clearly state whether the assets are held via the pool company or not.

POST POOL REPORTING

The CIPFA publication [Proposals for Post Pool Reporting](#) (May 2018) acknowledged that there was a legitimate public interest in asset pools which could not be adequately met from information contained in year-end accounts. Annual reports **should** therefore include a narrative commentary explaining changes to investment costs where appropriate in terms of:

- changes in the value of investment assets between pooled and non-pooled investments
- changes in investment strategies and asset allocations
- changes implemented as a result of pooling, such as re-balancing of direct and pooled investments, changes in the split of active and passive investments, renegotiated fund mandates, new fee structures (eg changes to ad valorem fees) or new suppliers
- changes in the supplier market (eg regulation, competition, innovation)
- exceptional costs, including costs of establishing pools and transitioning to them
- increased transparency – changes in the way the information is presented
- any other factors.

Proposals for Post Pool Reporting identified additional information requirements at four specific stages in the process of transitioning to regional asset pools:

- pool set up costs
- ongoing investment management costs
- asset allocations and performance
- savings delivery.

Each is considered in turn below. Tables have been developed to promote consistency of disclosure between pension funds and to assist the MHCLG and Scheme Advisory Board. A summary of frequently asked questions on these tables is provided in Annex 3.

In order to assist the reader, the purpose of each table included in the annual report **should** be clearly explained.

Pool set up costs

The following information on set up costs **must** be included in the annual report. Since set up costs are likely to straddle more than one financial year, cost disclosures in annual reports **must** include the cumulative position as shown below. For pools operating outside London, actual costs **should** be compared to March 2015 Business Case submissions to MHCLG.

	Direct	Indirect	Total	Cumulative
	£000s	£000s	£000s	£000s
Set up costs:				
■ Recruitment				
■ Legal				
■ Procurement				
■ Other support costs eg IT, accommodation				
■ Share purchase/subscription costs*				
■ Other working capital provided eg loans				
■ Staff costs**				
■ Other costs				
TOTAL SET UP COSTS				
Transition costs:				
■ Transition fees				
■ Taxation (seeding relief)				
■ Other transition costs				
TOTAL TRANSITION COSTS				

* Include the cost of purchasing shares in the asset pool vehicle where this is a company limited by share capital. Even if these costs have been treated as an investment in the pension fund accounts or single entity authority accounts, these are a directly attributable cost of setting up the asset pool and so should be included in the table above. Similarly until the asset pools are fully operational it is likely that asset pools may need to charge a subscription fee to pool members, which should be included in the set-up costs.

** Include costs of seconded and directly employed staff involved in establishing the asset pool and working for the pool company prior to commencement of trading. For directly employed staff, costs should also include employers' pension contributions and past service pension costs if these have been transferred from their previous employment.

Set-up costs **should** then be compared to actual and expected savings. This **may** be presented in table form as set out below, alternatively charts, graphics or narrative explanations may be preferred, so long as the relevant figures are readily discernible:

- (a) Total expected costs and savings (as per business case submissions)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Set up costs	X	X							
Transition costs		X	X	X	X	X			
Fee savings			(X)	(X)	(X)	(X)	(X)	(X)	(X)
Net savings realised	X	X	X	X	(X)	(X)	(X)	(X)	(X)

- (b) Expected vs actual costs and savings to date (this table would be extended in future years as more actual data becomes available). NB: if actual and expected figures are significantly different an explanation should be provided.

	2016/17				2017/18			
	Actual		Budget		Actual		Budget	
	In-year	Cumulative to date	In-year	Cumulative to date	In-year	Cumulative to date	In-year	Cumulative to date
	£000	£000	£000	£000	£000	£000	£000	£000
Set up costs (1)	X	X	X	X	X	X	X	X
Transition costs (1)			X	X	X	X	X	X
Fee savings (2)					(X)	(X)	(X)	(X)
Net savings realised	X	X	X	X	X	X	X	X

(1) – **should** agree to pool set up costs table above

(2) – **should** agree to savings variance analysis later in this section.

NB: this example is based on a pool outside London in the early stages of transition where fee savings have yet to be realised.

Ongoing investment management costs

Information provided in the annual report **must** enable the reader to compare ongoing investment management costs between asset pools and non-pooled investment arrangements. This information **should** be based on the analysis of investment management costs that most pension funds already include in their year-end statement of accounts, as follows:

	Asset Pool				Non-Asset Pool				Fund Total	
	Direct	Indirect	Total		Direct	Indirect	Total			
	£000s	£000s	£000s	bps	£000s	£000s	£000s	bps	£000s	bps
Management fees										
■ ad valorem										
■ performance										
■ research										
■ PRIIPS compliance										
Asset pool shared costs										
Transaction costs										
■ commissions										
■ acquisition/issue costs										
■ disposal costs										
■ registration/filing fees										
■ taxes and stamp duty										
Custody										
Other										
Total £000										

Asset allocations and performance

Gross and net investment returns **should** be reported separately for investment mandates which have transitioned to asset pools and those which have not. The Scheme Advisory Board has requested that gross and net return are reported by asset class shown alongside the relevant passive index for quoted investments and local performance benchmarks for unquoted investments, as set out in the pension fund’s investment strategy.

Performance **should** be measured over one, three and five year timeframes and annual reports **should** explain exactly which performance benchmark is being applied. Presentation **should** be in table form, as shown below, with investments categorised according to their primary purpose:

Asset category	Opening value		Closing value		Performance		Passive Index*	Local Target
					Gross	Net		
	£000s	%	£000s	%	%	%	%	%
Asset pool managed investments								
■ Active listed equity								
■ Active listed fixed income								
■ Passive listed equity								
■ Passive listed fixed income								
■ Private debt								
■ Property								
■ Unlisted equity								
■ Infrastructure								
■ Cash								
■ Multi-asset funds/diversified growth funds								
■ Derivatives								
■ Hedge funds								
■ Insurance policies								
■ Other								
Total								
Non-asset pool managed investments								
■ Active listed equity								
■ Active listed fixed income								
■ Passive listed equity								
■ Passive listed fixed income								
■ Private debt								
■ Property								
■ Unlisted equity								
■ Infrastructure								
■ Cash								
■ Multi-asset funds/diversified growth funds								
■ Derivatives								
■ Hedge funds								
■ Insurance policies								
■ Other								
Total								

Savings delivery

To measure the extent to which pension funds have saved fees as a result of pooling, pension funds **should** calculate price and quantity variances. The price variance measures the extent to which fee rates have generated savings. The quantity variance measures the extent to which fees have changed in line with the value of the assets on which they are based, therefore:

- the price variance is calculated as the fund value currently x (old fee rate – new fee rate)
- the quantity variance is calculated as the old fee rate x (old fund value – current fund value).

Worked examples are set out in Annex 3 and **should** be accompanied by a qualitative explanation (changes in price, volume, asset mix, etc) and presented in the context of changes in performance and risk.

I: PENSIONS ADMINISTRATION STRATEGY REPORT

Pension funds have discretion as to whether or not they prepare a pensions administration strategy. Where such a strategy is produced, Regulation 59 of The Local Government Pension Scheme Regulations 2013 (Regulation 57 in Scotland) specifies the matters to be included and under Regulation 57 (Regulation 55 in Scotland) the strategy **must** be published as part of the annual report.

The annual report **should** describe the significant service standards contained in any service level agreements with fund employers and report on whether or not these requirements are being met. Examples of service standards agreed with employers include, for example:

- the provision of named pensions contacts for the 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.

J: FUNDING STRATEGY STATEMENT

Since 2004, pension funds have been required to prepare, publish and maintain a funding strategy statement (FSS) under Regulation 58 of the LGPS Regulations 2013 (Regulation 56 in Scotland). The Regulation requires the pension fund to keep its FSS 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 investment strategy statement (England and Wales) or statement of investment principles (Scotland). Guidance has been provided in the 2016 CIPFA publication [Preparing and Maintaining a Funding Strategy Statement](#).

It is possible, therefore, that more than one FSS may be published during the reporting period but, for the purposes of the annual report, the FSS as it stood at the end of the reporting period **must** be reproduced in full. The annual report **should** also direct the reader to where the previous version/s in force during the reporting period may be found.

K: INVESTMENT STRATEGY STATEMENT (ENGLAND AND WALES) OR STATEMENT OF INVESTMENT PRINCIPLES (SCOTLAND)

In England and Wales, MHCLG guidance published in September 2016 and July 2017 sets out the detailed requirements for LGPS to prepare, publish, and maintain both a funding strategy statement and an investment strategy statement, the latter replacing the statement of investment principles from 2017/18. The guidance requires that the investment strategy statement contains, among other things:

- the strategy and processes in place for managing investment risk
- allocation of investments across asset class
- approach to pooling and participation in national asset pools
- risk management arrangements
- social and environmental policies and corporate governance considerations
- the exercise of rights attached to investments.

In Scotland, Regulation 12 of the LGPS (Management and Investment of Funds)(Scotland) Regulations 2010 requires pension funds to prepare, maintain and publish a statement of investment principles (SIP). The SIP sets out the pension fund'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 [Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom](#) (CIPFA, 2012) 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).

Current versions of the investment strategy statement (in England and Wales) or statement of investment principles (in Scotland) **must** be included in the pension fund annual report

L: COMMUNICATIONS POLICY STATEMENT

Pension funds are required to prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities. For England and Wales refer to Regulation 61 of the LGPS Regulations 2013 and for Scotland refer to Regulation 59 of the Scottish Regulations.

This policy statement **must** be included in the pension fund annual report. The report **should** also 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.

M: EXTERNAL AUDIT OPINION

The external auditor's opinion on the pension fund's statement of accounts **must** be included in the annual report. For Welsh and Scottish pension funds this will be a standalone audit opinion, whereas in England it is likely to be a 'consistent with' opinion referring back to the certificate given on the administering authority's statement of accounts.

As LGPS currently do not make separate audit appointments, it will be the administering authority's appointed external auditor (currently one of the large accountancy firms) who carries out the audit work and issues the opinion.

There is no requirement to audit the pension fund annual report as a separate exercise, therefore the scope of the audit will primarily be restricted to the financial statements included in the annual report, rather than the content of the annual report overall. However, where audited accounts are published alongside other financial information, auditors have a responsibility to ensure that the audited and unaudited information being presented to the reader is internally consistent. In practice this means that:

- the external auditor will need to receive and review not just a set of financial statements but also a draft of the annual report before he/she can issue a separate opinion on the pension fund
- the auditor is likely to query any information reported in other sections of the annual report that appears to be materially inconsistent with the information contained in the accounts. Where information is different eg because sub-fund expenses have been added in to investment management costs in order to meet Transparency Code requirements, reconciliations between the two sets of figures should be prepared and made available for audit.

N: OTHER MATERIAL

Specific requirements

Scottish pension funds – management commentary

Local Government Finance Circular 1/2018 explains that pension accounts are a separate set of accounts of the administering authority for the purpose of the Local Authority Accounts Regulations 2014 (the Accounts Regulations). The Accounts Regulations require local authority annual accounts to include a management commentary and an annual governance statement.

Circular 1/2018 states that the pension fund annual report meets the requirements for a management commentary in respect of the pension fund.

Scottish and Welsh pension funds

As a stand-alone set of financial statements, to meet CIPFA Code of Practice requirements Scottish and Welsh annual reports **must** include the following:

- a statement of responsibilities for the statement of accounts
- member approval and publication dates
- an annual governance statement setting out how the pension fund complies with the CIPFA/SOLACE publication *Delivering Good Governance in Local Government Framework*.

Following either statutory requirements or best practice, annual governance reports are normally produced as the outcome of annual 'governance reviews' carried out by management which consider, among other things:

- the overall governance and risk management structures in place
- any changes made to these arrangements since last year
- how the organisation complies with the CIPFA/SOLACE publication *Delivering Good Governance in Local Government: Framework*
- assurance provided through internal audit work or third parties
- assurance reviews carried out by service managers.

In Scotland, Local Government Finance Circular 1/2018 advises that pension funds adopt one of the following two approaches:

- a single governance statement with two sections – the first section being the annual governance statement, and the second section being the governance compliance statement, or
- two separate statements – the first statement is to be the annual governance statement, followed immediately by the governance compliance statement.

At the date of publication, the Welsh Government was considering a similar approach for Welsh pension funds to follow.

Additional information

Although Regulation 57 of the LGPS Regulations 2013 and Regulation 55 of the Scottish Regulations prescribe what must be included in the pension fund annual report, pension funds are free to include other information as they see fit. For example, funds **may** wish to include:

- 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, 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 internal audit 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 ISAE 3402 controls assurance reports)
- a summary of freedom of information requests
- a glossary of commonly used pension fund terms to aid readers.

ANNEX 1

Annual report checklist

Set out below is a summary of must, should and may disclosures for LGPS annual reports.

1	Scheme management and advisors	
	The report must list the names and contact details for:	YES NO N/A
1-1	■ the officers responsible for the fund	YES NO N/A
1-2	■ investment managers used by the fund	YES NO N/A
1-3	■ the fund custodian	YES NO N/A
1-4	■ AVC providers	YES NO N/A
1-5	■ the fund actuary	YES NO N/A
1-6	■ legal advisors	YES NO N/A
1-7	■ bankers to the fund	YES NO N/A
1-8	■ the external auditor	YES NO N/A
1-9	■ the scheme administrators	YES NO N/A
1-10	■ any independent advisors	YES NO N/A
2	Risk management	
	The report should explain:	YES NO N/A
2-1	■ how risk management is integrated within the governance structure	YES NO N/A
2-2	■ how risks are identified, managed and reviewed. This might for example include:	YES NO N/A
2-3	■ a summary of the key risks and what actions are being taken to mitigate those risks	YES NO N/A
2-4	■ how assurance is sought over third party operations, eg ISAE 3402 (f AAF 01/06) and SSAE16/70 reports	YES NO N/A
2-5	■ levels of assurance gained from internal audit work	YES NO N/A
2-6	■ how investment risk is managed.	YES NO N/A
3	Financial performance	
	The report must provide an overview of the fund's financial performance which includes:	YES NO N/A
3-1	■ current year performance against budget, highlighting and explaining any significant variances	YES NO N/A
3-2	■ a brief commentary on the movement in non-investment assets and liabilities (or a cross-reference to where this can be found in the financial statements)	YES NO N/A

		Yes/no/not applicable	Comments
3-3	<ul style="list-style-type: none"> Information about the level of contributions as a % of pensionable pay, the timeliness of receipt of contributions and whether the option to levy interest on overdue contributions has been exercised 	YES NO N/A	
3-4	<ul style="list-style-type: none"> forecast v outturn report on the pension fund cash flows 	YES NO N/A	
3-5	<ul style="list-style-type: none"> details of pension overpayments, recoveries and any amounts written off, including the results of participation in (NFI) exercises (data matches, overpayments identified, actions taken, etc). 	YES NO N/A	
The financial overview should also include:			
3-6	<ul style="list-style-type: none"> details of the net operational expenses of administering the fund, identifying as a minimum staff costs (both direct and internal recharges), premises, IT, supplies and services, costs of democracy and any other costs and income 	YES NO N/A	
3-7	<ul style="list-style-type: none"> details of benefits payable, transfers in and out, plus income from contributions from members and employers, showing a net inflow or outflow to the fund. 	YES NO N/A	
3-8	<ul style="list-style-type: none"> The financial overview may also include longer term forecasts of income, expenditure and cash flows. 	YES NO N/A	
4 Pension scheme administration			
The annual report must include the following:			
4-1	<ul style="list-style-type: none"> analysis of membership data (active, deferred pensioners and leavers) 	YES NO N/A	
4-2	<ul style="list-style-type: none"> a list of contributing employers analysed by admitted and scheduled bodies showing the value of contributions received from both employer and employees during the year 	YES NO N/A	
4-3	<ul style="list-style-type: none"> details of new pensioners analysed by ill health, early and normal retirements. 	YES NO N/A	
The annual report must include a description of key administration activities including:			
4-4	<ul style="list-style-type: none"> services provided to members, pensioners and employing bodies, together with an explanation of how these services are delivered 	YES NO N/A	
4-5	<ul style="list-style-type: none"> a statement on value for money 	YES NO N/A	
4-6	<ul style="list-style-type: none"> a summary of key performance data and qualitative information 	YES NO N/A	
4-7	<ul style="list-style-type: none"> a summary of key financial information and staffing levels. 	YES NO N/A	
Key performance data should include:			

		Yes/no/not applicable	Comments
4-8	■ caseload analysis	YES NO N/A	
4-9	■ accuracy of membership data	YES NO N/A	
4-10	■ the percentage of pensions transactions completed on time against targets	YES NO N/A	
4-11	■ satisfaction levels of employers and members	YES NO N/A	
4-12	■ numbers of complaints and complaints as a percentage of workload.	YES NO N/A	
	Financial indicators of administrative efficiency should include:	YES NO N/A	
4-13	■ unit costs per member	YES NO N/A	
4-14	■ benchmarking of unit costs against appropriate comparators.	YES NO N/A	
	Key staffing indicators should include:	YES NO N/A	
4-15	■ staff numbers and trends	YES NO N/A	
4-16	■ staff to fund-member ratios	YES NO N/A	
4-17	■ average cases per member of staff	YES NO N/A	
4-18	■ benchmarking of staffing levels against appropriate comparators.	YES NO N/A	
	A CIPFA working group has recommended that the following information is collected and the results should be summarised in the annual report.		
4-19	Time taken to process the following:		
	■ acknowledgement of death	YES NO N/A	
	■ death benefit and/or survivor pension	YES NO N/A	
	■ provide pension or CETV estimate	YES NO N/A	
	■ payment of lump sum retirement	YES NO N/A	
	■ calculate and notify deferred benefits	YES NO N/A	
	■ transfers in and out	YES NO N/A	
	■ calculate and pay a refund	YES NO N/A	
	■ send formal notification of joining.	YES NO N/A	
4-20	Actual time taken compared to legal requirements and internal target/SLA KPI.	YES NO N/A	
4-21	Numbers of each case type processed each year and outstanding at the year end.	YES NO N/A	
4-22	Average caseload per FTE.	YES NO N/A	
4-23	Satisfaction levels of employers and members.	YES NO N/A	
4-24	Administration, oversight and governance – unit costs per member.	YES NO N/A	
4-25	Staff to fund-member ratios.	YES NO N/A	

		Yes/no/not applicable	Comments
4-26	The annual report should summarise <ul style="list-style-type: none"> ■ helpdesk arrangements and information available to members and employees via websites, self-service options and other information sources 	YES NO N/A	
4-27	<ul style="list-style-type: none"> ■ contact details 	YES NO N/A	
4-28	<ul style="list-style-type: none"> ■ explanation of any outsourcing arrangements 	YES NO N/A	
4-29	<ul style="list-style-type: none"> ■ monitoring arrangements for gathering assurance over the effective and efficient operation of these operations. 	YES NO N/A	
This section may also contain:			
4-30	<ul style="list-style-type: none"> ■ an outline of the fund’s internal dispute resolution procedure, any new dispute cases arising during the year and how these have been resolved ■ contact details for the Pensions Advisory Service and the Pensions Ombudsman ■ information on how to access any policies or guidance produced by the LGPS for employing bodies or members. 	YES NO N/A	
5 Investment Policy and Performance Report			
5-1	The planned asset allocation must be stated along with the actual asset allocation for the financial year.	YES NO N/A	
5-2	Investment performance must be set out for each asset class and fund manager against the benchmarks set for one year, three years and five years.	YES NO N/A	
5-3	Pension funds may wish to explain any responsible investment policies and any environmental, social and governance policies along with voting arrangements and other initiatives such as engagement with companies and any collaborative ventures with other funds.	YES NO N/A	
5-4	The report may also: <ul style="list-style-type: none"> ■ outline the fund’s approach to the UK Stewardship Code 	YES NO N/A	
5-5	<ul style="list-style-type: none"> ■ list any bodies of which the fund is member, subscriber or signatory, such as NAPF, LAPFF, UKSIF, UNPRI, etc 	YES NO N/A	
5-6	<ul style="list-style-type: none"> ■ record how voting rights have been exercised 	YES NO N/A	
5-7	<ul style="list-style-type: none"> ■ explain what actions have been taken to pursue responsible investment aims 	YES NO N/A	
5-8	<ul style="list-style-type: none"> ■ explain actions taken to demonstrate compliance with the Myners principles or any other code of principles adopted. 	YES NO N/A	

		Yes/no/not applicable	Comments
5-9	This section of the report must also include details of investment administration and custody, describing who looks after which part of the portfolio if this has not already been reported elsewhere.	YES NO N/A	
6	Investment management costs		
6-1	Pension funds should take steps to identify fees and costs incurred by third parties which impact on overall return achieved, and explain these in the annual report.	YES NO N/A	
6-2	The annual report should help readers understand the relationship between costs, risks and return associated with the pension fund portfolio. Areas for consideration might include the costs and related returns from:		
	■ active v. passive portfolios	YES NO N/A	
	■ different asset classes including alternatives	YES NO N/A	
	■ pooled funds, layered funds and 'fund of fund' arrangements	YES NO N/A	
	■ different fund managers.	YES NO N/A	
6-3	The annual report should explain how the pension fund is responding to the Scheme Advisory Board's Transparency Code and what use is being made of information obtained from fund managers using the Scheme's template reports.	YES NO N/A	
7	Post pool reporting		
7-1	Investments analysis by fund manager must be split between assets transferred, and not yet transferred, to national pools.	YES NO N/A	
7-2	The annual report must include details of pool set up costs eg:		
	■ share purchase/subscription costs	YES NO N/A	
	■ other working capital provided eg loans	YES NO N/A	
	■ staff costs	YES NO N/A	
	■ accommodation costs	YES NO N/A	
	■ other services provided eg IT costs	YES NO N/A	
	■ transition fees and taxes	YES NO N/A	
	■ recruitment	YES NO N/A	
	■ legal	YES NO N/A	
	■ procurement.	YES NO N/A	
7-3	Details of set up costs should be presented alongside the total savings expected from pooling and the in-year and cumulative savings achieved to date.	YES NO N/A	

		Yes/no/not applicable	Comments
7-4	Analysis of ongoing investment management costs must be split between pooled and non-pooled assets	YES NO N/A	
7-5	To measure the extent to which pension funds have saved fees as a result of pooling, the annual report should include details of ongoing fee savings based on the price and quantity variance methodology set out in the Post Pooling Guidance report.	YES NO N/A	
7-6	Annual reports should compare gross and net investment yield for each class of asset, analysed between pooled and non-pooled investments and comparing actual return achieved during the year to the relevant passive return index (for quoted investments) or the local target return (for non-quoted investments).	YES NO N/A	
7-7	Where tables are used to provide the data in 7-2 to 7-6 above, the tables should be clearly explained.	YES NO N/A	
7-8	Narrative commentary should explain changes to investment costs in terms of: <ul style="list-style-type: none"> ■ change in the value of assets under management and how this is split between pooled and non-pooled investments ■ changes in investment strategies and asset allocations ■ changes implemented as a result of pooling, such as re-balancing of direct vs pooled investments, changes in the split of active and passive investments, renegotiated fund mandates, new fee structures (eg changes to ad valorem fees) or new suppliers ■ changes in the supplier market (eg regulation, competition, innovation) ■ exceptional costs, including costs of establishing pools and transitioning to them ■ increased transparency – changes in the way the information is presented ■ any other factors. 	YES NO N/A	
7-9	Annual reports must include: the name and contact details of the regional pool operator	YES NO N/A	
7-10	planned versus actual asset allocation – within the pool and otherwise. Annual reports should also include the following information relating to the regional asset pool:		
7-11	a summary of identified risks relating to pooling arrangements	YES NO N/A	

		Yes/no/not applicable	Comments
7-11	<ul style="list-style-type: none"> a copy or summary of the annual report from the asset pool oversight committee 	YES NO N/A	
	The pension fund may also wish to disclose:		
7-12	<ul style="list-style-type: none"> how the pension fund and pool operator respectively are exercising voting rights and taking action to pursue responsible investment commitments 	YES NO N/A	
7-13	<ul style="list-style-type: none"> what action the pool operator is taking to demonstrate compliance with the Myners principles 	YES NO N/A	
7-14	<ul style="list-style-type: none"> information relating to knowledge and skills and training relevant to asset pooling. 	YES NO N/A	
8	Actuarial report	YES NO N/A	
8-1	The annual report must include a statement by the actuary setting out the pension fund's overall level of funding as reported at the last triennial valuation.	YES NO N/A	
	It should also include:		
8-2	<ul style="list-style-type: none"> a summary of the last triennial valuation report and details of where the full version of the actuarial report can be obtained. 	YES NO N/A	
8-3	In addition the pension fund may wish to disclose: <ul style="list-style-type: none"> the results of any interim valuations 	YES NO N/A	
8-4	<ul style="list-style-type: none"> where such monitoring is undertaken, the results of any monitoring of key variables such as longevity experience, ill health retirements and use of discretionary powers impacting on the fund's solvency. 	YES NO N/A	
9	Governance policy and compliance statement		
	Regulation 31 of the Administration Regulations 2008 (Regulation 55 of The Local Government Pension Scheme Regulations 2013) (Regulation 27 in Scotland) prescribes the content of this statement which must be included in the annual report.		
	This section of the annual report should also include:		
9-1	An outline of the overall governance structure for the pension fund and the roles and responsibilities of each element within the structure (including whether the element is executive or advisory)	YES NO N/A	
9-2	Terms of reference for the pensions committee (or equivalent), local pensions board and related sub-committees or advisory panels	YES NO N/A	
9-3	Membership of each panel/committee during the year with a matrix showing for each member:	YES NO N/A	
9-4	<ul style="list-style-type: none"> voting rights 	YES NO N/A	

		Yes/no/not applicable	Comments
9-5	■ attendance at meetings	YES NO N/A	
9-6	■ training received during the reporting period.	YES NO N/A	
9-7	Policy and processes for managing any conflicts of interest.	YES NO N/A	
9-8	The annual report from the local pension board.	YES NO N/A	
9-9	Annual reports should include some form of commentary to illustrate how governance works in everyday terms for the reader. This may include, for example: <ul style="list-style-type: none"> ■ explanations of how codes of conduct operate in practice ■ how the CIPFA Knowledge and Skills Framework has been applied ■ details of training offered and take-up (training is mandatory for local pension board members but not for a pensions committee). 	YES NO N/A	
9-10	how the fund and pool operator are meeting the requirements of the CIPFA/SOLACE <i>Good Governance Framework</i> .	YES NO N/A	
10 Financial statements			
10-1	The annual report must include the fund's full financial statements ie the fund account, net asset statement and disclosure notes.	YES NO N/A	
10-2	The annual report must also contain a copy of the external auditor's opinion on these accounts.	YES NO N/A	
11 Dealings with employing bodies			
11-1	The annual report must include 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 but with some outstanding liabilities). The data should be shown in tabular format.	YES NO N/A	
	The annual report should set out the arrangements for dealing with employer bodies. Examples may include:		
11-2	■ service standards set and agreed between the fund and each employer	YES NO N/A	
11-3	■ the provision of named pensions contacts for the employer	YES NO N/A	
11-4	■ an employer discretions policy document	YES NO N/A	
11-5	■ a new admissions policy	YES NO N/A	
11-6	■ pensions advice for employers entering into outsourcing/TUPE arrangements	YES NO N/A	

		Yes/no/not applicable	Comments
11-7	■ requirement for annual statements of compliance regarding the administration of the scheme by each employer	YES NO N/A	
11-8	■ the timeliness of data submissions by the employer	YES NO N/A	
11-9	■ the timeliness of employer responses to fund queries.	YES NO N/A	
11-10	The report should set out any use of powers to seek compensation from employers in respect of any service standard breaches.	YES NO N/A	
12	Communications Policy Statement		
12-1	For English and Welsh pension funds, Regulation 61 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. This must be included in the annual report	YES NO N/A	
13	Funding strategy statement		
13-1	Pension funds are required to prepare, publish and maintain funding strategy statements (FSS) under Regulation 58 of The Local Government Pension Scheme Regulations 2013) (Regulation 31 in Scotland). For the purposes of the pension fund annual report, the statement as it stood at the end of the reporting period must be reproduced in full.	YES NO N/A	
	This section of the report should also include a commentary on matters relating to the implementation and application of the funding strategy statement during the period, such as:		
13-2	■ implementation of any contribution increases	YES NO N/A	
13-3	■ management of admitted bodies	YES NO N/A	
13-4	■ any bonds or any other secured funding arrangements entered into.	YES NO N/A	
13-5	Links between the FSS and ISS should be set out in the annual report	YES NO N/A	
14	Investment strategy statement		
14-1	Pension funds are required to prepare, maintain and publish an investment strategy statement (ISS), which replaced the previous statement of investment principles (SIP) in 2016/17. The annual report must include the current version of the ISS.	YES NO N/A	
14-2	The Annual report should set out the extent to which the ISS and FSS meet statutory guidance and explain the reasons for any areas of non-compliance identified.	YES NO N/A	

		Yes/no/not applicable	Comments
14-3	The ISS should explain how the pension fund intends to transition funds to the regional asset pool, setting out expected timings, mandates affected etc.	YES NO N/A	
15	Other material		
	For example, funds may wish to include:		
15-1	<ul style="list-style-type: none"> the statement of compliance with the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills 	YES NO N/A	
15-2	<ul style="list-style-type: none"> evidence to demonstrate compliance with the code of practice, reports on officer and member training undertaken during the year (if not reported elsewhere), skills and knowledge reviews, planned training events etc 	YES NO N/A	
15-3	<ul style="list-style-type: none"> the role played by internal audit in providing assurance and managing risk, and a summary of assurance activity undertaken during the year 	YES NO N/A	
15-4	<ul style="list-style-type: none"> other policy documents or strategies in place or under development 	YES NO N/A	
15-5	<ul style="list-style-type: none"> a commentary on how employer discretions have been exercised in the reporting period 	YES NO N/A	
15-6	<ul style="list-style-type: none"> a glossary of commonly used pension fund terms to aid readers. 	YES NO N/A	
15-7	Chairman's report.	YES NO N/A	
16	Requirements for Welsh and Scottish LGPS only		
	The annual reports must include:	YES NO N/A	
16-1	a statement of responsibilities	YES NO N/A	
16-2	approval and issue dates	YES NO N/A	
16-3	an annual governance report, based on:	YES NO N/A	
	<ul style="list-style-type: none"> compliance with CIPFA/SOLACE framework 	YES NO N/A	
	<ul style="list-style-type: none"> outcomes from internal audit coverage/head of internal audit assurance report 	YES NO N/A	
	<ul style="list-style-type: none"> third party assurance reports. 	YES NO N/A	
	Must be included for Scottish pension funds only		
16-4	A management commentary	YES NO N/A	

ANNEX 2

Scheme administration

A working party set up by CIPFA during 2018 is aiming to develop a process whereby scheme administration data can be captured on a consistent basis and shared between funds. The group has suggested that as a first step the following information is captured and reported:

Table 1: Key performance information

Process	No. cases outstanding at start of the period	No. cases commenced in year	No. cases completed in year	No. cases outstanding at year end	% completed in year
Deaths – Initial letter acknowledgement death of active/deferred/pensioner member					
Deaths – Letter notifying amount of dependant’s benefit					
Retirements – Letter notifying estimate of retirement benefits (include all retirement types: normal, ill heath, early, late etc)	Active				
	Deferred				
	Total				
Retirements – Letter notifying actual retirement benefits (include all retirement types: normal, ill heath, early, late etc)	Active				
	Deferred				
	Total				
Retirements – process and pay lump sum retirement grant (include all retirement types: normal, ill heath, early, late etc)	Active				
	Deferred				
	Total				
Deferment – calculate and notify deferred benefits					

Process	No. cases outstanding at start of the period	No. cases commenced in year	No. cases completed in year	No. cases outstanding at year end	% completed in year
Transfers in – Letter detailing transfer <i>in</i> quote					
Transfers in – Letter detailing transfer <i>in</i>					
Transfers out – Letter detailing transfer <i>out</i> quote					
Transfers out – Letter detailing transfer <i>out</i>					
Refund – Process and pay a refund					
Divorce quote – Letter detailing cash equivalent value and other benefits					
Divorce settlement – Letter detailing implementation of cash equivalent value and application of pension sharing order					
Member estimates/projections					
Joiners – Send notification of joining the LGPS to scheme member					
Aggregation – Send notification of aggregation options					

Table 2: Key performance indicators

Process	Fund KPI's	%	No. cases completed within KPI	Legal Requirement (from notification)	%	No.
Deaths – Initial letter acknowledgement death of active/deferred/pensioner member	5 days			2 months		
Deaths – Letter notifying amount of dependant's benefit	10 days			2 months		
Retirements – Letter notifying estimate of retirement benefits (include all retirement types: normal, ill health, early, late etc)	Active	15 days		2 months		
	Deferred					
	Total (if not separated)					
Retirements – Letter notifying actual retirement benefits (include all retirement types: normal, ill health, early, late etc)	Active	15 days		2 months		
	Deferred					
	Total (if not separated)					
Retirements – process and pay lump sum retirement grant (include all retirement types: normal, ill health, early, late etc)	Active	15 days		2 months		
	Deferred					
	Total (if not separated)					
Deferred into pay – process and pay lump sum retirement grant	15 days			2 months		
Deferral – Calculate and notify deferred benefits	30 days			2 months		
Transfers in – Letter detailing transfer <i>in</i> quote	10 days			2 months		
Transfers out – Letter detailing transfer <i>out</i> quote	10 days			2 months		
Refund – Process and pay a refund	10 days			2 months		
Divorce quote – Letter detailing cash equivalent value and other benefits	45 days			3 months		
Divorce settlement – Letter detailing implementation of cash equivalent value and application of pension sharing order	15 days			3 months		
Joiners – Send notification of joining the LGPS to scheme member	40 days			2 months		

CIPFA is updating the Pension Administration Benchmarking Club return to reflect the indicators shown above and this will include further guidance on how to obtain these figures although further work in this area is anticipated, including working with system providers to develop reporting directly from system information.

Table 3: Unit cost per member

Process	2013/14	2014/15	2015/16	2016/17	2017/18
Investment management expenses					
Total cost (£'000)					
Total membership (no.)					
Sub cost per member (£)					
Administration costs					
Total cost (£'000)					
Total membership (no.)					
Sub cost per member (£)					
Oversight and governance costs					
Total cost (£'000)					
Total membership (no.)					
Sub cost per member (£)					
Total cost per member (£)					

This information could also be shown as a chart or graph which may accentuate the movements between years more easily.

ANNEX 3

Post pool reporting

TECHNIQUES TO CALCULATE SAVINGS FROM ASSET POOLING

Variance analysis – worked example A – ad valorem fees

Calculating price and quantity variances for an asset portfolio transferred to an asset pool at 1/10/16, as at 31/3/18

Value of assets at 1/10/16	£112m
ad valorem fee rate	55bp per £1m
Value of assets at 31/3/18	£156m
ad valorem fee rate	50bp per £1m on first £100m
	45bp per £1m on next £30m
Fund	40bp per £1m on next £30m

Price variance

Current fund value at old rate	£156m x £0.0055 =	£858,000
Current value at new fee rate	£100m x £0.0050 =	£500,000
	£30m x £0.0045 =	£135,000
	£26m x £0.0040 =	£104,000
		£739,000

PRICE VARIANCE

£119,000

Quantity variance

Old rate x (old fund value – new fund value) = £0.0055 x (£112m – £156m)

QUANTITY VARIANCE

(£242,000)

Total variance

TOTAL VARIANCE

Old fees – new fees =

£616,000 – £739,000 =

(£123,000)

Variance analysis – worked example B – performance related fees

Calculating price and quantity variances for an asset portfolio transferred to an asset pool at 1/10/16, as at 31/3/18

Value of assets at 1/10/16	£112m
ad valorem fee rate	55bp per £1m
Value of assets at 31/3/18	£156m
ad valorem fee rate	50bp per £1m on first £100m
	45bp per £1m on next £30m
Fund	40bp per £1m on next £30m

Price variance

Current fund value at old rate	£156m x £0.0055 =	£858,000
Current value at new fee rate	£100m x £0.0050 =	£500,000
	£30m x £0.0045 =	£135,000
	£26m x £0.0040 =	£104,000
Performance fee		£641,143
		£1,380,143
PRICE VARIANCE		(£522,143)

Quantity variance

Old rate x (old fund value – new fund value) =	£0.0055 x (£112m – £156m)
QUANTITY VARIANCE	(£242,000)

Total variance

TOTAL VARIANCE	Old fees – new fees =	£616,000 – £739,000 =	(£764,143)
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Note that in the above example:

- a performance fee is payable of 20%
- the performance fee is subject to a ‘hurdle’ of 4% over the benchmark index
- the performance fee is subject to a high water mark clause.

Frequently asked questions

Question 1

Q: Where we have received consultancy advice for a project, where would the cost be disclosed?

A: As part of set up costs if this relates to new pooling arrangements. Otherwise as part of administration expenses.

Question 2

Q: What are indirect costs? Can CIPFA provide examples?

A: These would include, for example, overhead costs incurred by the administering authority or the pool in respect of senior management time, accommodation or support services recharged on a % of time/floor area basis as opposed to being directly linked to pension fund activities.

Question 3

Q: Will there be any changes to the example accounts as a result of these disclosures?

A: The only change is that the analysis of investments by manager will now be split between pooled and non-pooled investments; see [example LGPS accounts for 2018/19](#).

Question 4

Q: How will we show that the tables in the annual report reconcile to the notes in the accounts? If there are no changes in the example accounts are we expected to show a reconciliation?

A: Reconciliations should be prepared where the figures are different as external audit will need to check consistency between figures reported in the accounts and figures reported elsewhere in the annual report before they can issue a 'consistent with' opinion on the annual report. There is no requirement to include these reconciliations in either the annual report or the accounts – however, to assist the reader, a short explanation should be provided below each table in the annual report to explain what the key differences are.

Question 5

Q: Clarification on asset allocation and yield table – should there be sub-totals for the active and passive pooled investment vehicles?

A: The published guidance does not include sub-totals as a requirement but you could certainly add them if it makes the table clearer in your local circumstances.

Question 6

Q: How should we present pooling savings?

A: Via (1) the variance analysis which is the suggested method for calculating savings, and (2) comparison between savings achieved and set up costs.

Question 7

Q: Are the contractual costs within the pool direct or indirect costs?

A: Usually these would be direct costs but see comments above.

Question 8

Q: Will we be expected to include any of the pooled tables in the pension fund section of the parent county council's accounts?

A: Only the analysis of investments by manager, see above.

Question 9

Q: Tables seem more suited to pools that have built their own operator as opposed to pools that procure and rent. Our pool has mostly transition costs as opposed to set up costs.

A: Inevitably some pools will have higher set up costs and lower transition costs whereas other pools will have the reverse depending on the structures and operating models they adopt. Put the costs where you feel they best fit and include a footnote to the table explaining what has been done and why. It may be that some costs from a single advisor, consultant or fund manager need allocating between different categories in the tables depending on what they are actually doing or have done.

Question 10

Q: Will we be provided with an example of how these tables tie in to the accounts?

A: The figures included in the table on set up costs and transitioning should be identified from all three categories of expenditure included in the management expenses total in the fund account, but individual components will need to be identified and re-analysed. This table is also cumulative as it expected these costs to be incurred over a number of years. The table for ongoing investment costs should reconcile back to the IME line in the fund account and the asset allocations and performance table should reconcile back to the net return on investments (total yield) and analysis of investments by manager (total opening and closing values).

Question 11

Q: Set up costs – should staff costs include support provided by pension fund staff to the pool (ie ad-hoc support)?

A: Yes.

Question 12

Q: Asset allocation and performance table – where should private equity be reported?

A: Private equity is described as unlisted equity in this table.

Question 13

Q: Variance analysis – we are likely to be in the situation where we are joining a pooled fund asset portfolio we didn't have before. How do we show the variance analysis as we will not have an old rate to compare to the new rate? In this situation are we able to use the asset portfolio's standard quoted fee rate (eg 60bp) and compare it to the negotiated pool fee rate (eg 50bp)?

A: Yes, just include a footnote explaining which approach has been adopted and why.



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