Pension Fund Committee

14 March 2024

Agreement of Accounting Policies for Application in the 2023/24 Financial Statements of the Pension Fund

Report of Paul Darby, Corporate Director of Resources

Purpose of the Report

1. To update the Pension Fund Committee on the accounting policies to be applied in the preparation of the 2023/24 financial statements of the Pension Fund taking into consideration the potential impact of code amendments regarding materiality.

2. To seek confirmation from the Committee that appropriate policies are being applied.

Executive summary

1 All accounting policies which were applied in the preparation of the 2022/23 Statement of Accounts remain appropriate at this stage for the preparation of 2023/24 Statement of Accounts. These are, however, subject to the amendments to Section 3.4 of the Code reflecting changes to International Accounting Standard 1 (IAS1) regarding materiality.

2 Detailed CIPFA guidance regarding its definition of materiality in this context is expected to be published later this month (March 2024). Following this and following consultation with the external auditors, any changes to the accounting policies for inclusion within the 2023/24 Statements of Accounts will be reported to Members.

3. An assessment of materiality has been carried out, based on our initial understanding of the Code requirements. At this stage this is shown for information purposes only within Appendix 1 of the report.

4. The full list of accounting policies proposed for disclosure at this in the Pension Fund’s Financial Statements for 2023/24 is detailed in Appendix 1.

Recommendations

5. The Committee is recommended to:

   (a) Note the change to IAS1 and its potential effect following initial assessment on the accounting policies regarding materiality;

   (b) review the accounting policies;

   (c) approve their use in the preparation of the 2023/24 financial statements for the Pension Fund; and

   (d) authorise the Corporate Director of Resources to revise the accounting policies as necessary, including materiality and report any significant changes to the Committee.

Background

6. Whilst the Audit Committee has responsibility for the approval of Durham County Council's Statement of Accounts, which contains the Pension Fund Accounts, the Pension Fund Committee ought to approve the accounting policies to be used in the preparation of the Pension Fund Accounts.

Accounting Policies

7. It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices. The 'Code of Practice on Local Authority Accounting 2023/24 (the Code) as published by the Chartered Institute of Public Finance and Accountancy (CIPFA) incorporates these requirements and therefore must be followed in completing the Accounts.

8. Accounting policies are defined in the Code as *"the specific principles bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements"*.

9. Accounting policies need not be applied if the effect of applying them would be immaterial. Materiality is defined in the Code as it applies to omissions and misstatements:

   Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

10. The accounting policies applicable to the Pension Fund, in the main, relate to the valuation of assets held and the recognition of the contributions and benefits.

11. Changes to IAS1 mean that an entity is now required to disclose its **material** accounting policy information rather than its significant accounting policies. This is to provide more focused and proportionate information on accounting policies and to ensure that material information is not obscured.

12. The Code states that accounting policy information is material if, when considered together with other information included in an authority's financial statements, it can reasonably be expected to

influence decisions that the users of local authority financial statements make on the basis of those financial statements.

13. In quantitative terms, the council and the external auditor set an overall materiality threshold of 1% of net assets available to pay benefits and a Fund Account specific materiality threshold of 10% of benefits payable. Based on the 2022/23 audited accounts, this would give an indicative overall materiality threshold of £34.1 million, and a fund account specific threshold of £14.5 million. Policies for items with values below this level may be removed.

14. The amendments also clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial, for example remuneration disclosures.

15. Whole policies or sections of policies may be removed as a result of the updated guidance. It is anticipated however, that all remaining policies will be unchanged.

16. Where policies are removed, records will need to be maintained in the event that future reinstatement is required due to changes in disclosure values or materiality thresholds.

17. An assessment of materiality has been carried out, based on our initial understanding of the Code requirements. For completeness and members understanding of the potential impact of the Code change, Appendix 1 shows the full list of Accounting Policies with those policies deemed eligible for deletion (under a quantitative interpretation only) shown on the summary and shaded in the detail.

18. Further guidance is expected from CIPFA in the Code Guidance notes and year end bulletin, which are expected to be published later in March. Any changes to the accounting policies will be determined and reported to Committee Members following consideration of this detailed guidance and consultation with our auditors.

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Appendix 1: Accounting Policies for 2023/24

Accounting Policy		Status (New / Amended / No Change)	Material	In line with Code
General	Significant Accounting Policies	No change – other than removal of reference to the November 2022 Code update, as this is now included in the Code itself	✓	✓
Fund Account	Contributions receivable	No change	✓	✓
	Transfers to and from other schemes	No change	✗	✓
	Pension benefits payable	No change	✓	✓
	Management Expenses	No change	✗	✓
	Investment Income	No change	✓	✓
	Taxation	No change	✓	✓
Net Asset Statement	Valuation of Investments	No change	✓	✓
	Cash and Cash equivalents	No change	✓	✓
	Contingent Assets and Contingent Liabilities	No change	✓	✓
	Investment Transactions	No change	✗	✓
	Actuarial present value of promised retirement benefits	No change	✗	✓
	Additional Voluntary Contributions	No change	✗	✓
	Prior Period Adjustments	No change	✓	✓
	Events after the Reporting Period	No change	✓	✓

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these accounts. The accounts have been prepared on the accruals basis of accounting (except individual transfer values to and from the scheme, which are accounted for on a cash basis). The Fund has a policy of accruing for items of £10,000 or over, unless in exceptional circumstances.

Fund Account

Contributions receivable

Contribution income is categorised and recognised as follows:

- Normal contributions, from both members and employers, are accounted for on an accruals basis;

- Employers' augmentation contributions are accounted for in the year in which they become due;

- Employers' deficit funding contributions are accounted for in the year in which they become due in accordance with the Rates and Adjustment Certificate set by the actuary or on receipt, if earlier than the due date.

Transfers to and from other schemes

Transfer values represent amounts paid to or received from other local and public authorities, private, occupational or personal pension schemes in respect of pension rights already accumulated by employees transferring from or to the participating authorities.

Individual transfer values paid and received are accounted for on a cash basis as the amount payable or receivable is not determined until payment is made and accepted by the recipient. Bulk (Group) transfers out and in are accounted for in full in the year in which the members' liability transfers, where the transfer value is agreed by Durham County Council Pension Fund. Where the transfer value has not been agreed in the year in which the member liability transfers, the transfer will be accounted for in full in the year in which the transfer value is agreed.

Pension benefits payable

Pension benefits are recognised and recorded in the accounting records and reported in the financial statements as an expense in the period to which the benefit relates. Any amounts due, but yet to be paid, are disclosed in the Net Assets Statement as current liabilities.

Management expenses
All management expenses, which include administrative expenses, investment management expenses and oversight and governance costs, are accounted for on an accruals basis.

All staffing and overhead costs of the pensions administration team are allocated to the Fund as administrative expenses.

Fees of the external Investment Managers and Custodian are agreed in the respective mandates governing their appointments. *Note (applicable note for 23/24)* provides further information regarding the basis of Investment Managers' fees. Where an Investment Manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the financial year is used for inclusion in the Fund Account.

Oversight and governance costs include costs relating to the Fund accounting team, which are apportioned on the basis of staff time spent on the Fund and include all associated overheads, plus legal, actuarial and investments advisory services.

Investment Income
Investment income is accounted for as follows:

- dividend income is recognised in the fund account on the date stocks are quoted ex-dividend;

- income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis using the effective interest rate of the financial instrument as at the date of acquisition;

- distributions from pooled investment vehicles are accounted for on an accruals basis on the date of issue;

- income from overseas investments is recorded net of any withholding tax where this cannot be recovered;

- accumulated profit income is reinvested within the pooled investment vehicle and reflected in both the unit price and the change in market value of the investment;

- foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rates applicable on the last working day in March, where amounts were still outstanding at the year end. Accrued income is first recognised on the transaction date, with any foreign exchange gain or loss recognised separately until settlement;

- changes in the net market value of investments are recognised as income or expenditure and comprise all realised and unrealised profits/ losses during the year.

Taxation
The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin unless exemption is permitted. Irrecoverable tax would normally be accounted for as a fund expense as it arises, however when Investment Managers are not able to supply the necessary information, no taxation is separately disclosed in the Fund Account.

Net Assets Statement

Valuation of Investments
Investments are included in the accounts at their fair value as at the reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

All prices in foreign currency are translated into sterling at the prevailing rate on the last working day of March.

An investment asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes to the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

- quoted equity securities and fixed interest securities traded on an exchange are accounted for at bid market price;

- index linked securities traded on an exchange are valued at bid market value;

- unitised managed funds are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the

Investment Manager’s valuation report. Single priced unitised managed funds are valued at the reported price;

- unitised, unquoted managed property funds are valued at the most recently available net asset value adjusted for cash flows, where appropriate, or a single price advised by the fund manager;

- Each of the partners in Border to Coast Pension Pool (BCPP) have an equal shareholding in BCPP which have been valued at cost i.e. transaction price, as an appropriate estimate of fair value. This is reviewed and assessed each year. Relevant factors include that there is no market in the shares held, disposal of shares is not a matter in which any shareholder can make a unilateral decision, and the company is structured as to not make a profit. As at 31 March 2024, taking into consideration the audited accounts for the company at 31 December 2023, there is also no evidence of any impairment in the value of shares held. It has therefore been determined that costs remain an appropriate proxy for fair value at 31 March 2024. All investments managed by BCPP are valued at their fair value;

- investments in private equity funds, private credit funds and unquoted infrastructure funds are valued based on the fund’s share of the net assets in the private equity fund, private credit fund or infrastructure fund using the latest financial statements published by the respective fund managers, adjusted for cashflows; and

- derivative contracts outstanding at the year-end are included in the Net Assets Statement at fair value (as provided by Investment Managers) and gains and losses arising are recognised in the Fund Account as at 31 March. The value of foreign currency contracts is based on market forward exchange rates at the reporting date. The value of all other derivative contracts is determined using exchange prices at the reporting date.

Where Investment Managers are unable to supply investment valuations in line with the above policies, valuations will be included as supplied by the Investment Manager, usually at mid-market price.

Cash and Cash Equivalents
Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

Contingent Assets and Contingent Liabilities
A contingent asset arises where an event has taken place that gives a possible asset which will only be confirmed by the occurrence of uncertain future events not wholly within the control of the Fund.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets are not recognised in the Net Assets Statement however details are disclosed in Note (*applicable note for 23/24*).

Investment Transactions
Investment transactions arising up to 31 March but not settled until later are accrued in the accounts. All purchases and sales of investments in foreign currency are accounted for in sterling at the prevailing rate on the transaction date.

Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26 the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the accounts (*applicable note for* 23/24).

Additional Voluntary Contributions (AVCs)
The Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. In accordance with LGPS Regulations, AVCs are not recognised as income or assets in the Fund Accounts, however a summary of the scheme and transactions are disclosed in Note (*applicable note for 23/24)* to these accounts.

If, however, AVCs are used to purchase extra years' service from the Fund, this is recognised as contribution income in the Fund's accounts on an accruals basis. Amounts received in this way can be found in Note (*appliable note for 23/24*) as additional contributions from members.

Prior Period Adjustments
Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Material errors discovered in prior

period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events.

- those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.