Pension Fund Committee

7 March 2013

Agreement of Accounting Policies for Application in the 2012/13 Financial Statements of the Pension Fund

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Purpose of the Report

1. The purpose of this report is to inform the Pension Fund Committee of the accounting policies to be applied in the preparation of the 2012/13 Accounts and to seek confirmation from the Committee that appropriate policies are being applied.

Background

2. Although the Audit Committee have responsibility for the approval of the Statement of Accounts which contains the Pension Fund Accounts, the Pension Fund should approve the Accounting Policies to be used in the preparation of those accounts.

Accounting Policies

3. It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2011 for the Statement of Accounts to be produced in accordance with proper accounting practices. The 'Code of Practice on Local Authority Accounting 2012/13' (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.

4. 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"*.

5. 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.*

6. 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.

7. The proposed accounting policies are in line with those used in the preparation of the 2011/12 accounts and there have been no changes to the Code necessitating a change for 2012/13.

8. The full list of accounting policies for the Pension Fund that it is proposed to disclose in the Statement of Accounts notes is detailed in Appendix 1.

Recommendation

9. The Committee is recommended to:

- review the accounting policies; and
- approve their use in the preparation of the 2012/13 financial statements for the Pension Fund.

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Appendix 1: Accounting Policies for 2012/13

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 normal accruals basis of accounting.

Valuation of Investments

Investments are included in the accounts at their fair value as at their reporting date; in the case of marketable securities fair value is equal to market value. Market value is the bid price quoted in an active market for securities and unitised investments. Fair value is the price that a buyer and seller may reasonably exchange an asset in an arm's length transaction. The accounting policies used for specific material types of investment follow:

- ❖ Quoted equity securities that are traded on an exchange are accounted for on a bid market price basis as a basis of fair value where fund managers provide valuations in this manner.
- ❖ Unquoted equity investments are included based on an estimated price of the investments held. Valuation techniques are used to establish a price at the year end date based on an arm's length exchange given normal business considerations.
- ❖ Unitised securities are valued at the closing bid price if bid and offer prices are reported by the relevant exchange and in the fund manager's valuation report. Single priced unitised securities are valued at the reported price.
- ❖ Fixed interest securities that are traded on an exchange are accounted for at bid market price as a basis of fair value where fund managers provide valuations in this manner.
- ❖ The Public-Private Investment Plan (PPIP), an unquoted pooled investment vehicle, is valued at fair market value as determined by the Valuation Agent, the Bank of New York Mellon. The process for the determination of the value of the portfolio investments forms part of the investment agreement for the PPIP.
- ❖ Index linked securities are valued at bid market value where fund managers provide valuations in this manner.
- ❖ All prices in foreign currency are translated into sterling at the prevailing rate on the 31 March.
- ❖ Derivatives are included in the Net Assets Statement at fair value and gains and losses arising are recognised in the Fund Account as at 31 March. The future value of foreign currency contracts is based on

market forward exchange rates at the reporting date and determined as the gain or loss that would arise if the outstanding contract were matched at that date with an equal and opposite contract.

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

Investment transactions

Investment transactions arising up to 31 March but not settled until later are accrued in the accounts.

Acquisitions costs of investments

Acquisition costs of investments are added to book cost at the time of purchase.

Interest on property development

The Fund does not directly hold any property investments; all property investment is made through Pooled Investment Vehicles.

Contributions receivable

Contribution income is categorised and recognised as follows:

- Member contributions are recognised in the period they are deducted from salary;
- Employer's normal contributions are recognised in the period in which the employee's normal contributions are deducted from salary;
- Employer's augmentation contributions are accounted for in the year in which they become due;
- Employer's other contributions are accounted for on the terms of the arrangement.

Additional Voluntary Contributions (AVCs)

Deductions from employees' salary Additional Voluntary Contributions (AVCs) and their subsequent investment in insurance policies are not recognised as income or assets in the Pension Fund Accounts. The investments held outside the scheme can be found in Note X.

However when these AVCs are used to purchase extra years' service from the Pension Fund, this is recognised as contribution income in the Accounts on an accruals basis. Amounts received in this way can be found in Note X as additional contributions from members.

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 out/ in 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.

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.

Administrative expenses

A proportion of relevant officers' salaries have been charged to the Fund on the basis of actual time spent on investment and related matters and pensions' administration. Certain specific expenses have been charged directly to the Fund and other office expenses and related overheads have been charged to the Fund in proportion to the salaries charged.

Investment income

Income from equities is recognised in the fund account on the date stocks are quoted ex-dividend. Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.

Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.

Income from other investments is accounted for on an accruals basis.

Foreign income has been translated into sterling at the date of the transactions, when received during the year, or at the exchange rates applicable at 31 March where amounts were still outstanding at the year-end.

Changes in the net market value of investments are recognised as income 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 no taxation is separately disclosed in the Pension Fund Account when fund managers are not able to supply the necessary information.

Investment Management Fees

All investment management fees are accounted for on an accruals basis. Fees of the external investment managers are agreed in the respective mandates governing their appointments. 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 year is used for inclusion in the fund account.

The cost of obtaining independent investment advice from consultants is also included in investment management fees. Independent advisers' fees are based on a retainer for attendance at Pension Fund Committee Meetings and the provision of advice to the Pension Fund Committee. Fees for any additional work are based on a daily or hourly rate, as provided for by agreement or by separate arrangement.