

Agenda Item 9(b)(ii)

ABERDEEN CITY COUNCIL

COMMITTEE:	Council
DATE:	29 June 2011
REPORT BY:	Head of Finance
TITLE OF REPORT:	Draft Pension Fund Financial Statements 2010/11
REPORT NUMBER:	CG/11/080

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide to elected members a copy of the Pension Fund's draft 2010/11 Statement of Accounts, which are subject to audit.
- 1.2 Following the introduction of new statutory requirements the Council is now required annually to present a set of draft Pension Fund accounts to Audit Scotland by 30 June separate from the accounts prepared by the City Council and for elected members to receive a copy of these draft accounts by this due date.
- 1.3 Following a report to the Pensions Panel on 6 June 2011 on the full year outturn for the Pension Fund, this report provides an overview of the year-end financial position and the assets of the Pension Fund and Transport Fund as at 31 March 2011.

2. RECOMMENDATION(S)

- 2.1 It is recommended that the Council:
 - a) note the Draft Statement of Accounts, and financial performance of the Pension Fund, Main Fund and Transport Fund contained therein, which will be submitted to Audit Scotland by 30 June 2011;
 - b) note that the new statutory requirements further require that the Financial Statement will be included in an Annual Report to be prepared and submitted to external audit review by 30 September 2011
 - c) note that the audited Financial Statements will be presented to both the Audit and Risk Committee, and the Pension Panel along with the external auditor's report in the Autumn, and will come back to a Council meeting thereafter;

3. FINANCIAL IMPLICATIONS

- 3.1 The financial implications of the Draft Financial Statements are detailed throughout the body of the report.

4. SERVICE & COMMUNITY IMPACT

None

5. OTHER IMPLICATIONS

- 5.1 Every organisation has to manage the risks inherent in the operation of services on the scale of the Pension Fund. These risks are minimised by the regular review of financial information by the Head of Finance and corporately by the Pensions Panel. This report forms part of the end of year reporting cycle and seeks to clarify the overall operating conditions and outcomes that have resulted in the past year.

6. REPORT

- 6.1.1 There is a statutory requirement that an abstract of the accounts for each financial year be submitted to the Controller of Audit not later than 30 June in the next financial year.
- 6.1.2 In effect this means that Financial Statements for 2010/11, which are prepared in accordance with the relevant Accounting Codes of Practice, require to be submitted by 30 June 2010 to Audit Scotland.
- 6.1.3 There is also a requirement that the draft accounts be presented to Elected Members by 30 June each year.
- 6.1.4 For ease of reference the report is broken down into the following sections:
- 6.2. Accounting Requirements
 - 6.3. Accounts
 - 6.4. Annual Report Requirements
 - 6.5. Inspection and Audit of Accounts

6.2. Accounting Requirements

The Pension Fund financial statements should be prepared in accordance with proper accounting practices set out in the *Code of practice on local authority accounting in the UK* (the Code).

The Code requires authorities to account for pension funds in accordance with *IAS26 Retirement benefit plans*. IAS26 provides guidance on the form

and content of the financial statements prepared by pension funds. It compliments *IAS19 Employee Benefits* which deals with the determination of the costs of retirement benefits in the financial statement of employers.

6.3. Accounts

6.3.1 Members are requested to draw their attention to the Explanatory Foreword in the Statement of Accounts which summarises;

- the statutory framework of the Pension Fund and Transport Fund,
- the scheme membership,
- its accounting policy with regard to the Fund's investments and;
- the Fund's attitude to risk.

The purpose of the Fund is to provide a sustainable and affordable final-salary pension to its members, both present and future;

The aim of Aberdeen City Council as the administering authority is to;

- Maintain employer contributions as nearly constant as possible and at reasonable cost to the taxpayers, scheduled and admitted bodies, having regard to the benefits being paid and those due to be paid at a future date;
- to manage employers' liabilities effectively through regular review of contributions and additional contributions for early retirements which lead to a strain on funding;
- to encourage membership;
- to ensure that sufficient resources are available to meet all liabilities as they fall due;
- to maximise the returns from investments within reasonable risk parameters;
- to achieve excellent customer care;
- to continually improve service delivery.

6.3.2 The financial statement reflects the income and expenditure of the Fund's and the value of the Funds investment assets. The key items of note are the fall in employee contributions to the Fund as the number of new scheme members joining the Fund fall, in comparison to the rise the employer contribution rates to meet the long term fund deficit. As at 31 March 2010 the funding position as assessed by the scheme actuary was 89% funded for the Main Fund and 90% funded for the Transport Fund. A triennial valuation of the Fund is due as at 31 March 2011 and will be completed by the autumn. The triennial valuation will set the employer contribution rate for all admitted and scheduled bodies for the period to 2012 to 2015.

6.3.3 The Funds saw an increase in asset value over the 12 month period to 31 March 2011 for the Main Fund of £226 million and £7 million for the Transport Fund. Full details of the investment performance of the Fund will be given in the new Pension Fund Annual Report.

6.4. Annual Report Requirements

6.4.1 Local authorities responsible for administering a pension fund (administering authorities) forming part of the Local Government Pension Scheme (LGPS) are required by a recent amendment to the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 to publish a pension fund annual report from 2010/11.

6.4.2 The annual report is a publication separate from the authorities own statutory accounts and contains financial statements in respect of each pension fund maintained by an authority. Authorities are required to publish the annual report by 1 December.

6.4.3 Until 2009/10, pension fund financial statements were included in the administering authorities accounts and were therefore covered by the audit opinion of those accounts. From 2010/11, pension fund financial statements are no longer included in the authorities' accounts, and auditors are required to give a separate audit opinion on the financial statement in the Pension Fund annual report.

6.4.4 In addition to the financial statements and notes, the report is required to contain;

- A report about the management and financial performance of the funds during the year, a report explaining the authority's investment policy and reviewing the performance during the year of the investments of each fund, and a report of the arrangements made during the year for the administration of the funds
- A statement by the actuary of the level of funding disclosed by their valuation
- The governance compliance statement, funding strategy statement, and statement of investment principles (or details where these can be obtained)
- The extent to which levels of performance set out in the pension fund administration strategy have been achieved
- Any other material which the authority considers appropriate

6.5. Inspection and Audit of the Accounts

6.5.1 The audit of the Pension Fund accounts is not subject of a separate audit appointment. The appointed auditor to the City Council (the administering

authority) will be required to issue a separate audit opinion on the abstract relating to the Pension Fund.

6.5.2 The deadlines that apply to the Pension Fund financial statements (as an abstract) are the same as those for the main accounts of the City Council i.e. they must be prepared and submitted for audit by 30 June. The audit deadline set by the Accounts Commission of 30 September also applies. As stated above authorities are required to publish the Pension Fund annual report by 1 December

6.5.3 However the following transitional arrangement apply for 2010/11

- The financial statement element of the pension fund annual report requires to be prepared and submitted for audit by 30 June 2011
- The remainder of the pension fund annual report requires to be prepared and submitted to auditors by 30 September 2011
- Auditors are required to complete the audit process by 30 November 2011

6.5.4 Following submission of the draft accounts, upon being so requested by Audit Scotland, a notice of inspection will be placed in the press giving at least 14 days' public notice of the commencement of the period during which the accounts and other documents will be available for public inspection. The accounts and other documents require to be made available for a period of not less than 15 full days during ordinary business hours.

6.5.5 It is anticipated in line with the City Council financial statement, that the Pension Fund following the required timetable and notices, that the draft accounts will be available for public inspection in late July/early August.

6.5.6 An analysis of the accounts will be presented to the Audit and Risk Committee and Pensions Panel once the audit process has been completed, along with the external auditor's report. The audit process is scheduled for completion by 30 November 2011.

7. REPORT AUTHOR DETAILS

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8. BACKGROUND PAPERS

Draft Financial Statements for Financial Year 2010/11;