

Report To: **GMPF MANAGEMENT/ADVISORY PANEL**

Date: 18 March 2022

Reporting Officer: Sandra Stewart, Director of Pensions
Paddy Dowdall Assistant Director (Local Investments and Property)

Subject: **GMPF STATEMENT OF ACCOUNTS 2021-22 GMPF ACCOUNTING POLICIES AND CRITICAL JUDGEMENTS**

Report Summary This report covers the. GMPF Accounting Policies and Critical Judgements for 2021-22

Recommendations: Members are asked to approve the accounting policies and critical judgements attached as **Appendix 1** to this report.

Policy Implications: None.

Financial Implications: As the administering authority, Tameside MBC has important responsibilities in relation to the Greater Manchester Pension Fund. As the largest fund in the Local Government Pension Scheme, the Fund also has significant resources it deploys to meet those responsibilities. This paper sets out where the responsibilities lie.

(Authorised by the Section 151 Officer)

The assumptions used for valuing assets will have an impact on the value of assets reported in the accounts. In most circumstances the impact is unlikely to be material.

Legal Implications: The administering authority must produce an annual report and accounts in line with statutory provisions.

(Authorised by the Solicitor to the Fund)

Risk Management: GMPF's accounts are used to provide information to a variety of users and for a variety of purposes. The accuracy of the statements is critical in the determination of employer costs and there are clearly reputational issues relating to the validity of the accounts. The audit process provides reassurance on the integrity of the statements and mitigates against the possibility of material misstatement

ACCESS TO INFORMATION:

NON-CONFIDENTIAL

This report does not contain information which warrants its consideration in the absence of the Press or members of the public.

Background Papers: Further information can be obtained by contacting Paddy Dowdall Assistant Director (Local Investments and Property) Greater Manchester Pension Fund, Guardsman Tony Downes House, 5 Manchester Road, Droylsden

Telephone: 0161 301 7140
Email: Paddy.dowdall@gmpf.org.uk

APPENDIX 1

GMPF ACCOUNTING POLICIES AND CRITICAL JUDGEMENTS

1. CHANGES FROM 2021/22

- 1.1 The only change is that this year will see a change in disclosure of certain costs for certain types of pooled private market investments. These having previously been accounted for within the changes in value of investments will now be identified separately where possible. These are the costs identified by the custodian through their administration and accounting of GMPF private market investments and whilst meeting accounting requirements will not be exactly the same as those calculated by CEM that are disclosed within the Annual Report. The estimate is that these will be in the region of £90m per annum from 2022/23. These changes in disclosure make no difference to the projected outcomes for the Fund NAV statement in accounts or the medium-term plan.

2. STATUTORY BACKGROUND

- 1.2 GMPF is required to prepare its financial statements under International Financial Reporting Standards (IFRS). The financial statements are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 based on IFRS, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). This requires that GMPF accounts should be prepared in accordance with International Accounting Standard (IAS) 26, except where interpretations or adaptations to fit the public sector are detailed in the Code. The financial statements summarise the transactions of GMPF and deal with net assets at the disposal of the Management Panel. They do not take account of obligations to pay pensions and benefits which fall due after the end of the GMPF financial year. Under IFRS, GMPF is required to disclose the actuarial present value of promised retirement benefits. This is disclosed as a separate note (Note 25). The full actuarial position of GMPF which does take account of pension and benefit obligations falling due after the year end is outlined in the notes to the accounts. These financial statements should be read in conjunction with that information.
- 2.2 GMPF is a pension fund which administers the statutory Local Government Pension Scheme (LGPS), set up to provide death and retirement benefits for local government employees other than teachers, fire fighters and police officers for whom separate arrangements exist. In addition, other qualifying bodies, which provide similar services to that of local authorities, have been admitted to GMPF.
- 2.3 GMPF operates a career average scheme whereby as each year goes by members build up a set portion of pay as a pension. It is funded by contributions from employees, which are set out in regulations, and variable contributions from employers, which take account of the relationship of assets held to liabilities accrued (see Actuarial Review of GMPF – Note 22). The benefits of the Scheme are prescribed nationally by Regulations made under the Public Service Pension Schemes Act 2013.

3. ACCOUNTING POLICIES

Basis of preparation:

- 3.1 The accounts are prepared on an accruals basis. That is, income and expenditure is recognised as it is earned or incurred including contributions receivable and pension benefits payable. The exceptions are that individual and bulk transfers (due to uncertainty over final settlement and timing of payments) and advance payment of employer contributions are recognised on a received or paid basis. There are no accounting standards issued but not adopted in the preparation of the financial statements.

Financial assets and liabilities:

- 3.2 On initial recognition, GMPF is required to classify financial assets and liabilities into amortised cost, fair value through profit and loss or fair value through other comprehensive income. Financial assets are classified dependent on the reason for holding the assets. Amortised cost assets are those held to generate cash flows and the amounts received are solely principal and interest. Fair value assets through profit and loss or other comprehensive income, are assets which fail the amortised cost categorisation tests, where they are held for trading purposes and/or the amounts received relate to more than solely principal and interest (e.g. equity instruments). Financial liabilities are classified as amortised cost except in certain circumstances where they are classified as at fair value.

Contribution income:

- 3.3 Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. Employer funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.
- 3.4 Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Additional voluntary contributions (AVC):

- 3.5 GMPF provides an AVC scheme for its contributors, the assets of which are invested separately from GMPF. These AVC sums are not included in GMPF's financial statements because GMPF has no involvement in the management of these assets. Members participating in this arrangement each receive an annual statement confirming the amount held in their account and the movements in the year. Further details are provided in Note 24.

Additional voluntary contributions income:

- 3.6 Where a member is able and chooses to use their AVC fund to buy scheme benefits, this is treated on a cash basis and is categorised within Transfers In.

Investment income:

- 3.7 Interest, property rent and dividends on fixed interest and equity investments and on short-term deposits has been accounted for on an accruals basis.

Accrued investment income:

- 3.8 Accrued investment income has been categorised within investments in accordance with the appropriate Pensions Statement of Recommended Practice (SORP).

Foreign income:

- 3.9 Foreign income is translated into sterling at the rate applicable at the date of conversion. Income due at the year-end is translated at the rate applicable at 31 March 2022.

Foreign investments:

- 3.10 Foreign investments are translated at the exchange rate applicable at 31 March 2022. Any gains or losses arising on translation of investments into sterling are accounted for as a change in market value of investment.

Rental income:

- 3.11 Rental income from operating leases on investment properties owned by GMPF is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income over the term of the lease. Contingent rents are only recognised when contractually due.

- 3.12 **Benefits:**

Benefits includes all benefit claims payable by GMPF during the financial year.

3.13 **Investment values:**

All investment assets are valued at their fair value as at 31 March 2022 are determined as follows:

| At 31 March 2022 | Valuation basis / technique | Main assumptions |
|--|--|---|
| Equities and bonds | Pricing from market data providers based on observable bid price quotations. | Use of pricing source. If there are minor variations in the price dependent upon the pricing feed used, the Custodian's valuation will take precedence. |
| Direct investment property | Independent valuations for freehold and leasehold investment properties at fair value have been valued by Savills plc, Chartered Surveyors, as at 31 December 2021, subsequently adjusted for transactions undertaken between 1 January 2022 and 31 March 2022. Valuations have been prepared in accordance with Royal Institute of Chartered Surveyors (RICS) Red Book. | Investment properties have been valued on the basis of open market value (the estimated amounts for which a property should exchange between a willing buyer and seller) and market rent (the expected benefits from holding the asset) in accordance with the RICS Appraisal and Valuation Manual. The values are estimates and may not reflect the actual values. |
| Indirect property (part of Pooled Investment Vehicles) | Independent valuations for freehold and leasehold properties less any debt within the individual property fund plus/minus other net assets. | Freehold and leasehold properties valued on an open market basis. Valuation carried out in accordance with the principles laid down by the RICS Appraisal and Valuation Manual and independent audit review of the net assets within the individual property fund. |
| Cash and other net assets | Value of deposit or value of transaction. | Cash and account balances are short-term, highly liquid and subject to minimal changes in value. All cash is recorded at book value unless there is knowledge of any impairment. |

| At 31 March 2022 | Valuation basis / technique | Main assumptions |
|---|---|---|
| Derivatives | <p>Derivative contracts are valued at fair value.</p> <p>Futures contracts' fair value is determined using exchange prices at the reporting date. The fair value is the unrealised profit or loss at the current bid market quoted price. The amounts included in change in market value are the realised gains and losses on closed futures contracts and the unrealised gains and losses on open futures contracts.</p> <p>The fair value of the forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.</p> | <p>All derivatives are based on a visible price (i.e. not private transactions) and all counter parties are deemed solvent and able to meet their liabilities. The relevant prices and exchange rates used are provided by the Custodian and consistent with those used elsewhere in accounts.</p> |
| Private equity, infrastructure and special opportunities portfolios | <p>The funds are valued either in accordance with Accounting Standards Codification 820 or with International Financial Reporting Standards (IFRS). The valuation basis, determined by the relevant fund manager, may be any of quoted market prices, broker or dealer quotations, transaction price, third party transaction price, applying earnings multiples of comparable public companies to projected future cash flows, third party independent appraisals or pricing models. The valuation of these assets can take up to six months to come through. GMPF practice when closing accounts is to use the latest available valuation and adjust for cashflows.</p> | <p>In reaching the determination of fair value, the investment managers consider many factors including changes in interest rates and credit spreads, the operating cash flows and financial performance of the investments relative to budgets, trends within sectors and/or regions, underlying business models, expected exit timing and strategy and any specific rights or terms associated with the investment, such as conversion features and liquidation preferences. The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and assumptions are reviewed on an on-going basis.</p> |

Financial instruments at fair value through the profit and loss:

- 3.14 Financial assets and liabilities are stated at fair value as per the Net Assets Statement, which is prepared in accordance with the Pensions SORP, requiring assets and liabilities to be reported on a fair value basis. Gains and losses on financial instruments that are classified as at fair value through the profit and loss are recognised in the Fund account as they arise. The carrying values are therefore the same as fair values.

Financial instruments at amortised cost:

- 3.15 Non-derivative financial assets which have fixed or determinable payments and are not quoted in an active market are classified as at amortised cost.

Cash and cash equivalents:

- 3.16 Cash comprises of cash in hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in values.

Transaction costs of investments:

- 3.17 Acquisitions costs of investments other than listed equities are included in purchase prices and netted from sale receipts.

Management Expenses:

- 3.18 Investment management expenses paid directly by GMPF are included within Management Expenses within the Fund account. These costs together with other management costs are met from within the employer contribution rate. Certain of GMPF's external securities managers have contracts which include performance fees in addition to the annual management fees. The performance fees are based upon one off, non-rolling, three yearly calculations. It is GMPF policy to accrue for any performance fees which are considered to be potentially payable
- 3.19 In addition, certain investments in pooled vehicles, predominantly in private markets, alternatives and property have investment costs deducted directly by the investment managers. These costs are charged directly to the Fund Account where information is available to the Custodian by the investment manager. Where costs are deducted by these managers and not disclosed to custodian they are included in the fair value adjustments applied to assets concerned within the Fund Account and corresponding notes. The annual report contains a comprehensive review of investment costs.
- 3.20 Administration Expenses are included within Management Expenses within the Fund Account. These costs are accounted for on an accruals basis. The costs of administration are met by employers through their employer contribution rate. All staff costs of the administering authority's pension service are charged direct to GMPF.

Net (profit)/loss on foreign currency:

- 3.21 Net (profit)/loss on foreign currency comprise the change in value of short-term deposits due to exchange rate movements during the year.

Actuarial present value of promised retirement benefits:

- 3.22 The actuarial present value of promised retirement benefits is assessed on an annual basis by the Actuary in accordance with the requirements of IAS19 and relevant actuarial standards. As permitted under IAS26, GMPF has opted to disclose the actuarial present value of promised retirement benefits by way of a Note to the Net Asset Statement

Derivatives:

- 3.23 GMPF uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. GMPF does not hold derivatives for speculative purposes. Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in fair value of derivative contracts are included in change in fair value. Future contracts are exchange traded and fair value is determined using exchange prices at their reporting date. Amounts due or owed to the broker are amounts outstanding in respect of initial margin and variation margin. Forward foreign exchange contracts are over the counter contracts and are valued by determining the gain or loss that would arise from closing out the contract at the reporting date, by entering into an equal and opposite contract at that date. All derivatives are based on a visible price (i.e. not private transactions) and all counter parties are deemed solvent and able to meet their liabilities. The relevant prices and exchange rates used are provided by the Custodian and consistent with those used elsewhere in accounts.

Transfers:

- 3.24 Transfer values represent amounts received and paid during the period for individual members who have either joined or left GMPF during the financial year and are calculated in accordance with Local Government Pension Scheme Regulations.
- 3.25 Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. This reflects when liabilities are transferred and received. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in. Bulk (group) transfers, due to uncertainty over final settlement and timing of payments, are recognised on a received or paid basis.

Taxation:

- 3.26 GMPF 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 is accounted for as a fund expense as it arises.

Critical judgements in applying accounting policies

- 3.27 In applying the policies, GMPF has to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:
- GMPF will continue in operational existence for the foreseeable future as a going concern
 - No investments are impaired (further detail on the investment strategy and approach to managing risk can be found in notes to the accounts).
- 3.28 Compliance with IFRS requires the assumptions and uncertainties contained within figures in the accounts and the use of estimates to be explained. GMPF accounts contain estimated figures, taking into account historical experience, current trends and other relevant factors, as detailed below:

Unquoted equity, infrastructure and special opportunities investments

- 3.29 Unquoted equities are valued by the investment managers in accordance with Accounting Standards Codification 820 or with International Financial Reporting Standards (IFRS).
- 3.30 The valuation of these assets can take up to six months to come through. GMPF practice when closing accounts is to use the latest available valuation and adjust for cashflows.

Pension Fund liability

- 3.31 The present value of GMPF's liabilities is calculated every three years by an appointed actuary. For the purpose of reporting the actuarial present value of promised retirement benefits, this liability value is updated annually in intervening years by the Actuary. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in the notes to the accounts. This estimate is subject to significant variances based on change to the underlying assumptions.

Classification of financial instruments

- 3.23 Different asset classes of financial instruments are valued in accordance with accounting standards as either fair value or amortised cost.