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**Local Government Finance Circular No 1/2018**  
(Replaces Local Government Finance Circular No 6/2015)

By email  
Directors of Finance of Scottish Local Authorities  
Audit Scotland

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Our ref: A18751444  
15 February 2018

Dear Director of Finance,

**LOCAL GOVERNMENT PENSION FUND ANNUAL REPORT AND ACCOUNTS**

*The Local Government Pension Scheme (Scotland) Regulations 2014* (the 2014 Regulations) established a new local government pension scheme from 1 April 2015. These regulations replace the local government pension scheme constituted by the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008 (S.S.I. 2008/230) and the Local Government Pension Scheme Administration (Scotland) Regulations 2008 (S.S.I. 2008/228) ("the 2008 Scheme").

This guidance has been updated to reference the new legislation for the local government pension scheme. There are no other changes.

This circular is also available through the Local Government section of the Scottish Government website at:

<http://www.scotland.gov.uk/Topics/Government/local-government/17999/LAacc/LAaccguid>

If you have any questions, please do not hesitate to contact me.

Yours faithfully,

A handwritten signature in blue ink that reads "Hazel Black".

**Hazel Black**  
Head of Local Authority Accounting  
Local Government and Analytical Services Division

# LOCAL GOVERNMENT PENSION FUND ANNUAL REPORT AND ACCOUNTS

## *Scottish Government*

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### Contents

#### **Part 1 – Background and non-statutory guidance**

#### **Part 2 – Guidance on proper accounting practices – local authority pension funds**

*Part 1 of this document provides non-statutory guidance. Formal statutory guidance is set out in Part 2.*

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### **PART 1 – BACKGROUND AND NON-STATUTORY GUIDANCE**

#### **The Local Authority Accounts Regulations 2014 /200**

1. The statutory accounts and audit arrangements for local authorities are set out in sections 96-103J of *The Local Government (Scotland) Act 1973* and Regulations issued under section 105 of the Act.
2. The annual accounts within the pension fund annual report are a separate abstract of accounts and are subject to the arrangements as set out in sections 96-103J of the 1973 Act, and any regulations issued under section 105 of the Act. Local authorities will therefore be required to apply all the provisions of the 1973 Act and the section 105 Regulations to the pension fund accounts (as an abstract) as well as the local authority accounts (as an abstract).
3. The pension accounts, as an abstract, are accounts of the local authority and proper accounting practices are to be observed in the preparation of those accounts. The *Code of Practice on Local Authority Accounts in the UK* (the Accounting Code) is a recognised Code for proper accounting practices.
4. *The Local Authority Accounts Regulations 2014 /200* (the Accounts Regulations) apply to local authority pension fund Annual Accounts (as an abstract). Local Government Finance Circular 7/2014 provides guidance – statutory and non-statutory – on the Accounts Regulations.
5. The 2014 Accounts Regulations sets out the signatories to the various statements required to be included in the Annual Accounts. The regulations identify that some statements are to be signed by the Leader of the Council, but makes provision at regulation 10(4) that where a local authority does not have a Leader of the Council, the statements are to be signed by such other person as it nominates for that purpose. For pension funds it is considered more relevant and appropriate that the Convenor of the pension fund is nominated to sign instead of the Leader of the Council. Audit Scotland has indicated they support this approach.

## **Management Commentary and Annual Governance Statement**

6. The Accounts Regulations require local authority Annual Accounts to include a management commentary and an annual governance statement.

7. In addition *The Local Government Pension Scheme (Scotland) Regulations 2014* (the Pension Scheme Regulations) require a management report and a governance compliance statement. These requirements are reproduced in the box below.

### **Extracts from the Local Government Pension Scheme (Scotland) Regulations 2014/164:**

#### **"55.— Pension fund annual report**

(1) An administering authority must, in relation to each year beginning on 1st April 2015 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;

.....

(e) the current version of the statement under regulation 53 (governance compliance statement);"

#### **53.— Administering authorities: governance compliance statement**

(1) An administering authority must prepare a written statement setting out—

(a) whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;

(b) if the authority does so—

(i) the terms, structure and operational procedures of the delegation,

(ii) the frequency of any committee or sub-committee meetings,

(iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Scottish Ministers and, to the extent that it does not so comply, the reasons for not complying; and

(d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 5 (pension boards) of the Governance Regulations.

(2) An administering authority must keep a statement prepared under paragraph (1) under review, and make such revisions as are appropriate, following a material change to any of the matters mentioned in that paragraph.

(3) Before preparing or revising a statement under this regulation, an administering authority must consult such persons as it considers appropriate.

(4) An administering authority must publish its statement under this regulation, and any revised statement."

### **Management Commentary**

8. For pension fund reporting we recommend that just one management report – the Management Commentary - is included in the pension Annual Report and Accounts.

9. The pension legislation requires the Annual Report and Accounts to include a report about the management and financial performance during the year of each of the pension funds. In preparing the pension fund annual report each authority is to have regard to guidance issued by Scottish Ministers (regulation 55(3) of the Pension Scheme Regulations).

10. *The Local Authority Accounts Regulations 2014* require the management commentary to be prepared in accordance with proper accounting practices and recognised guidance. Statutory guidance on the management commentary is the subject of Local Government Finance circular 5/2015. The guidance and principles set out in circular 5/2015 also apply to a pension fund management commentary.

*Annual governance statement/ Governance compliance statement*

11. The Accounts Regulations require the annual governance statement to be produced in accordance with proper accounting practices and recognised guidance. Local Government Finance Circular 7/2014 recognises the publication *Delivering Good Governance in Local Government: Framework* issued jointly by CIPFA and SOLACE as proper practices and recognised guidance.

12. The Pension Scheme Regulations require the Pension Fund Annual Report to include the current version of the governance compliance statement.

13. We recommend administering authorities adopt one of the following two approaches:

13.1 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

13.2 Two separate statements. The first statement is to be the Annual Governance Statement, followed immediately by the Governance Compliance Statement.

Scottish Government  
Local Government and Analytical Services Division  
15 February 2018

## [PART 2]

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### ACCOUNTING FOR LOCAL GOVERNMENT PENSION FUNDS

Issued by Scottish Ministers under section 12(2)(b) of the Local Government in Scotland Act 2003

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#### DEFINITIONS

1. **Local Authority** means a council constituted under section 2 of the Local Government etc. (Scotland) Act 1994.
2. An **Abstract of the Accounts** is an abstract required to be prepared by section 96(3) of the Local Government (Scotland) Act 1973
3. **Financial year** is a year which commences 1 April and ends 31 March.
4. **The Scheme** means the Local Government Pension Scheme established by the Local Government Pension Scheme (Scotland) Regulations 2014.
5. **Administering Authority** means a body listed in Schedule 3 of the Local Government Pension Scheme (Scotland) Regulations 2014 which is required to hold a fund for the purposes of those Regulations.
6. **Relevant fund** means the pension fund or funds managed by a scheme manager in relation to whom a Pension Board has been established.
7. **Scheme manager** means an administering authority for the Scheme.
8. The **Pension Fund Annual Report** is the report required to be prepared by regulation 55 of the Local Government Pension Scheme (Scotland) Regulations 2014.
9. **Proper accounting practices** are as defined in section 12 of the Local Government in Scotland Act 2003.

#### APPLICATION

10. This statutory guidance applies from the financial year commencing 1 April 2017.
11. It applies to a local authority where that local authority is an administering authority.

#### PENSION FUND ACCOUNTING

12. The Annual Accounts contained within the statutory pension fund annual report shall be considered a separate abstract of the accounts as required by statute.

13. The financial statements contained within the statutory pension fund annual report shall be prepared in accordance with proper accounting practices.

14. An administering authority that is required by statute to produce a pension fund annual report, and has produced that report and submitted the same to the external auditor, is only required to make the disclosures in the local authority accounts in respect of the pension fund as set out in paragraph 15.

15. The local authority accounts shall disclose as a note that the local authority is an administering authority for the Scheme. It shall further disclose which pension funds it is responsible for together with a general description of each fund and its membership. The disclosure note shall set out the statutory requirements for the publication of a separate pension fund annual report, and the contents of that report. The disclosure note shall set out how the pension fund annual report can be accessed or obtained.

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**Scottish Government**  
**Victoria Quay, Leith, Edinburgh EH6 6QQ**

**15 February 2018**

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