

**CAMBRIDGESHIRE  
PENSION FUND**



**Pension Fund Board**

**Date:** 25 January 2017

**Report by:** Head of Pensions

<b>Subject:</b>	<b>Pension Fund Annual Report and Statement of Accounts 2015-16.</b>
<b>Purpose of the Report</b>	To present the Annual Report and Statement of Accounts of the Pension Fund for the 2015-16 financial year.
<b>Recommendations</b>	That the Pension Fund Board note the report
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**1. Background**

- 1.1 The document comprises the Annual Report of the Fund and the Pension Fund's Statement of Accounts (SOA). The SOA are replicated from the County Council's Statement of Accounts and are audited by the County Council's new external auditor BDO. The auditor confirms whether, in their opinion, the SOA reflect a true and fair view of the financial position of the authority (and the fund within it) and that the SOA is free from material misstatement.
- 1.2 Whilst BDO perform a full audit of the SOA, their work on the Annual Report is limited to a review to ensure compliance with guidance and consistency with the SOA. BDO's initial findings are noted in paragraph, 3 below.
- 1.3 The annual accounts are a true and fair view of the financial activities of the Fund for the financial year 1 April 2015 to 31 March 2016.
- 1.4 They are based on transactions accounted for within the Fund's financial ledger, information received from Fund Managers and the Fund's Custodian, and assumptions and estimations utilising the professional judgement of officers and Fund professional advisers in order to give a true and fair statement of the Fund's financial position.
- 1.5 The structure and content of the Annual Report is governed by guidance issued by CIPFA in compliance with Regulation 57 of The Local Government Pension Scheme Regulations 2013. There have been no changes in the requirements this year.
- 1.6 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued a set of pro forma accounts to illustrate the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 (the Code), which governs the

preparation of the SOA for Local Government Pension Scheme funds. There has been no material change to this pro forma in completing the 2015-16 SOA.

- 1.7 The CIPFA template has been used as a framework for the Pension Fund SOA to ensure that the reporting meets the requirements of the Code and is compliant with International Financial Reporting Standards (IFRS).
- 1.8 The publication of the Accounts is an essential feature of public accountability and stewardship as it provides information on how the Fund has used the members' funds for which it is responsible.

## **2. Summary of Report**

- 2.1 This summary discusses the key highlights of the Annual Report and Statement of Accounts covering activity in the year ended 31 March 2016 from both a financial and membership perspective.
- 2.2 The number of employers in the Fund continues to grow with an increase in active employers by 24 to 243 at 31 March 2016 primarily as a result of schools converting to Academies, continuing the recent trend. The names of the current employers are listed on Pages 9 and 10 of the Report (attached as Appendix 1),
- 2.3 Membership activity shows an increase in total membership of 4,544 to 73,802 at 31 March 2016. The increase comprises active members up by 1,399 to 26,744, an increase in pensioners of 511 to 16,169 and an increase in deferred members of 2,634 to 30,889. See Note 1 on page 65 in Appendix 1.
- 2.4 The Fund Account (Page 62 of Appendix 1) and the Net Asset Statement (page 63) provide a summary of the Fund's financial activity in the year and financial position at 31 March 2016. The notes to the accounts provide more detailed analysis and narrative to add perspective.
- 2.5 The Pension Accounting statements reflect two, largely separate, activities being the Fund "member" activity and the Investment activity, which are combined to form the Fund Account. The 2016 financial year shows a surplus on member activity of £29.9m, offset by negative results from Investment activity of £28.5m and Management expenses of £8.8m, resulting in a net decrease in the "assets available for benefits during the year" of £7.4m, compared to an net increase in the prior year of £226.2m.
- 2.6 The year on year negative swing in the Fund Account of £233m mainly comprises changes in investment performance between the two financial years. The investment return for the year ended 31 March 2016 was a negative 1.9% return showing a negative net return on investments of £28m whilst the comparative return figure for the year ended 31 March 2015 was a positive 12.2% resulting in a net return on investments of £253m, a combined swing of £281m. The Fund return of minus 1.9% in the year, is below benchmark return of 0.2% and the Local Authority Average of 0.2%. All investment managers underperformed their respective benchmarks over the period, in particular the global equity managers Dodge & Cox and JO Hambro who were appointed during the year and both underperformed significantly. In absolute terms, the property mandate with Schrodgers contributed the most towards the Fund's performance returning 9.9% over the last 12 months. The decrease in reported investment income of £4.1m is also influenced by the changes of Fund manager during the financial year as the new investments are in pooled funds where any investment income is rolled into the increase in value of the investment and not

paid direct to the Fund as income. Please note Investment performance is discussed further within the Annual Report. (Pages 36-37 in the Annual Report).

- 2.7 On the membership side contribution income has increased, reflecting valuation increases on employer rates, pay rises for members, boosted by increases in the active membership of nearly 1,400.
- 2.8 Benefit payments in 2015-16 of £92.4m show a slight increase of £0.5m over the 2014-15 benefit payments of £91.9m, being a combination of an increase Pension Payments (£1.7m) offset by a reduction in lump sum payments (-£1.3m). The Pension payments increase reflected the increase in pensioners (511) and was not as high as in previous years due to the low inflation pension award. Interestingly Lump sum payment movements between March 2015 and March 2016 show a reduction within the statutory pre 2008 set lump sums offset by a small increase in the post 2008 discretionary lump sums, this suggests retirees are not maximising their lump sum options. This may be significant for projecting future year costs.
- 2.9 The most significant year on year change is a reduction in payments on account of leavers from £36.8m in 2014-15 to £5.3m in 2015-16. The 2014-15 payments included an abnormal one-off payment of £33m in respect of Probation Services liabilities transferred to Greater Manchester.

### **3. Findings and Feedback from External Audit Fieldwork**

- 3.1 Further to the paper on the Annual Report and Statement of Accounts presented to the Pensions Fund Committee on 28 July 2016, the auditors, BDO, completed their audit in October 2016 and issued an unqualified opinion on the Statement of Accounts.
- 3.2 Reporting to the Cambridgeshire County Council Audit Committee in their ISA260 report ("ISA 260 report to those charged with governance") dated 14 October 2016, BDO noted:-
  - That the assumptions and methods used to value the investment in the Cambridge & Counties Bank were not unreasonable, and the valuation produced was appropriate. BDO identified a non-trivial but immaterial understatement error of £1m, but concluded that the value in the accounts is not materially misstated.
  - That the valuation basis used for other unquoted investments appears reasonable and the values are not materially misstated.
- 3.3 In addition, BDO reported that they had identified significant control deficiencies in the following areas:
  - There is a lack of controls to prevent or identify officers authorising own journals within Oracle. BDO did not identify any erroneous or fraudulent entries during the course of their audit work however.

*Management response: - Only staff with appropriate responsibilities and sufficient professional knowledge can post journals, highlighting validation processes and procedures to identify miss-postings retrospectively. In addition the authority is implementing the ERP Gold system which will consider appropriate journal entry processes in this new system.*

- Pension contributions are posted directly from the payroll to the Altair pensions administration system for some employers, and the contributions paid are not fully reconciled to the employers' PEN18 returns. We observed this with regards to Cambridgeshire County Council employers only, and BDO's reviews have indicated a maximum unreconciled amount of £958,000. There is no indication that incorrect contributions have been paid, but the reconciliation cannot currently be evidenced.

*Management response: - The Fund Accounting team have designed a revised reconciliation process that is currently being implemented and will be applied retrospectively from April 2016.*

Progress on these actions will be provided to the Audit & Accounts Committee.

#### 4. Relevant Pension Fund Objectives

Administer the Fund in a professional and efficient manner, utilising technological solutions and collaboration. <i>Objective 10</i>
Maintain accurate records and ensure data is protected and used for authorised purposes only. <i>Objective 11</i>
Deliver consistent plain English communications to Stakeholders. <i>Objective 13</i>
Ensure cash flows in to and out of the Fund are timely and of the correct amount. <i>Objective 16</i>
Ensure the long-term solvency of the Fund, taking a prudent long term view, so that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment. <i>Objective 17</i>
Put in place a Strategic Asset Allocation ensuring it is appropriately maintained taking into account the Funding Strategy. <i>Objective 18</i>
Maximise investment returns over the long term within agreed risk tolerances. <i>Objective 19</i>
Ensure an appropriate cash management strategy is in place so that net cash outgoings can be met as and when required. <i>Objective 20</i>

#### 5. Finance & Resources Implications

- 5.1 There are no additional finance implications as a result of the recommendations set out in this paper.

#### 6. Risk Implications

- a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
There are no risks with accepting this proposal to note the Statement of Accounts.		Green

b) Risk(s) associated with not undertaking the proposal

<b>Risk</b>	<b>Risk Rating</b>
The Pension Fund Accounts are a statutory requirement requiring due scrutiny by the County Council's external auditor and final sign off by the Section 151 Officer.	Red

## **7. Communication Implications**

- 7.1 The Regulations determine that the accounts and other related documents have to be made available for public inspection. They were available for public inspection between 1 July and 30 July 2016 inclusive. Officers were required to deal with enquiries from the public during this period of time.
- 7.2 The statutory date for publication of the final set of Accounts was the end of September, this was not achieved due to the delay with the Cambridgeshire County Councils accounts.

## **8. Legal Implications**

- 8.1 There are no legal implications as a result of the recommendations set out in this paper.

## **9. Consultation with Key Advisors**

- 9.1 The Pension Fund Accounts were produced utilising information and advice provided by Fund Managers, the Fund's Custodian Northern Trust, Fund Advisers WM State Street and the Fund's Actuary, Hymans Robertson.

## **10. Alternative Options Considered**

- 10.1 The Pension Fund Accounts are a statutory requirement with a prescribed structure, which has been complied with.

## **11. Background Papers**

- 11.1 The Pension Fund Accounts are supported by a detailed set of working papers that are subject to examination as part of the External Audit review.

## **12. Appendices**

- 12.1 Appendix 1 – Annual Report and Statement of Accounts 2015-16.

<b>Checklist of Key Approvals</b>	
Is this decision included in the Business Plan?	Not applicable.
Will further decisions be required? If so, please outline the timetable here	Not applicable.
Is this report proposing an amendment to the budget and/or policy framework?	No.
Has this report been cleared by the Head of Pensions?	Mark Whitby – 22/12/2016