

CAMBRIDGESHIRE PENSION FUND

Pension Fund Board

26 January 2024

Report by: Head of Pensions

Subject	Pension Fund Annual Report and Statement of Accounts 2022-23
Purpose of the Report	To present to the Pension Board the Pension Funds audit plan, final Annual Report and Statement of Accounts and Results Report for the 2022-23 financial year.
Recommendations	The Pension Fund Board are asked to note the report
Enquiries to:	Ben Barlow Investments and Fund Accounting Manager Ben.Barlow@westnorthants.gov.uk

1. Background

- 1.1. The Pension Fund's Statement of Accounts (SOA) form part of the Council's Statement of Accounts. These are audited by the Council's external auditor Ernst and Young (EY). 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) for the financial year 1st April to 31st March and that the SOA is free from material mis-statement.
- 1.2. The accounts are based on transactions accounted for within the Fund's financial ledger, information received from Investment Managers and the Fund's Custodian Northern Trust, 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.
- 1.3. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23 (the Code), which governs the preparation of the financial statements for Local Government Pension Scheme funds. A CIPFA template is used each year to ensure that the reporting meets the requirements of the Code and is compliant with International Financial Reporting Standards (IFRS).
- 1.4. 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.
- 1.5. The structure and content of the Annual Report is governed by guidance issued by the CIPFA in compliance with Regulation 57 of The Local Government Pension Scheme Regulations 2013 (as amended).

2. Executive Summary

- 2.1. Ernst and Young (EY) act as the Cambridgeshire Pension Fund's external auditors. As the external auditors they have produced a plan of the 2022-23 audit of the Cambridgeshire Pension Fund.
- 2.2. The report covers the contents of the draft Annual Report and key highlights from the Statement of Accounts. The Fund's assets have fallen to £4,231.8m, following poor performance during the first half of the year with a net decrease of £73.6m. Contributions, Benefits and investment income have increased since last year while Management Expenses have decreased since last year.
- 2.3. This report covers the findings of the external audit for the Cambridgeshire Pension Fund 2022-23. In Ernst & Young's opinion, the financial statements give a true and fair view of the financial transactions of the Fund. The statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022-23.
- 2.4. There have also been a small number of disclosure adjustments required, these have been amended in the accounts.

3. Audit Plan

- 3.1. EY have produced an audit plan, setting out identified audit risks, expected materiality levels, the scope of their audit, the team, and the planned delivery of the audit process.
- 3.2. Page 13 of the Audit Plan (Appendix A) identifies the key risks and areas of auditor focus, details the Auditor's planned approach to these risk areas.
 - 3.2.1. Misstatements due to fraud or error
 - 3.2.2. Unusual Investments – Cambridge and Counties Bank
 - 3.2.3. Valuation of Level 3 investments (unquoted investments)
 - 3.2.4. Valuation of Level 2 investments (pooled investments)
 - 3.2.5. Management override of controls
 - 3.2.6. IAS26 Disclosure – Actuarial Present Value of Promised Retirement Benefits
- 3.3. Page 18 of the accompanying report sets out the planned materiality levels for the audit, based on 1% of net assets of £4.2bn, which are planned to be:

Audit Area	Materiality
Planning Materiality	£42m
Performance Materiality	£31.5m
Audit Differences	£2.1m

- 3.4. Page 27 of the accompanying report sets out the proposed timeline for delivery of the audit. The key planned milestones are:

Milestone	Planned dates	Status
Planning	July – August 2023	Completed
Report audit plan	September 2023	Completed
Year end Audit	August -September 2023	Completed
Audit Results Report	November 2023	Completed

4. Annual Report and Statement of Accounts

- 4.1. The Fund Account and the Net Asset Statement provide a summary of the financial activity with the notes to the accounts providing further information.
- 4.2. The net decrease for the year was £73.6m, with the Fund's net assets falling to £4,231.8m reflecting negative performance in the first two quarters of the year.
- 4.3. Contribution receipts have increased from £134.6m to £148.9m. The increase in contributions payments reflects the increase in the average contribution rate for 2022-23.
- 4.4. Benefit payments have increased from £118.3m to £123.5m. The increase in benefit payments reflects the growth in the number of pensioners during the year and CPI uplifts to benefits in payment.
- 4.5. Management expenses are broken down in Note 11. Administration expenses have increased from £2.6m to £2.9m mainly due to salary and inflationary increases. Oversight and Governance costs have increased from £901k to £1.1m mainly due to higher actuarial cost for valuation. Investment Management fees have decreased from £22.1m to £21.0m mainly due to negative performance and the fees being based on assets under management (AUM).
- 4.6. The one-year investment return as at 31st March 2023 was a net market loss of £133.9m.
- 4.7. Investment income has increased from £30.7m in to £52.6m mainly due to large income distributions from Dodge and Cox, J O Hambro, Longview and M&G Alpha. Investment income is impacted by market performance however the main returns are reflected in market value increases.
- 4.8. The Annual report and Statement of Accounts have been approved by Pension Fund Committee and Audit and Accounts Committee.

5. Findings and feedback from External Audit fieldwork

- 5.1. The Pension Fund Statement of Accounts has been subject to external audit fieldwork and EY have offered a separate audit opinion on the Pension Fund's Annual Report and Statement of Accounts within the Audit Results Report (Page 16).

"In our opinion the pension fund financial statements:

- Give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2023 and the amount and disposition of the fund's assets and liabilities as at 31 March 2023; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022-23"

- 5.2. The Pension Fund's opinion cannot be finalised until the Council's audit has concluded.

- 5.3. There are two corrected differences identified during the audit:

5.3.1. The investment asset balances included a number of estimated asset valuations for Level 3 assets, these are based on December 2022 actual valuations adjusted for cash flows to the 31 March 2023. The actual valuations received for these assets showed the investment asset balance was understated by £12.847m. This value is below materiality thresholds, however management have adjusted the investment assets.

5.3.2. The valuation of Cambridge & Counties Bank (CCB) difference relates to an amendment made from the version of the draft financial statements originally published within the Cambridgeshire County Council accounts, which

erroneously did not include the updated CCB valuation. The revised draft financial statements include the updated 2022/23 valuation for CCB of £69.7million, which is £15.7 million lower than in the original version (£85.4 million).

6. Relevant Pension Fund Objectives

To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
To manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers.
To ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment.
To continually monitor and measure clearly articulated objectives through business planning.
To continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.
To provide scheme members with up-to-date information about the scheme in order that they can make informed decisions about their benefits.
To seek and review regular feedback from all stakeholders and use the feedback appropriately to shape the administration of the Fund.

7. Risk Management

7.1. The mitigated risks associated with this report has been captured in the Fund's risk register as detailed below -

Risk	Residual risk rating
Contributions to the Fund are not received on the correct date and/or for the correct amount	Amber
Fund assets are not sufficient to meet obligations and liabilities.	Amber
Information may not be provided to stakeholders as required	Green
Those charged with governance are unable to fulfil their responsibilities effectively	Green
Risk of fraud and error	Green
Custody arrangements may not be sufficient to safeguard Pension Fund assets.	Green
Failure to administer the scheme in line with regulations and guidance.	Green
Pension Fund investments may not be accurately valued.	Green
Investment decisions and portfolio management may not achieve the return required or be performed in accordance with instructions provided.	Green

7.2. The Fund's risk register can be found on the Pensions website at the following link: [Cambridgeshire Pension Fund Risk Register.](#)

8. Communication Implications

Direct communications	The final Annual Report and Statement of Accounts will be made available to the public by publication on the Fund's website. The documents will also be shared with the Local Government Association.
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9. Finance & Resources Implications

9.1. There are no financial and resource implications associated with this report.

10. Legal Implications

10.1. There are no legal implications associated with this report.

11. Consultation with Key Advisers

11.1. The Pension Fund Accounts are produced utilising information and advice provided by Investment Managers, the Fund's Custodian Northern Trust and the Fund's Actuary, Hymans Robertson.

12. Alternative Options Considered

12.1. Not applicable

13. Background Papers

13.1. Not applicable

14. Appendices

14.1. Appendix A – Ernst and Young Audit Plan 2022-23

14.2. Appendix B – Final Annual Report and Statement of Accounts 2022-23

14.3. Appendix C – Ernst and Young Audit Results Report 2022-23

Checklist of Key Approvals	
Has this report been cleared by Head of Pensions?	Mark Whitby – 4/1/2024