

CAMBRIDGESHIRE PENSION FUND



Pension Fund Board

Date: 26 October 2016

Report by: Head of Pensions

Subject:	Agenda items from 29 July Pension Committee meeting.
Purpose of the Report	To provide the Pension Fund Board with an executive summary of specific agenda items discussed at the July 2016 annual Pension Committee meeting.
Recommendations	That the Pension Fund Board note the contents of this report.
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1. Background

- 1.1 This report is an executive summary of the items discussed at the July 2016 meeting of the Pension Committee which are not addressed through other reports to the Pension Fund Board at this meeting.
- 1.2 The agenda items which are covered in this report are:
 - Draft Annual Report and Statement of Accounts 2015/16 – section 2
 - WM State Street Global Services Annual Performance Review – section 3
- 1.3 The full reports can be found at the link detailed in section 11 of this report.

2. Draft Annual Report and Statement of Accounts 2015/16

- 2.1 The following sections summarise the information relating to the Draft Annual Report and Statement of Accounts 2015/16

2.2 Context

- 2.2.1 The Pension Fund's Statement of Accounts (SOA) form part of the County Council's Statement of Accounts. These 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.
- 2.2.2 The Fund's Annual Report and SOA have been subject to audit fieldwork by the County Council's external auditor. 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.

- 2.2.3 The annual accounts are a true and view of the financial activities of the Fund for the financial year 1 April 2015 to 31 March 2016.
- 2.2.4 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.
- 2.2.5 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.
- 2.2.6 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 financial statements for Local Government Pension Scheme funds. There has been no material change to this pro forma in completing the 2015-16 Statement of Accounts.
- 2.2.7 The CIPFA template has been used as a framework for the Pension Fund Accounts to ensure that the reporting meets the requirements of the Code and is compliant with International Financial Reporting Standards (IFRS).
- 2.2.8 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. The Annual Report together with the Statement of Accounts will be presented to the Pension Fund Committee in October 2016.

2.3 Summary of Report

- 2.3.1 This section discusses the movement between March 2015 and March 2016 in the Statement of Accounts, covering both financial and service activity variances. The Fund Account and the Net Asset Statement provide a summary of the key financial aspects with the notes to the accounts providing more depth and non-financial activities to add perspective and comparative balances. See appendix 1.
- 2.3.2 There are two aspects to Pension Accounting statements, being the Fund "member" activity and secondly Investments, combined they form the Pension Fund Account. The 2016 financial year shows a surplus on member activity of £29.9m, offset by negative 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.
- 2.3.3 When comparing the Fund Account for the year to 31 March 2015 to the year to 31 March 2016 there is a negative swing of £233m in total, mainly reflecting the change in investment activity between the two financial years. The one year investment return as at March 2015 was a positive 12.2% showing a market net return of £252m, whilst the comparative return figure for March 2016 was a negative 1.9% return showing a market reduction of £60m, a combined swing of £281m. This included a reduction in investment income of £4.1m following changes of Fund manager during the financial year. 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%. Please note Investment performance is discussed further within the annual report. (Pages 36-37 in the Annual Report).

- 2.3.4 On the membership side income has increased, reflecting valuation increases on employer rates, pay rises for members, boosted by increases in membership of nearly 1,400. The most significant swing relates to payments on account of leavers, where in 2014-15 Probation Services transferred out to Greater Manchester (£33m).
- 2.3.5 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 membership (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.
- 2.3.6 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.
- 2.3.7 Membership activity shows an increase of 1,399 active members, 511 pensioners and 2,634 deferred members.

2.4 Findings and Feedback from External Audit Fieldwork.

- 2.4.1 BDO have commenced their audit fieldwork of the Pension Fund Statement of Accounts but have not yet concluded their work.
- 2.4.2 There are some outstanding items of audit field work to be undertaken, mainly detailed testing on Funding Account items on contributions and benefits.
- 2.4.3 In addition BDO have not yet concluded on the valuation of £43m of the investment in Cambridge & Counties Bank prepared by of the third party valuer.
- 2.4.4 **Prior year recommendations** confirmation that prior year recommendations have been met has not yet been received, due to the ongoing audit work, nor have BDO have drafted their formal audit findings for the current year in the ISA260 "Those charged with Governance document".
- 2.4.5 As a result of initial feedback from BDO and our own internal review the changes in appendix 1 are proposed to the Statement of Accounts:

3. WM State Street Global Services Annual Performance Review

3.1.1 The following sections summarise the information contained within the WM State Street Global Services Annual Performance Review.

3.2 Context

- 3.2.1 The Cambridgeshire Pension Fund (the “Fund”) has engaged WM State Street Global Services (“State Street”) to provide performance reporting for the Fund’s investments. State Street provides quarterly reports for review at the meetings of the Investment Sub Committee.
- 3.2.2 This report considers the annual comparison of the Cambridgeshire Fund with the Local Authority Universe, over the period from 1 April 2015 to the 31 March 2016.
- 3.2.3 It should be noted that from April 2016 State Street have ceased to provide performance reporting of the Local Authority Universe, but have offered to transfer the history and rights for this service to another provider should all Local Government Pension Funds authorise their data transfer to the new provider. In early July 2016 PIRC Ltd announced that they will be providing an alternative peer group analysis that will initially replace the State Street universe reporting.
- 3.2.4 The Cambridgeshire Fund has engaged Mercer Consulting Ltd to provide the quarterly performance reporting for the Fund, at similar terms to the WM arrangements. The duration and nature of this arrangement will be reviewed following the effective implementation of Asset Pooling anticipated in April 2018.
- 3.2.5 The Committee are requested to note that the universe is not a league table, where the highest return is the sole measure of success. Rather the comparative value is to learn and consider the potential benefits of other Funds performance and strategy plans.
- 3.2.6 Benchmarking against peers provides useful perception on the progress of Cambridgeshire Fund investments, asset allocation options and a view on the quality of Fund Managers and strategy.

3.3 2015-16 Annual Review

3.3.1 Investment performance highlights for the financial year to March 2016 are:-

- Over the one year view the Fund Return of -1.9% underperformed the Local Authority universe of 0.2%. This underperformance was attributable to asset allocation (-0.2%) and stock selection (-2.0%). Performance of the Fund was below average when compared to the universe.
- A longer term perspective shows underperformance against the Local Authority universe over three (-0.6%) and five year periods (-0.5%). Both durations produced below average performance when compared to the universe.
- Relative to other Funds Cambridgeshire has underperformed in all asset classes except alternatives and property in the latest year. Compared to others the Fund has performed well in UK equities alternatives but less well in non-UK equities, bonds and property over the medium term.

- Comparing the Local Authority Universe asset allocation, the Cambridgeshire Fund holds a significantly higher equity allocation, broadly equal weighted allocations in other alternatives such as Private Equity and Hedge Funds, in property and cash, but a lower allocations to bonds.

3. Relevant Pension Fund Objectives

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. <i>(Objective 1)</i>
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. <i>(Objective 3)</i>
Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. <i>(Objective 5)</i>

5. Finance & Resources Implications

5.1 Not applicable.

6. Risk Implications

a) Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
There are no risks associated with this report.		

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

Risk	Risk Rating
There are no risks associated with this report.	

7. Communication Implications

7.1 Not applicable.

8. Legal Implications

8.1 Not applicable.

9. Consultation with Key Advisers

9.1 Not applicable.

10. Alternative Options Considered

10.1 Not applicable

11. Background Papers

11.1 Link to reports from the 29 July 2016 meeting of the Pension Committee:

<https://cmis.northamptonshire.gov.uk/cm5live/MeetingsCalendar/tabid/73/ctl/ViewMeetinginPublic/mid/410/Meeting/2659/Committee/412/Default.aspx>

Checklist of Key Approvals	
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 Head of Pensions?	Mark Whitby – 19/9/2016

Appendix 1

Note 8 - Transfers In From Other Pension Funds. Separation of the value of Group Transfers in the 2015-16.

As shown in the draft:

2014-15 £000		2015-16 £000
2,866	Individual transfers	8,735
<u>2,866</u>		<u>8,735</u>

Revised:

2014-15 £000		2015-16 £000
-	Group transfers	5,773
2,866	Individual transfers	2,962
<u>2,866</u>		<u>8,735</u>

Note 15(c) – Add an additional table of investments which represent more than 5% of the net assets of any class or type of security. The format of this note has yet to be agreed with BDO.