

**CAMBRIDGESHIRE
PENSION FUND**



Pension Fund Committee

26 July 2018

Report by: HEAD OF PENSIONS

Subject:	Pension Fund Annual Report and Statement of Accounts 2017-18
Purpose of the Report	To present the Draft Annual Report and Statement of Accounts of the Pension Fund for the 2017-18 financial year.
Recommendations	<p>That the Committee:</p> <ol style="list-style-type: none"> 1. Approves the Draft Annual Report and note the Statement of Accounts of the Pension Fund for the 2017-18 financial year. 2. Approves that the Chairman agrees with Officers any immaterial amendments to the Annual Report arising from final External Auditor review comments.
Enquiries to:	<p>Tracy Pegram, Pension Services Financial Manager Tel – 07917 197467 Email: TPegram@northamptonshire.gov.uk</p>

1. Background

- 1.1 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 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 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.
- 1.3 The annual accounts are a true and view of the financial activities of the Fund for the financial year 1 April 2017 to 31 March 2018.
- 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 the Chartered Institute of Public Finance and Accountancy (CIPFA) in compliance with Regulation 57 of The Local Government Pension Scheme Regulations 2013 (as amended).
- 1.6 CIPFA has issued the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 (the Code), which governs the preparation of the financial statements for Local Government Pension Scheme funds.
- 1.7 For 2017-18 the main changes to the Code applicable to the Pension Fund are:
 - 1.7.1 Amendments to section 6.5 of the Code (Accounting and Reporting by Pension Funds) to require a new disclosure of investment management transaction costs. The Fund adopted analysis of investment management expenses in line with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016) in 2016-17 and therefore there has been no change to the Funds accounting treatment of these costs.
 - 1.7.2 Amendments to section 6.5 of the Code (Accounting and Reporting by Pension Funds) included clarification on the approach to investment concentration disclosure, which the Fund has adopted in the 2017-18 SOA.
- 1.8 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).
- 1.9 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 2018.

2. Summary of Report

- 2.1 This section discusses the movement between March 2017 and March 2018 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 financial activity with the notes to the accounts providing further information. A copy of the Annual Report and SOA can be found at **Appendix 1**.
- 2.2 The financial information of the Pension Fund combine the Fund ("members") and Investment activities. The 2017-18 financial year shows a surplus on member activity of £23.8m, which when combined with returns on Investment activity of £108.8m, offset by Management expenses of £16.9m, results in a "net increase in the net assets available for benefits during the year" of £115.7m.
- 2.3 The net assets available for benefits during the year increased by £115.7m, with the Fund's net assets rising to £2,969m.
- 2.4 The one year investment return as at 31 March 2018 was a net market return of £70.9m, (2.5%) underperforming the Fund's benchmark return of 3.0% and the average Local Authority Pension Fund return of 4.5%. Investment performance is discussed further within the Annual Report. (Pages 31-45 in the Annual Report).
- 2.5 Fund contribution income has increased by £3m to £128.4m. Note 7 to the SOA sets out the variances between the financial years, which as expected shows deficit recovery contributions as the main driver of the increase, reflecting the 2016 triennial valuation revised contribution rates.
- 2.6 Benefit payments in 2017-18 of £99.3m show an increase of £1m over 2016-17, being a combination of increased Pension Payments of £2.8m offset by a decrease

in Commutation and lump sum retirement benefits of £1.9m. Note 9 to the SOA provides this detail. The increase in Pension Payments reflects the growth in the number of pensioners from 17,303 in 2016-17 to 18,054 in 2017-18.

- 2.7 Investment activity comprises Investment Income, which increased from £30.1m in 2016-17 to £38.1m in 2017-18. The Fund also saw profit and losses on disposal of investments and changes in the market value of investments of £70.9m. However, this is significantly lower than 2016-17 when the Fund benefited from exceptional market conditions to record profit and losses on disposal of investments and changes in the market value of investments of £542.3m.
- 2.8 The Fund occasionally receives foreign income on investments net of withholding tax. Where tax agreements exist, the Fund is able to reclaim this tax and a debtor is recorded in Investment Income Due (Note 14). Where the Fund is unable to reclaim the tax deducted, this is recorded as an expense to the Fund. In 2017-18, the Fund incurred withholding tax of £329k. On further inspection, Officers found that £167k of this is recoverable and will be adjusted by the Custodian in 2018-19. As the amount is immaterial, an adjustment to the SOA has not been made in order to give consistency with the accounting records of the Custodian.
- 2.9 The number of active employers increased by 26 to 208 at 31 March 2018. Multiple academy trusts are counted as a single employer to reflect the contractual relationship between the Fund and the Trust. The number of active underlying organisations that the Fund deals with increased by 82 from 245 to 327.
- 2.10 Membership activity shows an increase of 712 active members, 751 pensioners and 2,030 deferred members.

3. Findings and Feedback from External Audit Fieldwork.

- 3.1 BDO have completed their audit fieldwork of the Pension Fund Statement of Accounts but have not yet completed their review work.
- 3.2 An update on the progress of the audit will be provided to the Committee at the meeting.
- 3.3 The Final version of the Annual Report and Statement of Accounts will be presented to the October Pension Committee meeting cycle.

4. Recommendations

- 4.1 That the Pension Committee:

- 1. Approve the Annual Report and note the Statement of Accounts of the Pension Fund for the 2017-18 financial year.
- 2. Approve that the Chairman agrees with Officers any immaterial amendments to the Annual Report arising from final External Auditor review comments.

5. Relevant Pension Fund Objectives

Perspective	Outcome
Funding and Investment	<ul style="list-style-type: none"> Objective 1 - 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. Objective 5 - Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. Objective 10 - Administer the Fund in a professional and efficient manner, utilising technological solutions and collaboration. Objective 18 - Put in place a Strategic Asset Allocation ensuring it is appropriately maintained taking into account the Funding Strategy. Objective 19 - Maximise investment returns over the long term within agreed risk tolerances. Objective 20 - Ensure an appropriate cash management strategy is in place so that net cash outgoings can be met as and when required.

6. Finance & Resources Implications

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

7. 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

Risk	Risk Rating
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

8. Communication Implications

- 8.1 The Regulations determine that the accounts and other related documents have to be made available for public inspection. They will be available for public inspection between 1 June and 30 July 2018 inclusive. Officers will be required to deal with enquiries from the public during this period of time.
- 8.2 The statutory date for publication of the final set of Accounts is the end of September, and in accordance with recognised practice, the Council considers its Statement of Accounts to be published from the date that a final certified copy is made available via the Council's website.

9. Legal Implications

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

10. Consultation with Key Advisors

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

11. Alternative Options Considered

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

12. Background Papers

- 12.1 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.

13. Appendices

- 12.1 Appendix A – Annual Report (draft) and Statement of Accounts 2017-18.
- 12.2 Appendix B – Supplementary Summary Annual Report and Statement of Accounts.

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 the Head of Pensions?	Yes. Paul Tysoe, on behalf of Mark Whitby. 5 July 2018.
Has this report been cleared by the Section 151 Officer / Director of Finance?	Yes Sarah Heywood. 16 July 2018.
Has the Chairman of the Pension Fund Board been consulted?	Yes. Cllr Rogers. 9 July 2018.
Has this report been cleared by Legal Services?	.Yes. Fiona McMillan. 12 July 2018.