

**CAMBRIDGESHIRE
PENSION FUND**



Pension Fund Committee

27 July 2017

Report by: HEAD OF PENSIONS

Subject:	Pension Fund Annual Report and Statement of Accounts 2016-17
Purpose of the Report	To present the Draft Annual Report and Statement of Accounts of the Pension Fund for the 2016-17 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 2016-17 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>Paul Tysoe, Investment & Fund Accounting Manager Tel - 01604 368671 Email: ptysoe@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 2016 to 31 March 2017.
- 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 (as amended).
- 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 2016-17 (the Code), which governs the preparation of the financial statements for Local Government Pension Scheme funds.
- 1.7 For 2016-17 the main changes to the pro forma accounts are:
 - 1.7.1 analysis of investment management expenses has been made in line with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016) and includes transaction costs and investment management fees which were previously deducted from change in market value of investments. See Note 11 to the SOA;
 - 1.7.2 an extension to the fair value disclosures required under section 2.10 of the Code. These additional disclosures can be seen in Note 16 to the SOA;
 - 1.7.3 the classification of investment assets and liabilities into fair value hierarchies (levels 1 to 3) have been adjusted to follow the recommendations contained in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016). Also see Note 16 to the SOA.
- 1.8 The above changes have resulted in an amendment to comparative amounts for investment management expenses and change in market value. These amendments do not represent changes in accounting policy but a change to the disclosure of such amounts within the accounts.
- 1.9 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).
- 1.10 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 2017.

2. Summary of Report

- 2.1 This section discusses the movement between March 2016 and March 2017 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 more depth and non financial activities. See **appendix 1**.
- 2.2 The financial information of the Pension Fund combine the Fund ("members") and Investment activities. The 2016-17 financial year shows a surplus on member activity of £19.9m, which when combined with returns on Investment activity of £572.5m, offset by Management expenses of £15.1m, results in a "net increase in the net assets available for benefits during the year" of £577.3m.
- 2.3 When comparing the Fund Account for the year to 31 March 2016 to the year to 31 March 2017 there is an improvement of £585m in total, mainly reflecting the change in the outcome of investment activity between the two financial years. The one year investment return as at 31 March 2017 was a positive 24.5% showing a market net return of £542m, whilst the comparative return figure for March 2016 was a negative

1.9% return showing a market reduction of £54m, a combined swing of £596m. This included a reduction in investment income of £4.1m following changes of Fund manager during the financial year. The Fund return of 24.5% in the year outperformed the Fund's benchmark return of 23.7% and the average Local Authority Pension Fund return of 21.4%. Investment performance is discussed further within the Annual Report. (Pages 37-39 in the Annual Report).

- 2.4 On the membership side income has increased by £6.6m to £125.4m, mainly reflecting valuation increases on employer rates. Employees' total contributions of £25.9m are £1.1m lower than in 2015-16 due to a reduction in employees' special contributions of £1.1m. Employees' normal contributions are similar to 2015-16 reflecting a static number of active members, negligible pay increases in the year and the impact of a marginal increase in the uptake of the 50/50 option.
- 2.5 Benefit payments in 2016-17 of £98.4m show an increase of £6.1m over 2015-16, being a combination of increased Pension Payments (£3.9m); increase in Commutation and lump sum retirement benefits (£1.1m) and an increase in death benefits of £1.0m. The increase in Pension Payments reflects the growth in the number of pensioners (1,134).
- 2.6 The number of active employers fell by 9 to 182 at 31 March 2017. The definition of employers has been changed this year to count multiple academy trusts as a single employer to reflect the contractual relationship with Trust. The number of active underlying organisations that the Fund deals with increased by 2 to 245.
- 2.7 Membership activity shows an increase of 41 active members, 1,134 pensioners and 2,364 deferred members.

3. Findings and Feedback from External Audit Fieldwork.

- 3.1 BDO have commenced their audit fieldwork of the Pension Fund Statement of Accounts but have not yet concluded their work.
- 3.2 There are some outstanding items of audit field work to be undertaken and manager and partner reviews.
- 3.3 An update on the progress of the audit will be provided to the Committee at the meeting.
- 3.4 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 2016-17 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 July and 30 July 2016 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 1 – Annual Report (draft) and Statement of Accounts 2016-17.

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?	Mark Whitby. 13 July 2017.
Has this report been cleared by the Section 151 Officer / Director of Finance?	Sent to Sarah Heywood 13 July 2017.
Has the Chairman of the Pension Fund Board been consulted?	Sent to Cllr Hickford 13 July 2017.
Has this report been cleared by Legal Services?	Sent to Quentin Baker 13 July 2017.