

# Cambridgeshire Pension Fund

## Pension Fund Committee

22<sup>nd</sup> July 2021

Report by: Head of Pensions

**Subject:** Introduction to the Pension Fund Annual Report and Statement of Accounts 2020-21

**Purpose of the Report:** To provide the Pension Fund Committee with the background information of the year end processes for the Cambridgeshire Pension Fund's Annual Report and Statement of Accounts (ARSOA).

To present the Draft Annual Report and Statement of Accounts of the Pension Fund for the 2020-21 financial year.

**Recommendation:** That the Pension Fund Committee:  
1) Note the Audit Plan 2020-21;  
2) Approves the Draft Annual Report; and  
3) Notes the Draft Statement of Accounts of the Pension Fund for the 2020-21 financial year.

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### 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 & 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 1<sup>st</sup> April to 31<sup>st</sup> March and that the SOA is free from material misstatement.
- 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 2020-21 (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 CIPFA in compliance with Regulation 57 of The Local Government Pension Scheme Regulations 2013 (as amended).

## 2. Audit Plan

- 2.1. Ernst & Young (EY) have been appointed as Independent External Auditors to provide an audit opinion on:
  - 2.1.1. whether the financial statements of Cambridgeshire Pension Fund give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2021; and
  - 2.1.2. the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of Cambridgeshire County Council.
- 2.2. EY have produced an audit plan, setting out identified audit risks, expected materiality levels, the scope of their audit and the planned delivery of the audit process.
- 2.3. Page 5 of the accompanying report identifies the key risks and areas of auditor focus, and page 11 of the report details the Auditor's planned approach to these risk areas. These, along with the Fund's approach are summarised in the following table.

Risk/area of focus	Audit approach	Fund approach
Misstatements due to fraud or error	<ul style="list-style-type: none"> <li>• Identify fraud risks at planning stage</li> <li>• Inquire of management how risks are mitigated by controls</li> <li>• Understand the level of oversight within processes</li> <li>• Consider effectiveness of controls</li> <li>• Use appropriate audit strategy to address risks identified</li> <li>• Perform mandatory procedures, including detailed testing</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure process notes include identified risks</li> <li>• Provide written process notes which detail controls</li> </ul>
Investment Income and Asset valuation – Investment Journals	<ul style="list-style-type: none"> <li>• Test year end journals</li> <li>• Review reconciliations of Investment Manager to Custodian reports</li> <li>• Re-perform investment notes in Statement of Accounts</li> <li>• Check reconciliation of holdings in Net Assets Statement to source reports</li> </ul>	<ul style="list-style-type: none"> <li>• Make copy journals available</li> <li>• Provide quarterly reconciliation reports</li> <li>• Liaise with Investment Managers to provide information to auditors on a timely basis</li> </ul>

Risk/area of focus	Audit approach	Fund approach
	<ul style="list-style-type: none"> <li>• Agree quoted investment income to source reports</li> </ul>	
Unusual Investments – Cambridge and Counties Bank (CCB)	<ul style="list-style-type: none"> <li>• Review Grant Thornton’s external valuation of the Bank and consider appropriateness of assumptions used</li> <li>• Ensure values used are in line with relevant accounting policies</li> <li>• Ensure value of the Bank is in line with Grant Thornton’s valuation report</li> </ul>	<ul style="list-style-type: none"> <li>• Instruct Grant Thornton to provide a valuation report for the Bank and make this, and supporting information, available to the auditor</li> <li>• Provide working papers demonstrating the value used at the year end and the valuation methodology</li> </ul>
Valuations of complex investments (Unquoted investments)	<ul style="list-style-type: none"> <li>• Assess competence of management experts</li> <li>• Review the basis of valuation for property and unquoted investments and assess the appropriateness of valuation methods used</li> <li>• Review latest audited accounts and ensure no matters arise that highlight material differences</li> <li>• Perform analytical procedures and check valuation output for reasonableness</li> </ul>	<ul style="list-style-type: none"> <li>• Provide working papers demonstrating the value used at the year end and the valuation methodology</li> <li>• Provide quarterly reconciliation reports</li> <li>• Liaise with Investment Managers to provide information to auditors on a timely basis</li> </ul>
IAS26 Disclosure – Actuarial Present Value of Promised Retirement Benefits	<ul style="list-style-type: none"> <li>• Assess competence of management experts (Hymans)</li> <li>• Review IAS26 approach applied by the actuary are reasonable and compliant with IAS26</li> <li>• Ensure IAS26 disclosure is in line with relevant standards and consistent</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure process notes include identified risks</li> <li>• Provide written process notes which detail controls</li> </ul>
Going Concern	<ul style="list-style-type: none"> <li>• Challenge management’s identification of events or conditions impacting going concern</li> <li>• Test management’s assessment of going concern</li> </ul>	<ul style="list-style-type: none"> <li>• Provide written process notes which detail controls</li> <li>• Provide evidence and cashflows for foreseeable future</li> </ul>

Risk/area of focus	Audit approach	Fund approach
	<ul style="list-style-type: none"> <li>Review Fund's cashflow forecasts covering the foreseeable future</li> <li>Consider all evidence obtained</li> <li>Challenge disclosure made in accounts in respect of going concern and material uncertainties.</li> </ul>	

- 2.4. Page 18 of the accompanying report sets out the planned materiality levels for the audit, based on net assets of £3.0bn, which are planned to be:

Audit Area	Materiality
Planning Materiality	£30.0m
Performance Materiality	£22.5m
Audit Differences	£1.5m

- 2.5. Page 25 of the accompanying report sets out the proposed timeline for delivery of the audit. The key planned milestones are:

Milestone	Planned dates	Status
Planning/Walkthroughs	March 2021 – April 2021	Completed
Report audit plan	May 2021	Completed
Substantive testing	June 2021 – July 2021	Ongoing
Audit Results Report	September 2021	-

### 3. Annual Report

- 3.1. The Annual Report has been compiled in line with CIPFA guidance on Preparing the Annual Report (2019 edition). The guidance aims to promote consistency across all Local Government Pension Funds (LGPS) annual reports, promoting awareness of the scheme and providing members and stakeholders with relevant information in an accessible and consistent manner.
- 3.2. The guidance assists practitioners to meet the current regulatory framework which additionally supports the LGPS Advisory Board to produce a scheme wide annual report for England and Wales.
- 3.3. The Pension Fund Committee are responsible for approving the Annual Report for the Cambridgeshire Pension Fund and providing assurance to Audit and Accounts Committee for the Statement of Accounts. The Audit and Accounts Committee are responsible for approving the Statement of Accounts as these form part of the overall Administering Authorities SOA.
- 3.4. The Annual Report and Statement of Accounts contents has been set out over eight sections: -
- 3.4.1. Preface - The preface provides an introduction to the Annual Report framing the arrangements for the management of the Fund, a statement of responsibilities and listing key third parties.
- 3.4.2. Scheme Administration - The Scheme Administration section describes the

scheme framework, how the Fund is administered, the Administering Authority's role, membership movements and Pension Fund Committee and Local Pension Board membership. In addition, it sets out the key policies and strategies of the Fund and key policy changes through the financial year.

- 3.4.3. Management and Financial Performance - Management and Financial Performance describes the management of the Fund and sets out how decisions are made, the structure of the Pensions Service and sections on risk management and performance of the service. In addition, this section lists employer establishments, their contributions and status.
  - 3.4.4. Investment Policy and Performance - Investment Policy and Performance describes the legislation under which investment of Fund assets is undertaken, the Fund's investment strategy and performance including commentary on asset pooling. In addition, it includes savings generated by pooling of investment assets and cost transparency. The Fund's independent consultant reviews the 2020-21 economic market background and the future outlook.
  - 3.4.5. Actuarial Information - Actuarial Information describes how the Fund has complied with the Local Government Pension Scheme Regulations 2013 and the Fund's key funding principles adopted in the Funding Strategy Statement. This section describes the most recent triennial valuation and the key assumptions applied.
  - 3.4.6. Audit Opinion - The section referring to Audit Opinion is currently blank pending the conclusion of the annual audit of the Administering Authority's Statement of Accounts.
  - 3.4.7. Pension Fund Accounts - The final major section of the document is the accounting statements and notes to the accounts and is approved as a section within the Administering Authority's SOA and therefore this section is for the Pension Fund Committee to note.
  - 3.4.8. Glossary
- 3.5. The Annual Report will be subject to further refinement, external auditor oversight and accessibility checks and a final version for publication will be brought to the September Pensions Committee.

## 4. Statement of Accounts Highlights

- 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 increase for the year was £856.4m, with the Fund's net assets rising to £3,854.1m reflecting strong financial growth during the year mainly due to the outperformance of global equities.
- 4.3. Contribution receipts increased from £126.5m to £154.5. The increase in contributions reflects multiple employers paying their three year deficits in 2020-21 following the 2019 Valuation.
- 4.4. Benefit payments have increased from £107.9m to £109.6m. The increase in pension payments reflects the growth in the number of pensioners during the year.
- 4.5. Management expenses are broken down in Note 11. Administration expenses have decreased during the year due to expenditure relating to 2018-19 being paid in 2019-20. Oversight and Governance costs have decreased due to higher actuary fees paid during 2019-20 for Valuation. Investment Management fees have increased during the year due to higher performance fees for alternative assets.

- 4.6. The one year investment return as at 31<sup>st</sup> March 2021 was a net market gain of £823.6m.
- 4.7. Investment income decreased from £34.4m in 2019-20 to £31.4m in 2020-21 mainly due to large disinvestments in segregated equities in 2019-20. However, there were two large income distributions circa. £7.6m from global equity pooled holdings in February 2021 which were reinvested into the asset pool. Investment income is largely impacted by market performance and returns during the year.

## 5. Recommendations

### 5.1. That the Pension Fund Committee:

- 5.1.1. Note the Audit Plan 2020-21;
- 5.1.2. Approves the Draft Annual Report; and
- 5.1.3. Notes the Draft Statement of Accounts of the Pension Fund for the 2020-21 financial year.

## 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 risk associated with this proposal has been captured in the Fund's risk register as detailed below -

Risk mitigated	Residual risk
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
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 full risk register can be found on the Fund's website at the following link:

[Cambridgeshire Pension Fund Risk Register hyperlink](#)

## 8. Finance & Resources Implications

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

## 9. Communication Implications

9.1. The Regulations determine that the accounts and other related documents have to be made available for public inspection. The statutory audit deadlines have been extended due to COVID, authorities must commence the public inspection period, anticipated dates are 30<sup>th</sup> July 2021 – 10<sup>th</sup> September 2021.

9.2. The statutory date for publication of the final set of the County Council's Statement of Accounts is the end of November (original date end of July), 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.

9.3. The Statutory date for publication of the Pension Funds Annual Report is 1<sup>st</sup> December.

## 10. Legal Implications

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

## 11. Consultation with Key Advisors

11.1. The Pension Fund Accounts were 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. The Pension Fund Annual Report and Statement of Accounts is a statutory requirement with a prescribed structure, which has been complied with.

## 13. Background Papers

13.1. 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.

## 14. Appendices

14.1. Appendix 1 – Cambridge Pension Fund Audit Plan Year ended 31 March 2020  
Author: Ernst & Young (EY)

14.2. Appendix 2 - Annual Report Statement of Accounts 2020-21 (draft)

## 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 – 25/6/2021

Has this report been cleared by the Section 151 Officer / Director of Finance? Sarah Heywood – 8/7/2021

Has the Chair of the Pension Fund Committee been consulted? Cllr Whelan – 8/7/2021

Has this report been cleared by Legal Services? Fiona McMillan – 28/6/2021