

**CAMBRIDGESHIRE
PENSION FUND**



Pension Fund Committee

28 July 2016

Report by: HEAD OF PENSIONS

Subject:	Pension Fund Annual Report and Statement of Accounts 2015-16.
Purpose of the Report	To present the Draft Annual Report and Statement of Accounts of the Pension Fund for the 2015-16 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 2015-16 financial year. 2. Approves that the Chairman or Vice Chairman agree with Officers any immaterial amendments to the Annual Report arising from final External Auditor review comments.
Enquiries to:	<p>Paul Tysoe, 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 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.
- 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 2015 to 31 March 2016.
- 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. There have been no changes in the requirements this year.
- 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 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.
- 1.7 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).
- 1.8 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. Summary of Report

- 2.1 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.
- 2.2 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 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).
- 2.4 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).
- 2.5 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.

- 2.6 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.
- 2.7 Membership activity shows an increase of 1,399 active members, 511 pensioners and 2,634 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, mainly detailed testing on Funding Account items on contributions and benefits.
- 3.3 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.
- 3.4 **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".
- 3.5 As a result of initial feedback from BDO and our own internal review the changes below are proposed to the Statement of Accounts:
- 3.5.1 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>

3.5.2 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.

3.6 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 2015-16 financial year.
2. Approve that the Chairman or Vice 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">• Administer the Fund in a professional and efficient manner, utilising technological solutions and collaboration.• Maintain accurate records and ensure data is protected and used for authorised purposes only.• Deliver consistent plain English communications to Stakeholders.• Ensure cash flows in to and out of the Fund are timely and of the correct amount.• Ensure the long-term solvency of the Fund, taking a prudent long term view, so that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment.• Put in place a Strategic Asset Allocation ensuring it is appropriately maintained taking into account the Funding Strategy.• Maximise investment returns over the long term within agreed risk tolerances.• 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, Fund Advisers WM State Street 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 2015-16.

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. 11 July 2016.
Has this report been cleared by the Section 151 Officer / Director of Finance?	Sarah Heywood 13 July.
Has the Chairman of the Pension Fund Board been consulted?	Cllr Hickford. 12 July 2016.
Has this report been cleared by Legal Services?	L Gould 18 July 2016.