

**CAMBRIDGESHIRE
PENSION FUND**



Pension Fund Committee

25th July 2019

Report by: HEAD OF PENSIONS

Subject:	Pension Fund Annual Report and Statement of Accounts 2018-19.
Purpose of the Report	To present the Draft Annual Report and Statement of Accounts of the Pension Fund for the 2018-19 financial year.
Recommendations	<p>That the Committee:</p> <ol style="list-style-type: none"> 1. Approves the Draft Annual Report and notes the Statement of Accounts of the Pension Fund for the 2018-19 financial year. 2. Approves the Head of Pensions in consultation with the Chairman to agree any immaterial amendments to the Annual Report arising from final External Auditor review comments.
Enquiries to:	<p>Fiona Coates, Pension Services Financial Manager Tel – 07787 260894 Email: fcoates@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 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) 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 EY 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.
- 1.3. The annual accounts are a true and view of the financial activities of the Fund for the financial year 1st April 2018 to 31st March 2019.
- 1.4. They are based on transactions accounted for within the Fund's financial ledger, information received from Investment 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 2018-19 (the Code), which governs the preparation of the financial statements for Local Government Pension Scheme funds.
- 1.7. For 2018-19 the main changes to the Code applicable to pension funds have not impacted on the Fund's SOA, and are noted below for completeness only:
 - 1.7.1. Changes to IRF9 which is recognised in the guidance as having limited impact on pension funds and indeed has no impact in the attached statements.
 - 1.7.2. Deletion of analysis of debtor and creditors across public sector bodies in line with paragraphs 5.2.6.3 and 8.1.6.2 of the Code.
 - 1.7.3. Separate analysis of any gains and losses arising from the de recognition of assets held at amortised cost, paragraph 7.3.2.14 of the Code.
 - 1.7.4. Creation of a long term debtor to reflect reimbursement arrangements put in place at many local authority pension funds for the lifetime tax allowance introduced in 2016.
- 1.8. The CIPFA template has been used as a framework for the SOA 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.

2. Annual Report

- 2.1. 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.
- 2.2. 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.
- 2.3. The Annual Report and Statement of Accounts, attached at Appendix A has been refreshed applying best practice from other Funds and new ideas from the team to improve the layout and content and has been set out over eight sections:-
 - 2.3.1. Preface
 - 2.3.2. Scheme Administration
 - 2.3.3. Management and Financial Performance
 - 2.3.4. Investment Policy and Performance
 - 2.3.5. Actuarial Information
 - 2.3.6. Audit Opinion
 - 2.3.7. Pension Fund Accounts
 - 2.3.8. Glossary

3. Annual Report

- 3.1. 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.
- 3.2. The Scheme Administration section describes the scheme framework, how the Fund is administered, the Administering Authority's role, membership movements and Pension 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.
- 3.3. 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. 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. The Fund's investment consultant reviews the 2018-19 economic market background and the future outlook.
- 3.5. 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.
- 3.6. The section referring to Audit Opinion is currently blank pending the conclusion of the annual audit of the Administering Authority's Statement of Accounts.
- 3.7. 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 Committee to note.

4. 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. A copy of the Annual Report and SOA can be found at Appendix A.
- 4.2. The financial information of the Pension Fund combine the Fund ("members") and Investment activities. The 2018-19 financial year shows a surplus on member activity of £12m, which when combined with returns on investment activity of £228m, offset by Management Expenses of £16.9m, results in a "net increase in the net assets available for benefits during the year" of £223m, with the Fund's net assets rising to £3,193m.
- 4.3. Contribution receipts decreased slightly by £4m reflecting a reduction in deficit payments in 2018-19 due to employers paying in advance in previous years, Note 7 to the SOA sets out the detail of contributions receivable.
- 4.4. Benefit payments in 2018-19 of £106m show an increase of £7m over 2017-18, being a combination of increased pension payments of £5.4m and commutation and lump sum retirement benefits of £1.6m. Note 9 to the SOA provides this detail. The increase in pension payments reflects the growth in the number of pensioners from 18,054 in 2017-18 to 18,775 in 2018-19 and the pension cost of living increase of 2.4%.
- 4.5. The one year investment return as at 31st March 2019 was a net market return of £228m. The investment return for the Fund over the financial year was 7.1% compared to the Fund's weighted benchmark return of 8.9%. Equity managers with the

exception of J O Hambro underperformed the benchmark over the year in addition to non-government bonds. The Fund outperformed the average Local Authority Pension Fund return of 6.6% and significantly outperformed the UK Average Weekly Earnings Index and the Consumer Price Index. Investment performance is discussed further within the Annual Report. (Pages 30-40 in the Annual Report).

- 4.6. Investment Income increased from £38.1m in 2017-18 to £45.5m in 2018-19 mainly from equities and pooled investments. The Fund also saw profit and losses on disposal of investments and changes in the market value of investments of £182.7m reflecting strong global equity market performance over the financial year.
- 4.7. 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 2018-19, the Fund incurred withholding tax of £85k.
- 4.8. The number of active employers increased by 48 to 254 at 31st March 2018. Multiple academy trusts are counted as a single employer to reflect the contractual relationship between the Fund and the Trust.
- 4.9. Membership activity shows an increase of 1,479 active members, 721 pensioners and a reduction of 107 deferred members.

5. Findings and Feedback from External Audit Fieldwork.

- 5.1. EY have completed their audit fieldwork of the Pension Fund Statement of Accounts but have not yet fully completed their review work. EY have issued a draft ISA260 report which confirms that no issues were identified during their fieldwork. An open issue for discussion with EY is the disclosure of the potential impact of the McCloud judgement on Fund liabilities which are disclosed as a Note the SoA.
- 5.2. The Final version of the Annual Report and Statement of Accounts will be published on the Fund's website and circulated to members.

6. Recommendations

- 6.1. That the Pension Committee:
 - 6.1.1. Approves the Draft Annual Report and note the Statement of Accounts of the Pension Fund for the 2018-19 financial year.
 - 6.1.2. Approves the Head of Pensions in consultation with the Chairman to agree any immaterial amendments to the Annual Report arising from final External Auditor review comments.

7. 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.
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.
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.
Continually monitor and measure clearly articulated objectives through business planning. Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.
Provide scheme members with up to date information about the scheme in order that they can make informed decisions about their benefits.
Seek and review regular feedback from all stakeholders and use the feedback appropriately to shape the administration of the Fund.

8. Risk Management

8.1. The mitigated risk associated with this proposal has been captured in the Fund's risk register as detailed below -

Risk	Risk mitigated	Residual risk
3	Contributions to the Fund are not received on the correct date and/or for the correct amount	Amber
4	Fund assets are not sufficient to meet obligations and liabilities.	Amber
5	Information may not be provided to stakeholders as required	Green
7	Those charged with governance are unable to fulfil their responsibilities effectively	Green
11	Custody arrangements may not be sufficient to safeguard Pension Fund assets.	Green
13	Failure to administer the scheme in line with regulations and guidance.	Green
17	Pension Fund investments may not be accurately valued.	Green
23	Investment decisions and portfolio management may not achieve the return required or be performed in accordance with instructions provided.	Green

8.2. The Fund's full risk register can be found on the Fund's website at the following link:

<https://pensions.cambridgeshire.gov.uk/app/uploads/2019/05/RiskRegisterCPF.May2019.pdf>

9. Finance & Resources Implications

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

10. Communication Implications

10.1. The Regulations determine that the accounts and other related documents have to be made available for public inspection. They were available for public inspection between 12 June and 23 July 2019 inclusive.

10.2. The statutory date for publication of the final set of the County Council's Statement of Accounts is the 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.

10.3. The Statutory date for publication of the Pension Funds Annual Report is 1st December.

11. Legal Implications

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

12. Consultation with Key Advisors

12.1. 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.

13. Alternative Options Considered

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

14. Background Papers

14.1. 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.

15. Appendices

15.1. Appendix A – Annual Report (draft) 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 2019.
Has this report been cleared by the Section 151 Officer / Director of Finance?	Yes Sarah Heywood. 11 July 2019.
Has the Chairman of the Pension Fund Board been consulted?	Yes. Cllr Rogers. 11 July 2019.
Has this report been cleared by Legal Services?	.Yes. Fiona McMillan. 8 July 2019.