

Pension Fund Board

6th November 2020

Report by: HEAD OF PENSIONS

Subject:	Pension Fund Annual Report and Statement of Accounts 2019-20.
Purpose of the Report	To present the Annual Report and Statement of Accounts of the Pension Fund for the 2019-20 financial year.
Recommendations	That the Board: Notes the Annual Report and notes the Statement of Accounts of the Pension Fund for the 2019-20 financial year..
Enquiries to:	Ben Barlow, Fund Accounting Manager Tel – 07896 890375 Email: BBarlow@northamptonshire.gov.uk

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) for the financial year 1st April 2019 to 31st March 2020 and that the SOA is free from material mis-statement.
- 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, 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 Finance and Public Accountancy (CIPFA) has issued the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20 (the Code), which governs the preparation of the financial statements for Local Government Pension Scheme funds. There were no changes in the Code that impacted on the Funds SOA. The latest 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 the Chartered Institute of Public Finance and Accountancy (CIPFA) in compliance with Regulation 57 of The Local Government Pension Scheme Regulations 2013 (as amended).

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 contents has been set out over nine 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

2.3.9. Appendix A – ACCESS Annual Report

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. In addition it includes savings generated by pooling of investment assets and cost transparency. The Fund's investment consultant reviews the 2019-20 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.
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.
 - 4.2. The net decrease for the year was £194.9m, with the Fund's net assets falling to £2,997.7m.
 - 4.3. Contribution receipts increased slightly from £124.5m to £126.5m. The increase in contributions payments reflects the growth in the number of active members during the year.
 - 4.4. Benefit payments have increased to £107.9m from £106.3m. The increase in pension payments reflects the growth in the number of pensioners during the year.
 - 4.5. Administration expenses have increase during the year due to expenditure relating to 2018-19 being paid in 2019-20. Oversight and governance costs have increased due to the Fund compliance with the CIPFA Management Expenses guidance. Classifying all actuary, legal and consultancy costs within Oversight and Governance costs instead of previous classifications across Administrative costs and Investment management expenses.
 - 4.6. The one year investment return as at 31st March 2020 was a net market loss of £191.1m. The investment return for the Fund over the financial year was -5.7% compared to the Fund's weighted benchmark return of -3.3% reflecting the financial situation brought about by the COVID-19 pandemic and the active investment management decisions made by the Fund.
 - 4.7. Investment Income decreased from £45.5m in 2018-19 to £34.4m in 2019-20 mainly due to a large dividend received in 2018-19 from a pooled investment manager. Investment income is largely impacted by market performance and returns during the year.
 - 4.8. Investment liabilities have increased following the implementation of the equity protection strategy.
 - 4.9. The number of active employers decreased by 57 to 197 at 31st March 2020. Multiple academy trusts are counted as a single employer to reflect the contractual relationship between the Fund and the Trust.

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.
- 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. 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.

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	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

- 7.2. The Fund’s full risk register can be found on the Fund’s website at the following link:
<https://pensions.northamptonshire.gov.uk/app/uploads/2020/06/CPFRiskRegisterJune20.pdf>

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 on or before the first working day of September.

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 1st 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 – Annual Report and Statement of Accounts

14.2. Appendix A – ACCESS Annual Report

Checklist of Key Approvals	
<i>Has this report been cleared by the Head of Pensions</i>	Yes Mark Whitby