PENSION FUND COMMITTEE

Thursday, 18 July 2024

Democratic and Members' Services
Emma Duncan
Service Director: Legal and Governance

New Shire Hall
Alconbury Weald
Huntingdon
PE28 4YE

10:00

Red Kite Room
New Shire Hall, Alconbury Weald, Huntingdon, PE28 4YE

AGENDA

Open to Public and Press

8. **LGPS Efficiencies Response to Government** 99 - 108

9. **Exclusion of Press and Public**

To resolve that the press and public be excluded from the meeting on the grounds that the agenda contains exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended, and that it would not be in the public interest for this information to be disclosed information relating the financial or business affairs of any particular person (including the authority holding that information)

10. **Confidential minutes of the Pension Fund Committee held 6th June 2024**

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

11. **Annual Investment Review**

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

12. **Annual Investment Consultancy Provider Review**

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

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Public speaking on the agenda items above is encouraged. Speakers must register their intention to speak by contacting Democratic Services no later than 12.00 noon three working days before the meeting. Full details of arrangements for public speaking are set out in Part 4, Part 4.4 of the Council's Constitution: Procedure Rules hyperlink

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The Pension Fund Committee comprises the following members:

Councillor Alison Whelan (Chair) Councillor Mike Black (Vice-Chair) Councillor Henry Batchelor Councillor Chris Boden Liz Brennan Councillor Adela Costello Councillor Lara Davenport-Ray Councillor Peter McDonald Mr Howard Nelson Mr Matthew Pink and Councillor Alan Sharp

Clerk Name:	Dawn Cave
Clerk Telephone:	01223 699178
Clerk Email:	dawn.cave@cambridgeshire.gov.uk

Public minutes of the Pension Fund Committee

Date: 6th June 2024

Time: 10:00am – 12.02pm

Venue: New Shire Hall, Alconbury Weald

Present: County Councillors H Batchelor, M Black (Vice Chair), A Costello, A Whelan (Chair), A Wood (substituting for Cllr McDonald); Fenland District Councillor Chris Boden and Huntingdonshire District Councillor Lara Davenport-Ray; Liz Brennan and Howard Nelson; Matthew Pink (attending virtually)

Officers: M Bratec, C Blose, D Cave, M Oakensen and M Whitby;

188. Notification of appointment of Chair and Vice Chair

The Annual Council meeting held on 21st May agreed to appoint Councillor Whelan as the Chair and Councillor Black as the Vice Chair for the Municipal Year 2024-25.

189. Apologies for absence and declarations of Interest

Apologies were received from Councillor Sharp, Councillor McDonald (Councillor Wood substituting), Sarah Heywood and Michael Hudson.

Councillor Costello declared an interest as a Member of Ramsey Town Council.

Councillor Batchelor declared an interest as his father was in receipt of a County Council pension.

Liz Brennan declared an interest as an active scheme member.

Matthew Pink Declared an interest as both he and his wife are active scheme members.

190. Public minutes of the Pension Fund Committee meeting held 28th March 2024 and Action Log

The public minutes of the Pension Fund Committee meeting held on 28th March 2024 were approved as a correct record.

The Action Log was noted.

191. Petitions and Public Questions

There were no petitions or public questions.

192. Administration Performance Report

The Committee considered a report which set out a number of key areas of administration performance for the period 1st February to 31st March 2024.

There were two Red and two Amber Key Performance Indicators (KPIs) for this period. The Estimates KPI was Red, with the focus on critical KPIs, e.g. continuity of payments. The main issue for the team was that sickness levels had been higher than anticipated, which was being addressed through the appropriate absence management procedures. There would continue to be a period of instability as those issues were addressed. The additional resource approved by Pension Fund Committee in March would help alleviate these issues, some roles were in the process of being recruited to and it was expected that the Training Officer position would be advertised in July.

The Committee had previously requested additional information on the parameters of the outliers, to provide context for the revised target for awarding retirement benefits from active employment from five to ten working days. It was noted that for the six months from 01/10/23 to 31/03/24, there were a total of 35 outliers, ranging from 2 days to 43 days. The performance for the two months since that period had improved. There were a number of actions in place and further progress was expected.

The date for the Stage 1 dispute (Internal Dispute Resolution Programme) decision had passed, and the deadline had recently been extended to 28th June. Officers briefly outlined the issues involved in this case.

Arising from the report:

- noting the majority of delays in informing members who leave the scheme on the benefits due resulted from delays from the employer, a Member asked whether it tended to be the same employers? Officers explained that part of the rationale behind this KPI was to have more detailed reporting on employers, identifying any systemic issues, so that more training and guidance could be provided where required. The relevant teams were now reviewing that data so patterns could be picked up going forward and communicated to employers. Employers that were persistently failing tended to be large organisations or where payroll was outsourced, i.e. there was a disconnect between the employer and payroll;

- noting that percentage within target in Appendix 2, asked if the figure (i.e. actual number) could be included in future reports. Action required.

It was unanimously resolved to note the Administration Performance Report.

93. Governance and Compliance Report

Members received a report on governance issues concerning the Local Government Pension Scheme (LGPS) on a national and local basis, and also details of forthcoming training events.

In March, the Secretary of State for Work and Pensions published the guidance setting out a staged timetable for connection for the Pensions Dashboard, and the requirement for all public service pension schemes to be connected by 31 October 2025. The period between October 2025 and October 2026 would be used for testing. ISP testing would commence in late 2024, and this would help inform the Secretary of State when the Dashboard would be available to the public. The Pensions Regulator was very clear that not having regard to the guidance constitutes a breach of law, so records of decision logs, etc, must be carefully maintained. There would be some flexibility in specific circumstances e.g. change of payroll provider.

The Project Plan had been completely refreshed in line with government guidance. The National Audit Office (NAO) had undertaken an investigation into delays of delivering the Pension Dashboard programme. Lack of capacity and capability were two of the main reasons for the delays, which had led to a revised connections deadline of 2026, and an estimated cost increase of 23%. It was noted that the Pensions Policy Institute had estimated that over £26 billion worth of pensions had been “lost”.

The General Code of Practice came into force in March 2024, and officers were reviewing compliance with that Code. This was a consolidation of previous Codes, but the process was quite time intensive. Regulatory compliance would be reviewed and presented to Committee in October.

All mandatory Members training was due by 24 July or within 12 months of appointment. So far, three Members had completed the whole suite of training. Last year no firm decisions had been made on the approach to refresher training , because of the introduction of the LOLA platform. A questionnaire will be issued to the Committee in July to obtain feedback.

Arising from the report:

- noting the gender pensions gap issue across the country, a Member asked if there was a particular concern with the gender pension gap in Cambridgeshire. Officers advised that this work would tie in with the current EDI work, looking at wider communications and ensuring that those communications were as diverse as possible. The issue with the gender pay gap was that the pensions element was secondary to what the employer had previously decided. The website was being redesigned so that it reflected real life situations, to make it more relevant for people at different stages of their lives. One issue was that only a certain amount of data was held on the Pensions system, as there has to be a processing need to retain data under GDPR. ;

- noting that there would be a full review of Risk Strategy, asked if this would reflect new obligations resulting from recent regulations. Officers confirmed that following a high level review of the Risk Strategy at officer level, it was clear that the Risk Register had evolved more quickly that the Risk Strategy, so these two documents needed to be aligned. The Strategy would be reviewed in discussion with the Fund's governance advisors;

- A Member asked how residents with "no fixed abode" could be verified. Officers explained how this had been flagged up as an issue following a specific case, and they were exploring ways this could be addressed.

It was unanimously resolved to:

1. note the Governance and Compliance Report;

2. note the immaterial amendments and updates to policies and strategies (sections 3.29-3.31).

194. Employer Admissions and Cessations Report

Members received a report on the admission of three admitted bodies and the cessation of ten bodies. It was noted that there was no discretion over admitting these bodies, and there was no exit payment or credit associated with the cessation. The report also provided an update on previous cessations.

The three admission bodies included one that was also a cessation. For this contractor, neither the Academy Trust nor the organisation had informed the Pensions team of staff transfers. The Regulations allow admission agreements to be backdated, and this could not be refused by the Fund. This had happened several times with contractors within the Fund, and this also occurred with other Funds, so there have been some conversations nationally about how best to address this issue.

Further information was provided on the ten cessations, four being for the same body with multiple contracts.

The Committee noted that there were three previous cases where there had been an exit credit, and a surplus had been identified. All three bodies had received a payout. All of these were the older type of admission bodies.

Noting the reason for a funding surplus, and whilst understanding the principles behind that, a Member asked what would happen if an employer decided to exit the pension scheme, when they had active or deferred members, and whether an amount would be transferred to another Fund. Officers explained that this was a choice for the scheme members, and outlined how the valuation was calculated.

Noting the examples of cessations, a Member queried one where the amount paid was less than the funding surplus, and asked if this was unusual? Officers explained the process for determining how much of the surplus was payable, and outlined the type of issues involved, multiple factors are considered when making the decision, including the value of contributions paid by the exiting employer, vs the value of assets transferred from previous employers alongside other factors, as required by the regulations and reflected in case law. Timing of entry into the Fund could have an impact, e.g. when the market was in a negative or positive cycle, affecting the value of assets inherited upon entry to the Fund. Officers took extensive legal and actuarial advice when designing the framework for determining the value of an exit credit, and are confident this is a very robust process.

It was resolved unanimously to:

1. note the admission of the following transferee admission bodies to the Cambridgeshire Pension Fund and approve the sealing of the admission agreements:
    - Aspens Services Limited (Queen Emma Primary School & Queen Edith Primary School)
    - Taylor Shaw Limited (Ernulf Academy)
    - Kids R Us Out of School Club Limited (Meridian Trust)

2. note the cessation of the following bodies from the Cambridgeshire Pension Fund:
    - Wimblington Parish Council
    - Clarion Housing Association Limited
    - GPC Skills Limited
    - VHS Cleaning Services Ltd x 4
    - OCS Food Co Limited (Ditchburn Place)
    - Avocet Cleaning Services (St Bede's Inter-Church School)
    - Taylor Shaw Limited (Ernulf Academy)

3. note the update on previously reported cessations relating to:
    - Sanctuary Housing Group
    - Kimbolton School
    - Cross Keys Homes

195. Pension Fund Annual Business Plan Update report 2024-25

The Committee considered an update on the Pension Fund’s Business Plan activities.

Officers outlined the context of the three Amber indicators. Procurement of address and mortality screening was progressing well. This was a very low value contract each year, but the first year of the contract involved a very extensive, whole Fund search.

With regard to the procurement of the ISP supplier, enabling the Fund to connect to Pensions Dashboard system, there was a need for a variation in the contract because of the reset on Pension Dashboard programme. The complexities of this contract were outlined.

At the Committee’s request, the Investment Consultant contract would be extended or reprocured. The Investment Consultant had been reviewed through an officer assessment last year. The proposed approach was to consult the Investment Sub-Committee Members.

The risk rating for Undecided Leavers was also Amber, because of the number of conflicting projects, which impacted on the ability to deliver this. There were additional resources going into BAU (Business as Usual), but this remained a volatile area.

At the last Investment Sub-Committee meeting in May, a number of decisions had been made relating to the Climate Action Plan, which needed to be fully updated to reflect those decisions.

Arising from the report:

- with regard to the Investment Consultant contract, it was confirmed that this would be considered at the July Committee meeting;

- a Member asked about the investment consultant questionnaire which the Investment Sub-Committee would be receiving, and asked what type of questions would include. It was confirmed that this would set out objectives of investment consultant, and ask individual members for their degree of satisfaction with the service received.

(the meeting adjourned for the D-Day commemoration)

- a Member queried the processing of Undecided Leaver records, and asked what the age profile was for the backdated cases, and what the criterion would be for moving to Red on the RAG rating. Officers advised that it would become Red if it was felt that the overall objective could not be met. If there was uncertainty but it was felt that it could still be covered, it would remain Amber. There was a project team dealing with cases that were more than six months old, and the BAU team dealt with current cases. Officers were unsure what the oldest case was, but confirmed that there were some aged cases included. Action required;

- noting the journey towards reducing the Fund's Carbon Footprint, and that the County Council was committed to community wealth building, a Member asked how this factored in to procurement and investment decisions. In response, officers advised that in terms of levelling up investments, the Cambridgeshire Fund included a regional local equity fund that invests mainly in companies within the region. In terms of targeted metrics, there was investment in the Cambridge Building Society, enabling that institution to accelerate its lending to families in the county and region. It was noted that these matters could be discussed further at future meetings in relation to the Fund's ESG remit;

- a Member asked why target to reduce undecided leaver records for the current financial year was 1,000, but 2,500 for subsequent years? Officers confirmed that this was because the resources would not be fully available in the current financial year.

It was resolved unanimously to:

1) note the Business Plan update.

196. Cambridgeshire Pension Fund Administration Strategy

Members considered a report which sought approval for draft changes to the Administration Strategy.

The Administration Strategy had been completely reviewed by officers with support from the Fund's former Governance and Benefit consultants Aon, bringing it up to date with current policies and practices. The Strategy also now included sections on digital administration particularly the use of i-Connect to collect membership data and details the Fund's escalation policy. This section also reduced the deadline for the submission of i-Connect from ten working days after the end of the calendar month to seven working days to ensure the Fund can meet statutory deadlines for follow on actions. Changes to how KPIs were set out, and escalation processes, were also noted. If approved, the Strategy would be published for consultation with the Fund's employers.

A Member suggested that *target* may be inappropriate term for Member Experience Performance Standards, and a better term may be *minimum expected thresholds* or *minimum service level*. It was also suggested that the 20-day target for "Notification of employer of any issue relating to its poor performance" was a very generous time period. Officers gave further detail on this issue and the careful liaison process involved. Action required;

It was resolved unanimously to approve the draft changes to the Administration strategy for consultation with employers.

197. Cambridgeshire Pension Fund Equality, Diversity and Inclusion (EDI) approach

Members considered a report on the planned approach to Equality, Diversity and Inclusion (EDI) within the Cambridgeshire Pension Fund. The report and Plan were based on The Pension Regulator's guidance, which focussed on the governing body, but also extended to wider engagement, which was included in key actions in the Action Plan. It was important to consider if there were any reasonable adjustments, e.g. if there was a barrier to anyone sitting on the Board or Committee. The recent example of adding the Shariah Fund to the portfolio was noted. It was anticipated that the first training session on these issues would be held in July.

Arising from the report:

- in response to a Member question, it was confirmed that this would very much be an evolving document;

- the issues around the lack of data that the Fund held on members' protected characteristics were noted;

- a Member stressed the importance of simplifying the language used, as some of the jargon could be quite daunting. It was noted that the glossary in the Fund Administration Strategy would be very helpful in this regard;

- a Member raised the issues of English as a second language, and also where English was the first language, but the national average reading age was age 8. Officers confirmed that they were conscious of the language aspect, and outlined the measures taken. For English as a Second Language, translation services were always available on request for Member facing communications.

It was resolved unanimously to:

1) approve the proposed EDI actions located in appendix 1;

2) approve the changes set out in 3.20 following Pension Fund Board feedback.

198. Cambridgeshire Pension Committee Forward Agenda Plan

Members noted that the Agenda Plan would be updated to reflect business plan activities for next year.

A Member asked why the ACCESS updates were always exempt items. Officers advised that one option may be to have two reports, with the non-confidential content in public session.

It was resolved to note the Committee Agenda Plan.

199. Exclusion of Press and Public

It was resolved unanimously that the press and public be excluded from the meeting on the grounds that the following items contain exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended, and that it would not be in the public interest for this information to be disclosed information relating to the financial or business affairs of any particular person (including the authority holding that information).

200. Confidential minutes of the Committee meeting held 28th March 2024

The confidential minutes of the Pension Fund Committee held 28th March 2024 were approved as an accurate record.

201. Cambridgeshire Pension Fund Risk Monitoring

Members received a report on proposed revisions to the Risk Register.

It was resolved unanimously to review and approve the Cambridgeshire Pension Fund Risk Register

202. ACCESS Update

Members received an update on asset pooling.

It was resolved to note the report.

Cambridgeshire
Pension Fund

Pension Fund Committee
Action log from previous meetings

Agenda Item: 2

This log captures the actions from the Pension Fund Committee of the 6 June 2024 together with any carried forward items from previous meetings and updates members on the progress on compliance in delivering the necessary actions. This is the updated action log as at 11 July 2024.

Actions from 6 June 2024 meeting of the Pension Fund Committee

Item No.	**Item**	**Action to be taken by**	**Issue**	**Action/Status**
192.	Administration Performance Report	Michelle Oakensen	Officers to add more information to Appendix 2 of the report (actual number of cases processed within target) to add additional context.	In progress. Will be implemented for the October Committee meeting.
195.	Pension Fund Annual Business Plan Update report 2024-/25	Michelle Oakensen	Confirm what are the oldest cases in the undecided leavers backlog.	In progress - This information will be provided at the October Committee meeting.
196.	Cambridgeshire Pension Fund Administration Strategy	Cory Blose	A Member suggested that target may be an inappropriate term for Member Experience Performance Standards, and a better term may be *minimum expected thresholds or minimum service leve*l. Officers agreed to review and change the wording, if necessary.	In progress.

Actions from 28 March 2024 meeting of the Pension Fund Committee

Item No.	Item	Action to be taken by	Issue	Action/Status
185.	Cambridgeshire Pension Fund – Additional Contribution Provider Update	Michelle Oakensen	Officers agreed to review the issue of Section 112 compliance in regards to the new Prudential HSBC Islamic Global Equity Index Fund available, officers also need to ensure that proper communications are issued to members.	In progress – seeking further clarification.

Agenda Item No: 4

Cambridgeshire
Pension Fund

Pension Fund Committee

18 July 2024

Report by: Head of Pensions

Subject:	Multiple investment Strategies
Purpose of the Report:	To seek approval from the Pension Fund Committee to carry out detailed modelling to review the possible impact of having multiple investment strategies for Fund employers
Recommendations:	That the Pension Fund Committee 1. Approves detailed modelling of the possible impact of having multiple investment strategies for Fund employers.
Enquiries to:	Name – Cory Blose, Employer services manager Tel – 07990 560829 E-mail – cory.blose@westnorthants.gov.uk

1. Executive Summary

1.1 This report sets out a recommendation and seeks approval for detailed modelling of the potential impact of having multiple investment strategies for Fund employers.

1.2 Following the 2019 triennial valuation officers investigated, and reported to the Pension Fund Committee, the potential benefits of implementing a framework where the Fund offered multiple employer investment strategies to meet the different needs of the diverse groups of employers participating in the Fund.

1.3 The modelling at that time did not show any material improvement in funding outcomes for employers by introducing such a framework but did suggest that it would be worth reviewing in the future if market conditions and the funding position of the Pension Fund were significantly different.

1.4 As part of the 2024-2027 business plan, the Pension Fund Committee approved an initial review, by the Fund Actuary, to determine if conditions had changed significantly enough to warrant looking again at the potential impact of introducing a framework for multiple employer investment strategies.

1.5 The Actuary has completed the initial review and has recommended that conditions are significantly different to those at the previous investigation and that a further detailed review would be justified.

1.6 This paper sets out the recommendation of the Fund Actuary and the scope of a proposed detailed review and seeks approval to commission the actuary to carry out the review as described.

2. Background

2.1 The Pension Fund Committee previously considered the possibility of introducing multiple employer investment strategies following the 2019 triennial valuation. Detailed modelling at that time did not identify any material improvements from implementing such a framework and the decision was taken not to do so at that time. The modelling did however suggest that it may be worth reconsidering that decision if the funding level of the Pension Fund and wider economic conditions were to change significantly.

2.2 The previous modelling looked at possible outcomes from the introduction of three notional investment buckets for different employer groups:

2.2.1 Bucket A – Council's, Further Education Bodies, Academies, Transferee admission bodies (contractors) with a guarantor, and Community Admission Bodies (e.g. Charities) that are open to new members and have a formal guarantee in place. These employers have a funding target based on a lower level of prudence (the ongoing basis).

2.2.2 Bucket B – Community Admission Bodies without a formal guarantee and/or poor funding levels and Resolution bodies (Parish/Town Councils and other small precepting authorities). These employers have a funding target based on a higher level of prudence (the exit basis).

2.2.3 Bucket C – Community Admission Bodies who are well funded and other ceased employers with no guarantor. These employers have a funding target set against the exit basis.

2.3 As part of the business plan activities for 2024, the Pension Fund Committee approved an initial review to determine if conditions had changed sufficiently to justify detailed modelling to facilitate a full review of the impact of multiple investment strategies on Fund employers.

2.4 The Fund has an obligation to ensure employer contributions are as stable as possible, recognising the characteristics, circumstances and affordability constraints of each employer.

2.5 The investment strategy and expected returns from it have a significant impact on the contribution strategy set for each employer. All else being equal, the greater the expected returns, the lower the contribution requirement is for employers.

2.6 The Fund currently has a single investment strategy covering an increasing number and variety of employers with different funding requirements, which means that, for some employers, we may not be achieving the lowest possible stable contribution strategy.

2.7 Different employers have differing levels of maturity within their membership, different funding targets and different investment risk appetites. A single investment strategy therefore does not necessarily cater for these different employer profiles.

2.8 The introduction of multiple investment strategies could allow the Fund to better meet the needs of different groups of employers by assigning returns from a mix of asset classes better aligned with the needs of each group of employers.

2.9 A single investment strategy would still exist at Fund level but having a small number of notional “investment buckets” within this would allow the Fund to assign returns from different mixes of asset classes to provide different levels of growth or protection, depending on what is trying to be achieved, e.g. low risk/low return for well-funded employers close to exit or higher risk/higher return for those with the ability to absorb greater volatility.

2.10 The actuary has identified that a detailed review would be warranted due to a significant change in the funding level of the Pension Fund, financial markets and the wider economic environment.

3. Rationale and proposals for detailed review

3.1 Since the previous decision of the Pension Fund Committee, and since the most recent formal valuations at 31 March 2022, there has been significant change in the financial markets and economic environment.

3.2 The Fund now has a very strong past service position, and recent Funding updates at 31 March 2024 showed a funding level of 164%, an improvement from 127% at 31 March 2022.

3.3 This improvement has largely been driven by rising interest rates increasing market expectations for long term future investment returns and reducing the value of the liabilities. The returns on the Fund’s investments since 2022 have been slightly less than anticipated (although investment performance has picked up over recent months), however in essence the Fund is holding a similar amount of assets today, as it did on 31 March 2022, for every £ of pension it expects to pay out. Therefore, the increases in funding levels have not been driven by an actual increase in the money held to pay out each £ of pension (as per previous valuation cycles), but rather by the promise of greater future returns.

3.4 The Actuary has proposed to carry out asset-liability modelling to help the Committee understand the potential impact of multiple employer investment strategies. This modelling would consist of varying the investment strategy to determine whether better outcomes are achieved for certain groups of employers according to the group’s funding needs.

3.5 This modelling is similar to that used as part of the valuation exercise to set contribution rates for stabilised employers. The model allows the Actuary to project forward a share of assets and liabilities under 5,000 different economic scenarios. The output from the model includes metrics which can be compared to assess how the different employer groups perform under different investment strategies.

Employer groups to model

3.6 Due to various distinctive characteristics the Actuary has proposed to initially model the following three groups of employers:

3.6.1 Group A - Councils and other secure, stabilised employers (please note this does not include any resolution bodes, such as Town & Parish Councils).

3.6.2 Group B - Academies. This group of employers are similar to group A in that they are very secure (due to the existence of the DfE Guarantee) and the same “ongoing” funding objective applies. This group differs to Group A in that the membership is far less mature; specifically, the proportion of active members is far greater for the Academies Group, and this is an important consideration when designing a suitable investment strategy.

3.6.3 Group C - Closed Community Admission Bodies who are over 100% funded on the lower-boundary of exit basis corridor, plus all other ceased employers with no guarantor.

3.7 Please note that contractors and resolution bodies have not been included in this modelling. The number of contractors holding funding risk is diminishing. The vast majority of contractors now participate in the Fund under pass-through agreements where the assets and liabilities, and therefore the funding risk, are retained by the contracting Scheme employer. In most cases a Council or Academy Trust. The results from the modelling for these groups could be extrapolated and applied to contractors.

3.8 The relative size of resolution bodies means that inclusion in the modelling would have no material effect on the results. Resolution bodies are a unique type of employer and though they are similar in size to community admission bodies and would have their exit funding position assessed on the same basis, they are expected to be long term employers and therefore a longer-term investment strategy, similar to groups A and B could be more appropriate than one specifically targeting an exit similar to group C. Once the results of the modelling are known we will be able to better decide within which group to include resolution bodies.

Investment strategies to model

3.9 The Actuary has proposed to model a range of different investment strategies for each employer group so the Pension Fund Committee can fully understand the effect of different strategies on future outcomes. The Fund's latest target asset allocation would be modelled alongside two other de-risked investment strategies.

3.10 The exact alternative strategies to be modelled will be agreed with officers with input from the Fund's investment consultants.

Fees and timescale

3.11 The actuary has quoted a cost of £25,000 (plus VAT) to carry out this modelling, this is a reduction on the cost of the previous review (approximately £35,000). The results, including a detailed report setting out the summary of the output and recommendations would be expected to be delivered in the early part of quarter 4 in time for an update to be provided at the December meeting of the Pension Fund Committee.

4. 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 manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.
- To ensure employer contributions are as stable as possible, recognising the characteristics, circumstances and affordability constraints of each employer.
- To 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.
- To put in place a strategic asset allocation ensuring it is appropriately maintained taking into account the Funding strategy.
- To maximise investment returns over the long term within agreed risk tolerances.

5. Risk Management

5.1 The risks associated with this paper been captured in the Fund's risk register as detailed below.

Risk	Residual risk rating
Failure to respond to changes in economic conditions	Amber
Fund assets are not sufficient to meet obligations and liabilities	Amber

5.3 The Fund's full risk register can be found on the Fund's website:

[Pension Fund Risk Register]

6. Finance & Resources Implications

6.1 The proposed modelling would cost £25,000 (plus VAT)

7. Communication Implications

7.1 There are no communications implications arising from the report.

8. Legal Implications

8.1 No material issues have been identified which may give rise to legal liability and/or risk from an administering authority perspective.

9. Consultation with Key Advisers

9.1 The Fund Actuary has provided the initial recommendation and proposals set out in this paper.

10. Alternative Options Considered

10.1 Not to carry out further modelling of the potential impact of having multiple investment strategies

11. Appendices

11.1 None

Checklist of Key Approvals

Has this report been cleared by Section 151 Officer? Sarah Heywood- 10/07/2024

Has this report been cleared by Head of Pensions? Mark Whitby – 21/06/2024

Has this report been cleared by Monitoring Officer? Emma Duncan – 10/07/2024

Cambridgeshire
Pension Fund

Pension Fund Committee

18 July 2024

Report by: Head of Pensions

Subject:	KPMG Audit Plan for Cambridgeshire Pension Fund 2023-24
Purpose of the Report:	To present the Audit Plan from KPMG
Recommendations:	The Pension Fund Committee: a) Note the Audit Plan 2023-2024 and the presentation by KPMG.
Enquiries to:	Ben Barlow, Investments & Fund Accounting Manager Tel – 07831 123167 E-mail – Ben.Barlow@Westnorthants.gov.uk

1. Executive Summary

1.1 KPMG act as the Cambridgeshire Pension Fund's external auditors. As the external auditors they have produced a plan of the 2023-24 audit of the Cambridgeshire Pension Fund.

1.2 The significant risks and areas of focus for KPMG are management override of controls and the valuation of Cambridge and Counties Bank.

1.3 Other audit risks being considered by KPMG are:

1.3.1 Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded;

1.3.2 Valuation of Level 1, 2 and 3 investments is misstated;

1.3.3 Contributions into the Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Fund's Rates and Adjustments Schedule;

1.3.4 The actuarial position of the scheme is not appropriately presented in the financial statements.

1.4 Materiality for the financial statements is £42.3m, 1% of total prior year assets Materiality misstatements to be reported is £2.1m

1.5 The total audit fees for the year are £87,000, excluding IAS 19 letters for employer body auditors.

2. Report background

2.1 This is KPMG's first year as the Cambridgeshire Pension Fund's external auditors.

2.2 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 KPMG. The auditor confirms whether, in their opinion, the SOA reflects a true and fair view of the financial position of the authority (and the Fund within it) for the financial year 1st April to 31st March and that the SOA is free from material misstatement.

3. Content, Responsibilities and timeline

3.1 KPMG have been appointed as Independent External Auditors to provide an audit opinion on:

3.1.1 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 2024 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2024; and

3.1.2 the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of Cambridgeshire County Council.

3.2 KPMG have produced an audit plan, setting out identified audit risks, expected materiality levels, the scope of their audit, the team, and the planned delivery of the audit process.

3.3 Page 5 of the accompanying report identifies the key risks and areas of auditor focus, 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
Management override of controls	• Evaluate the design and implementation of controls over journal entries and post-closing adjustments • Assess the appropriateness of changes compared to prior year • Assess accounting estimates for biases • Assess the business rationale and the appropriateness of accounting for significant transactions • Evaluate selection and application of accounting policies • Analyse all journals posted through the year	• Ensure process notes include identified risks • Provide written process notes which detail controls • Make copy journals available • Provide working papers demonstrating the value used for the journals
Cambridge and Counties Bank (CCB) valuation	• Obtain copies of the CCB valuation report • Evaluate the design and implementation of controls in place • Test the completeness and accuracy of data underlying the valuation • Engage KPMG specialists to review the valuation methodology and assumptions	• Instruct Grant Thornton to provide a valuation report for Cambridge and Counties Bank and make this, and supporting information, available to the auditor. • Provide working papers demonstrating the value used at the year end and

Risk/area of focus	Audit approach	Fund approach
	• Evaluate the design and implementation of controls in place for management to review the valuation.	the valuation methodology.
Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded	• Gain an understanding of the control environment at all the investment managers and custodian by reviewing their internal controls • Obtain direct confirmations from the custodian and investment managers • Vouch purchases and sales to investment manager and custodian reports • Recalculate change in market value and compare to overall investment return	• Provide working papers demonstrating the value used at the year end and the valuation methodology. • Provide quarterly reconciliation reports and performance reports • Liaise with Investment Managers and custodian to provide information to auditors on a timely basis.
Valuation of Level 1, 2 and other level 3 investments are misstated.	• Use of the in-house investment valuation team, iRADAR – approach differs per investment type and is set out on Page 9 of the audit plan • Obtaining unaudited Net Asset Value (NAV) statements for Level 3 pooled investment vehicles.	• Provide working papers demonstrating the value used at the year end and the valuation methodology. • Provide quarterly reconciliation reports and performance reports • Liaise with Investment Managers and custodian to provide information to auditors on a timely basis.
Contributions into the Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Fund's Rates and Adjustment Schedule	• Inspecting that deficit contributions received into the Fund in accordance with the Rates and Adjustments certificate • Contributions are received on a timely basis • Develop an expectation of the normal employer and employee contributions receivable in the year reflect changes in active members, pensionable salary and any changes in contribution rates • Vouch that there are 12 month receipts in the year assessing the trend of receipts	• Provide working papers demonstrating contributions received and reconciliations between the Rates and Adjustment certificate • Provide analytical assessment of changes in contributions received during the year.
The actuarial position of the Fund is not appropriately presented in the financial statements	• Understand the processes in place to set the assumptions used in the valuation • Evaluate the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations	• Ensure process notes include identified risks. • Provide written process notes which detail controls. • Liaise with Hymans to provide information to the

Risk/area of focus	Audit approach	Fund approach
	• Test the data provided used within the scheme valuation • Compare the key assumptions applied with those used by the administering authority.	auditors on a timely basis,

3.4 Page 3 of the accompanying report sets out the materiality levels for the audit, based on 1% of net assets of £4.3bn, which are planned to be:

Audit Area	Materiality
Materiality for the Financial statements as a whole	£42.3m
Procedure designed to detect individual errors at this level	£27.4m
Audit Differences	£2.1m

3.5 Page 18 of the accompanying report sets out the proposed timeline for delivery of the audit. The key planned milestones are:

Milestone	Planned dates	Status
Planning and Interim fieldwork	March 2024	Completed
Report audit plan	June/July 2024	Completed
Year end Audit	July -September 2024	Ongoing
Audit Results Report	September/October 2024	

3.6 Page 17 sets out the audit fees for the year. £87,000 is the fee for auditing the financial statements. For comparison, the 2022-23 fee was £26k. The scale fee does not include the impact of ISA315, which may increase audit hours by 10% to 20%. External audit fees are agreed with Public Sector Audit Appointments (PSAA).

4. Relevant Pension Fund Objectives

4.1 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.

4.2 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.

4.3 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.

4.4 To continually monitor and measure clearly articulated objectives through business planning.

4.5 To continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.

4.6 To provide scheme members with up-to-date information about the scheme in order that they can make informed decisions about their benefits.

4.7 To seek and review regular feedback from all stakeholders and use the feedback appropriately to shape the administration of the Fund.

5. Finance & Resources Implications

5.1 None, this paper is for information only.

6. Risk Management

6.1 The mitigated risks associated with this report has been captured in the Fund's risk register as detailed below -

Risk	**Residual risk rating**
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

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

https://pensions.northamptonshire.gov.uk/governance/key-documents/cambridgeshire/

7. Communication Implications

7.1 This information only paper does not require any further communication activities.

8. Legal Implications

8.1 No material issues have been identified which may give rise to legal liability and/or risk from an administering authority perspective. Squire Patton Boggs have conducted a review of the paper for legal implications.

9. Consultation with Key Advisers

9.1 The Pension Fund Accounts are produced utilising information and advice provided by Investment Managers, the Fund's Custodian Northern Trust and the Fund's Actuary, Hymans Robertson.

10. Alternative Options Considered

10.1 Not applicable.

11. Background Papers

11.1 Not applicable.

12. Appendices

12.1 Appendix A – Audit Plan 2023-24

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. No.
Is this report proposing an amendment to the budget and/or policy framework? No.
Has this report been cleared by Chief Finance Officer/Section 151 Officer? Sarah Heywood - 10/07/2024
Has this report been cleared by Head of Pensions? Yes. Mark Whitby - 24/06/2024
Has this report been cleared by Legal Services? Emma Duncan – 10/07/2024

Cambridgeshire Pension Fund

Draft Report to the Audit and Accounts Committee

Audit plan and strategy for the year ending 31st March 2024

July 2024

Introduction

To the Audit and Accounts Committee of Cambridgeshire Pension Fund

We are pleased to have the opportunity to meet with you to discuss our audit of the financial statements of the Cambridgeshire Pension Fund (‘the Fund’) for the year ended 31 March 2024.

We have been appointed as your auditors by Public Sector Audit Appointments Ltd. The audit is governed by the provisions of the Local Audit and Accountability Act 2014 and in compliance with the NAO Code of Audit Practice. The NAO is consulting on a new Code of Audit Practice for 2023/24.

This report outlines our risk assessment and planned audit approach. Our planning activities are still ongoing and we will communicate any significant changes to the planned audit approach subsequently. Also, we need to complete our review of the predecessor audit file for the 2022/23 year end when that audit is completed.

We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

Contents | **Page**

The engagement team

Sarah Brown, BA (Hons), ACA, is the engagement partner on the audit. She has more than 20 years of public sector audit experience across Healthcare, Local Government and Social Housing. Sarah will lead the engagement and is responsible for the audit opinion.

Other key members of the engagement team include Asim Iqbal (Senior Manager) and Sudhanshu Dadhich (Assistant Manager) with 14 years and 5 years of audit experience respectively.

Yours sincerely,

Sarah Brown

Partner – KPMG LLP
July 2024

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define ‘audit quality’ as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We depend on well planned timing of our audit work to avoid compromising the quality of the audit. This is also heavily dependent on receiving information from management and those charged with governance in a timely manner. The audit undertaken in the current year is dependent on the finalisation of the previous auditor’s work over historical financial statements.

Restrictions on distribution

This report is intended solely for the information of those charged with governance of Cambridgeshire Pension Fund and the report is provided on the basis that it should not be distributed to other parties; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Overview of planned scope including materiality

Our materiality levels

We determined materiality for the Cambridgeshire Pension Fund financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We used a benchmark of the Fund's total assets which we consider to be appropriate given the sector in which the Pension Fund operates, its ownership and financing structure, and the focus of users.

We considered qualitative factors such as the fact that this is our initial audit and the prior year financial statements are not yet signed when determining materiality for the financial statements as a whole.

To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of materiality £27.4m (65% of materiality) driven by our expectations of increased level of undetected or uncorrected misstatements in the period. This is also to factor that the prior period accounts are not yet signed.

We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons, such as officers' remuneration. We will report misstatements to the audit and Accounts committee including:

- Corrected and uncorrected audit misstatements above £2.1m.
- Errors and omissions in disclosure (corrected and uncorrected) and the effect that they, individually and in aggregate, may have on our opinion.
- Other misstatements we include due to the nature of the item.

Control environment

The impact of the control environment on our audit is reflected in our planned audit procedures. Our planned audit procedures reflect findings raised by the predecessor auditor and management's response to those findings.

File review

We will undertake an appropriate prior year file review dependent on the final opinion issued by the previous auditors.

Materiality

Materiality for the financial statements as a whole	**£42.3m** 1% of total assets
Procedure designed to detect individual errors at this level	**£27.4m** 65% of materiality
Misstatements reported to the Audit and Accounts Committee	**£2.1m**

Cambridgeshire Pension Fund Materiality

£42.3m

1% of pension fund's total assets £4.3b (FY 22/23 draft total assets)

Overview of planned scope including materiality (cont.)

Timing of our audit and communications

- We will maintain communication led by the engagement partner and senior manager throughout the audit. We set out below the form, timing and general content of our planned communications:
- Kick-off meeting with management in January 2024 where we outlined our audit approach and discuss management's progress in key areas.
- Audit and Accounts Committee meeting scheduled in July 2024 where we present our audit plan outlining our audit approach and discuss management's progress in key areas.
- Status meetings with management will take place through the audit cycle, where we communicate progress on the audit plan, any misstatements, control deficiencies and significant issues.
- Due to the work of previous auditors still on-going, we will be communicating dates for audit completion at a future Committee.
- Closing meeting with management where we discuss the auditor's report and any outstanding deliverables.
- Audit and Accounts Committee meeting where we communicate audit misstatements and significant control deficiencies.
- Biannual private meetings can also be arranged with the Audit and Accounts Committee Chair if there is interest.

Given the large amount of consultation happening in regard to the scope and timing of local government audit this schedule is subject to change.

Key developments in the year

We outline below where, in our planned audit response to audit risks, we expect to use the work of others such as Internal Audit or require specialised skill/knowledge to perform planned audit procedures and evaluate results. Usually, we do not rely on the work of Internal Audit but as part of our risk assessment we will inspect their reports for any issues highlighted.

Key developments	KPMG's response
2022/23 audit We note that the audit of the 2022/23 financial statements are still not signed.	We will revisit the risk assessment procedures completed to date for any changes arising following the completion of the audits. We will complete our predecessor auditor clearance inquiries and review of the predecessor auditor file once the audits for 2022/23 are concluded.

Using the work of others and areas requiring specialised skill

We outline below where, in our planned audit response to audit risks, we expect to use the work of others such as Internal Audit or require specialised skill/knowledge to perform planned audit procedures and evaluate results.

Others	Extent of planned involvement or use of work
iRADAR	Our in-house investment team, iRADAR, will review the valuation of the equities held to identify any potential material pricing issues.
Actuarial specialist	KPMG will engage Actuarial Specialist, to determine the reasonableness of the assumptions used in the valuation of the promised retirement benefits liability of the pension fund.
Corporate Finance Team	KPMG will engage Corporate Finance team as a valuation specialist to assist in assessing the reasonableness of the key assumptions used in the valuation model for investments made in Cambridge and Counties Bank. The specialist's findings will be considered by the audit team, along with other audit evidence, in forming an overall conclusion on the fair value measurement.
IT specific team member	Given this is a first year audit and we are unfamiliar with the IT environment, we will be utilising our IT team to gain an understanding of the key financial systems and processes within the Fund.

Significant risks and other audit risks

Our risk assessment draws upon our understanding of the applicable financial reporting framework, knowledge of the pension fund, the industry and the wider economic environment in which Cambridgeshire Pension Fund operates.

We also use our regular meetings with senior management to update our understanding and take input from component audit teams and internal audit reports.

Due to the current levels of economic uncertainty there is an increased likelihood of significant risks emerging throughout the audit cycle that are not identified (or in existence) at the time we planned our audit. Where such items are identified we will amend our audit approach accordingly and communicate this to the Audit and Accounts Committee.

Significant risks

1 Management override of controls

2 An inappropriate amount is estimated for the value of investments held under Cambridge & Counties Bank.

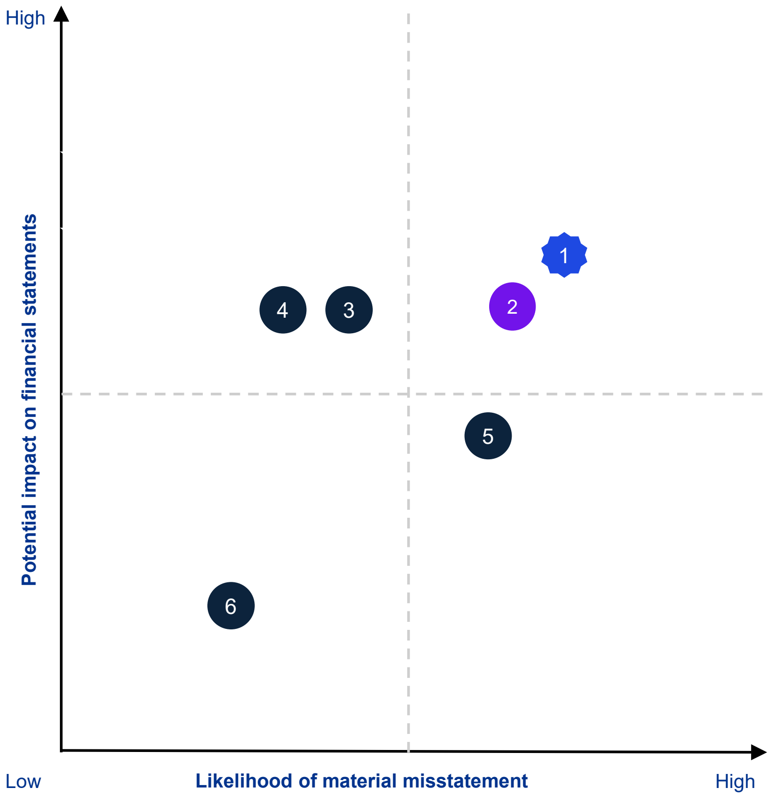
Other audit risks

3 Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded

4 Valuation of Level 1, 2 and other Level 3 investments is misstated

5 Contributions into the Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Fund's Rates and Adjustments Schedule

6 The actuarial position of the scheme is not appropriately presented in the financial statements



KEY

- Presumed significant risk
- Significant financial statement audit risks
- Other audit risks

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Audit risks and our audit approach

1 Management override of controls

Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Planned response

As part of our audit procedures we will gain an understanding of the financial reporting process.

- Our audit methodology incorporates the risk of management override of controls as a default significant risk.
- In line with our methodology, we will evaluate the design and implementation of controls over journal entries and post-closing adjustments. We will evaluate the design and implementation of automated controls used in the financial reporting process, where automated controls are in place.
- Assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- We will assess accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Assess the business rationale and the appropriateness of the accounting for significant transactions that are outside the normal course of business, or are otherwise unusual.
- We will evaluate the selection and application of accounting policies.
- We will analyse all journals through the year using data and analytics and focus our testing on those with a higher risk.
- With regards to the financial reporting and journals process, we will perform the following over journal entries and other adjustments:
  - Evaluate the completeness of the population of journal entries.
  - We will determine high risk criteria and select journals based on this criteria for testing.

Audit risks and our audit approach

2 An inappropriate amount is estimated for the value of investments in Cambridge and Counties Bank

Significant audit risk

- An inappropriate amount is estimated for the value of direct investment in Cambridge and Counties Bank due to inappropriate method and assumptions used for the computation of the valuation estimate.
- The risks of material misstatement relating to fair values of investment in Cambridge and Counties Bank are increased due to the higher degree of estimation uncertainty resulting from current economic conditions.
- The value of investment held under Cambridge and Counties Bank represents 1.5% approx. of total assets portfolio.

Planned response

- Cambridgeshire Pension Fund appoints a third party specialist (Grant Thornton) to value the investments in Cambridge and Counties – Local Bank. We will obtain the valuation reports produced by the third party specialist as at 31st March 2024.
- We will evaluate the design and implementation of controls in place to review the valuation, inputs, methodology and the appropriateness of assumptions used.
- We will test the completeness and accuracy of underlaying data used for the valuation; and
- We will engage KPMG specialists to review the methodology and assumptions underlying the valuations as at 31st March 2023 and 31st March 2024..
- We will evaluate the design and implementation of controls in place for management to review the valuation, inputs, methodology and the appropriateness of assumptions used.

Audit risks and our audit approach (cont.)

3 Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded

Other audit risk

- Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded.
- Investments are held to pay benefits of the Fund. They are held with 27 investment managers across a number of asset classes. The investments are material to the financial statements 99.58% of the Statement of Net Assets and therefore there is a risk of material misstatement.
- There is a risk of material misstatement relating to completeness, existence and accuracy as there has been a number of investment transitions in the year between investment managers.

Planned response

- As part of our audit procedures we will gain an understanding of the processes over the completeness, existence and accuracy of Level 1, 2 and 3 investments. This will include gaining an understanding of the control environment at all the investment managers and custodian by reviewing their internal controls reports to identify any control deficiencies that would impact our audit approach.
- We will obtain direct confirmations from your custodian and all your investment managers to vouch the holdings and valuation of assets at the year end.
- We will vouch purchases and sales to investment manager and custodian reports.
- We will recalculate change in market value and compare this to the overall investment return stated in the Pension Committee's report for consistency with the amounts reported in the financial statements. We will investigate any material deviations.

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Audit risks and our audit approach (cont.)

4 Valuation of Level 1, 2 and other Level 3 investments is misstated

Other audit risk

- Level 1, 2 and 3 investments are fairly valued.
- Investments are held to pay benefits of the Cambridgeshire Pension Fund. They are held with 27 investment managers across a number of asset classes. The investments are material to the financial statements 97% of the Statement of Net Assets and therefore there is a risk of material misstatement.
- There is a risk of material misstatement relating to fair values of level 1 and 2 pooled investments, due to the estimation uncertainty resulting from the pricing of these investments.
- There is an elevated risk of material misstatement relating to fair values of level 3 pooled investments, due to the estimation uncertainty resulting from unobservable inputs to these investments.

Planned response

Our approach in relation to valuation for different types of investments is as follows:

- **Segregated financial instruments:** Our in-house investment valuation team, iRADAR, will be engaged to independently revalue segregated securities and over the counter (OTC) derivative prices and identify stale price issues of directly held financial instruments within the investment portfolio as well as any exposures to hard to value assets.
- **Level 1 & 2 Pooled Investment Vehicles**-We will recalculate the value of the Level 1 and 2 pooled investments using published pricing of the pooled investment vehicles at the year end with the help of iRADAR.
- **Level 3 pooled investment vehicles:** For each Level 3 pooled investment vehicle investment manager, we will obtain the unaudited Net Asset Value ('NAV') Statement at (or closest to) the measurement date and vouch the valuation to this. We will further assess the reliability of the NAV statement by:
  - Obtaining and inspecting the latest audited financial statements for the underlying funds where available;
  - Inspecting the audit report to confirm that it is unqualified and that the audit has been carried out by a reputable audit firm; and
  - Comparing the unaudited pricing information at the year end to the audited financial statements valuation. Where the audited financial statements are not as at the Fund year end date, we will agree them to unaudited pricing information at that date and reconcile significant movements to the Fund year end date agreeing movements to quarterly NAV/transaction statements.

Audit risks and our audit approach (cont.)

5 Contributions into the Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Fund's Rates and Adjustments Schedule

Other audit risk

- Contributions into the Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Fund's Rates and Adjustments Schedule
- Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. Revenue in a pension scheme equates to contributions receivable. This revenue is recognized based on specific instructions as set out in the appropriate schedule(s). There are no subjective issues concerning when contributions need to be recognized. Amounts involved cannot easily be manipulated through accounting policies, issue of credit notes, timing or other policies. There is little incentive for the Fund management to manipulate the financial reporting of contributions. Therefore, in the absence of specific fraud risk factors, the presumption that fraudulent revenue recognition is a significant risk is rebutted for pension scheme audits.

Planned response

As part of our audit procedures we will gain an understanding of the processes over the contribution payment arrangements between the admitted and scheduled bodies and administering authority, and also the effectiveness of the Pension Fund's contribution monitoring arrangements.

As part of risk assessment procedures, we will carry out re-performance checks for a selection of members on normal employee and employer contributions by reference to their pensionable salary and rates.

Our audit procedures over contributions will include:

- Inspecting that deficit funding contributions are received into the Fund in accordance with the Fund's rates and adjustments schedule;
- For a risk based sample of admitted bodies we will inspect whether contributions are received into the Fund on a timely basis under the requirements through vouching contributions received to bank statements;
- Develop an expectation of the normal employer and employee contributions receivable in the year reflecting changes in active members in the year, increases in pensionable salary and any changes in the contributions rates in the year and compare these to actual employer and employee contributions received in the year; and
- Vouch that there are 12 months receipts in the year and assessing the trend of such receipts.

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Audit risks and our audit approach (cont.)

6 The actuarial position of the Fund is not appropriately presented in the financial statements

Other audit risk

- The actuarial position of the Fund is not appropriately presented in the financial statements.
- The actuarial position is not recognised on the Statement of Net Assets but is disclosed in the Notes.
- The value of the liability is an estimate involving the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective.

Planned response

We will perform the following procedures:

- Understand the processes in place to set the assumptions used in the valuation;
- Evaluate the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Test the data provided used within the calculation of the scheme valuation; and
- Compare the key assumptions applied with those used by the administering authority and inquire of the administering authority audit team if there are any matters arising from their evaluation of the assumptions.

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Other significant matters related to our audit approach

Additional reporting

The audit is undertaken to comply with the Local Audit and Accountability Act 2014, which places additional responsibilities on auditors, as well as further requirements to report to the National Audit Office.

Our audit responsibilities under the Code of Practice in respect of the Pension Fund, are as follows:

We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.

We consider our other duties under legislation and the Code, as and when required, including: ·

- Giving electors the opportunity to raise questions about your 2023/24 financial statements, consider and decide upon any objections received in relation to the 2023/24 financial statements;
- Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
- Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or ·
- Issuing an advisory notice under Section 29 of the Act.

As part of our procedures on other information, we will obtain and read your pension fund annual report and climate change disclosures. We will consider whether there is a material inconsistency between this information included in the annual report and the financial statements, or with our knowledge obtained in the audit; or whether this information appears to be materially misstated.

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Mandatory communications - additional reporting

Going concern

Under NAO guidance, including Practice Note 10 - A local authority's financial statements shall be prepared on a going concern basis; this is, the financial statements should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganization) do not negate the presumption of going concern.

Additional reporting

Your audit is undertaken to comply with the Local Audit and Accountability Act 2014 which gives the NAO the responsibility to prepare an Audit Code (the Code), which places responsibilities in addition to those derived from audit standards on us. We also have responsibilities which come specifically from acting as a component auditor to the NAO. In considering these matters at the planning stage we indicate whether:

Work is completed throughout our audit and we can confirm the matters are progressing satisfactorily OK	We have identified issues that we may need to report -	Work is completed at a later stage of our audit so we have nothing to report

We have summarised the status of all these various requirements at the time of planning our audit below and will update you as our work progresses:

Type	Status	Response
Our declaration of independence	OK	No matters to report. The engagement team and others in the firm, as appropriate, have complied with relevant ethical requirements regarding independence.
Issue a report in the public interest		We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters to date.
Certify the audit as complete		We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above.

Mandatory communications

Type	Statements
Management's responsibilities (and, where appropriate, those charged with governance)	Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error. Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.
Auditor's responsibilities	Our responsibilities set out through the NAO Code (communicated to you by the PSAA) and can be also found on their website, which include our responsibilities to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
Auditor's responsibilities – Fraud	This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.
Auditor's responsibilities – Other information	Our responsibilities are communicated to you by the PSAA and can be also found on their website, which communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.
Independence	Our independence confirmation at page 19 and 20 discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff.

Appendices

Audit team and rotation

Your audit team has been drawn from our Public sector and Pensions Centre of Excellence and is led by key members of staff who will be supported by auditors and specialists as necessary to complete our work. We also ensure that we consider rotation of your audit partner and firm.

Sarah is the partner responsible for our audit. She will lead our audit work, attend the Audit and Accounts Committee and be responsible for the opinions that we issue.

Asim Iqbal is the senior manager responsible for our audit. Asim will co-ordinate our audit work, attend the Audit and Accounts Committee and ensure we are co-ordinated across our accounts and use of funds work.

Sudhanshu Dadhich is the in-charge responsible for our audit for the year. He will be responsible for our on-site fieldwork. He will complete work on more complex section of the audit.

To comply with professional standard we need to ensure that you appropriately rotate your external audit partner. There are no other members of your team which we will need to consider this requirement for:

KPMG Specialist – Please refer to Page 4 for further details on all the KPMG specialist involved as part of our audit.

This will be Sarah's first year as your engagement lead.

Fees

Audit fee

Our proposed fees for the year ended 31 March 2024 have been agreed with management.

Pension Fund	2023/24 (£'000)	2022/23 (£'000)
Financial statements	87	26
ISA 315 (R) *	TBC	-
TOTAL	**87**	**26**

*The scale fees agreed with the PSAA do not take into account the impact of ISA315 (Revised). We expect compliance with ISA315R to increase audit hours by between 10% and 20% for our pension fund audits. We will agree a fee variation in respect of ISA351R with you once we have a clearer idea of the impact for your audit.

Billing arrangements

Fees will be billed in accordance with a billing schedule agreed with the PSAA.

Also, "*the Code of Audit Practice also sets the expectation that local auditors will co-operate where it is possible and efficient to do so. As part of this, auditors have agreed a voluntary protocol with each other and the NAO that covers the agreement of timescales for requesting and providing assurances and keeping auditors informed of potential delays. Consistent with this principle, the provision of IAS 19 assurances to auditors of relevant authorities under the Act and in accordance with the protocol should be considered work undertaken under the Code of Audit Practice.*" If we are requested by other schedule/ admitted bodies auditors to provide these IAS 19 assurance letters, fee for these letters will be charged as per the PSAA fee variation arrangements.

Basis of fee information

In line with our standard terms and conditions the fee is based on the following assumptions:

- The Cambridgeshire Pension Fund audit evidence files are completed to an appropriate standard (we will liaise with you separately on this);
- Draft statutory financial statements are presented to us for audit subject to audit;
- Supporting schedules to figures in the financial statements are supplied;
- A trial balance together with reconciled control financial statements are presented to us;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-formas as necessary.

Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

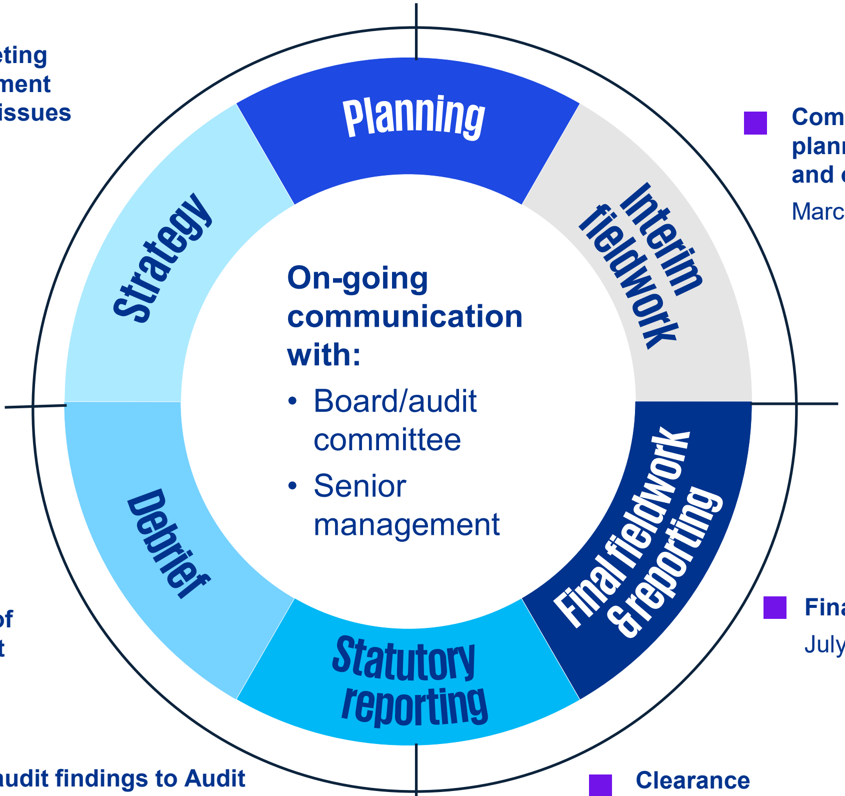
If there are any variations to the above plan, we will discuss them with you and agree any additional fees before costs are incurred wherever possible.

Indicative Audit cycle & timetable

Our schedule
Jan 2024 – Dec 2024

Key:
- Timing of A&RC communications
- Key events

March



June

September

December

Planning meeting with management for key audit issues
February

Commence year end planning including IT and other specialists
March

Audit plan discussion and approval
June/ July

Final fieldwork
July/ August/ September

Clearance meetings
September

Presenting audit findings to Audit and Risk Committee and approval of accounts
September

Finalization of annual report
October

Audit strategy discussions based on debrief of audit
October

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Audit and Accounts Committee members

Assessment of our objectivity and independence as auditor of Cambridgeshire Pension Fund

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

The conclusion of the audit engagement partner as to our compliance with the FRC Ethical Standard in relation to this audit engagement is subject to review by an engagement quality control reviewer, who is a director not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

No non-audit services have been provided to the Fund during the year ended 31 March 2024 and we have not committed to providing any such services.

Application of the FRC Ethical Standard 2019

We communicated to you previously the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Accounts Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit and Accounts Committee of the Group and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

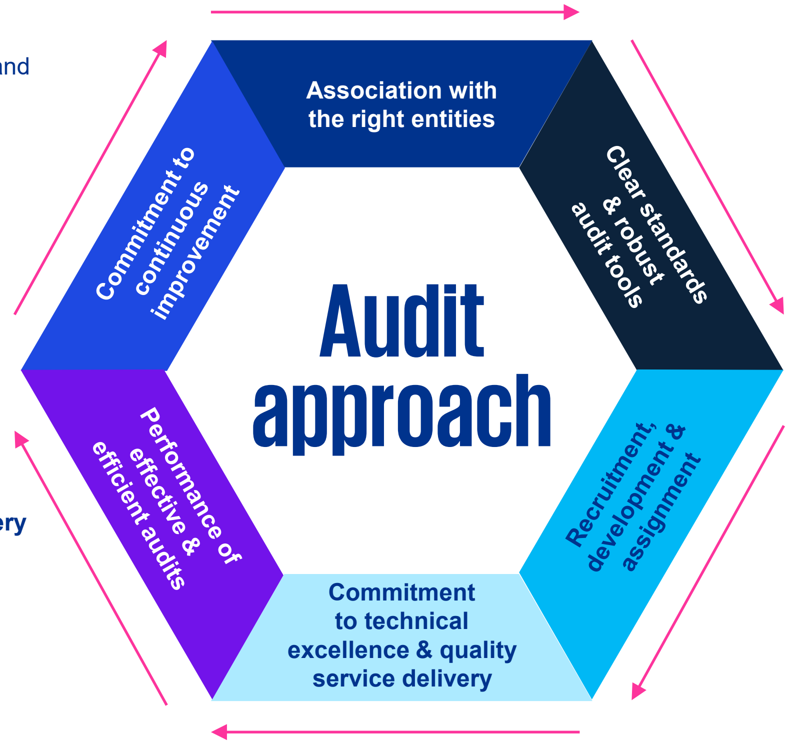
To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

Performance of effective & efficient audits
- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

Commitment to technical excellence & quality service delivery
- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



Association with the right entities
- Select entities within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

Clear standards & robust audit tools
- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

Recruitment, development & assignment of appropriately qualified personnel
- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

ISA (UK) 315 Revised: Overview

Summary

In the prior period, ISA (UK) 315 Revised "Identifying and assessing the risks of material misstatement" was introduced and incorporated significant changes from the previous version of the ISA.

These were introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA was effective for periods commencing on or after **15 December 2021**.

The revised standard expanded on concepts in the existing standards but also introduced new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

What impact did the revision have on audited entities?

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard's scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

Implementing year 1 findings into the subsequent audit plan

Entering the second year of the standard, the auditors will have demonstrated, and communicated their enhanced insight into their understanding of your wider control environment, notably within the area of IT.

In year 2 the audit team will apply their enhanced learning and insight into providing a targeted audit approach reflective of the specific scenarios of each Pension Fund 's audit.

A key area of focus for the auditor will be understanding how the Pension Fund responded to the observations communicated to those charged with governance in the prior period.

Where an Pension Fund has responded to those observations a re-evaluation of the control environment will establish if the responses by Pension Fund management have been proportionate and successful in their implementation.

Where no response to the observations has been applied by Pension Fund , or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit procedures.

What will this mean for our on-going audits?

To meet the on-going requirements of the standard, auditors will each year continue to focus on risk assessment process, including the detailed consideration of the IT environment.

Subsequent year auditor observations on whether Pension Fund actions to address any control observations are proportionate and have been successfully implemented will represent an on-going audit deliverable.

Each year the impact of the on-going standard on your audit will be dependent on a combination of prior period observations, changes in the Pension Fund control environment and developments during the period. This on-going focus is likely to result in the continuation of enhanced risk assessment procedures and appropriate involvement of technical specialists (particularly IT Audit professionals) in our audits which will, in turn, influence auditor remuneration.

ISA (UK) 240 Revised: changes embedded in our practices

Ongoing impact of the revisions to ISA (UK) 240

ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) The auditor's responsibilities relating to fraud in an audit of financial statements included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.

We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the Pension Fund and our assessment of the risks of material misstatement due to fraud.

Area	Our approach following the revisions
Risk assessment procedures and related activities	[1] Increased focus on applying professional scepticism – the key areas affected are: • the need for auditors not to bias their approach towards obtaining evidence that is corroborative in nature or excluding contradictory evidence, • remaining alert for indications of inauthenticity in documents and records, and • investigating inconsistent or implausible responses to inquiries performed. [2] Requirements to perform inquiries with individuals at the Pension Fund are expanded to include, amongst others, those who deal with allegations of fraud. [3] We will determine whether to involve technical specialists (including forensics) to aid in identifying and responding to risks of material misstatement due to fraud.
Internal discussions and challenge	We will have internal discussions among the audit team to identify and assess the risk of fraud in the audit, including determining the need for additional meetings to consider the findings from earlier stages of the audit and their impact on our assessment of the risk of fraud.

Newly effective standards

	Expected impact				Effective for years beginning on or after	
Standards	High	Moderate	Low	None	1 Jan 2023	1 Jan 2024
IFRS 17 Insurance Contracts, including amendments Initial Application of IFRS 17 and IFRS 9 – Comparative Information			●		✓	
Definition of Accounting Estimates – Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors		●			✓	
Disclosure Initiative: Accounting Policies – Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements			●		✓	
Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes			●		✓	
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)			●			✓
Classification of liabilities as Current or Non-Current and Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements)			●			✓

BEPS (Base erosion and profit shifting) – also called global minimum tax, is an OECD agreement to implement to global tax framework which ensures that a minimum amount of tax is paid around the world.
UK tax law implementing the OECD treaty expected to be issued later in 2023 with an effective date of 1st January 2024. IASB issued ED IAS 12 *International Tax Reform – Pillar Two Model Rules – Proposed amendments to IAS 12 income taxes* to provide a temporary exception from the recognition of deferred taxes arising from BEPS – Pillar two as well as proposes additional disclosures. Currently we would only expect qualitative disclosures about the impact of BEPS on the group and the progress the group has made in identifying any quantitative effects.

kpmg.com/uk

Cambridgeshire
Pension Fund

Pension Fund Committee

18 July 2024

Report by: Head of Pensions

Subject: Pension Fund Statement of Accounts 2023-24

Purpose of the Report: To present the Draft Statement of Accounts of the Pension Fund for the 2023-24 financial year.

Recommendations: The Pension Fund Committee:

a) Note the Draft Statement of Accounts of the Pension Fund for the 2023-24 financial year.

Enquiries to: Ben Barlow, Investments & Fund Accounting Manager
Tel – 07831 123167
E-mail – Ben.Barlow@Westnorthants.gov.uk

1. Purpose of report

1.1 To present the Draft Statement of Accounts of the Pension Fund for the 2023-24 financial year.

2. Executive summary

2.1 The report covers key highlights from the Statement of Accounts. The Fund's assets have risen to £4,731.1m, following positive performance during the year with a net increase of £499.3m. Contributions, Benefits, Management Expenses and investment income have increased since last year.

2.2 The Scheme Advisory Board issued new Annual Report Guidance for Pension Funds in March 2024. The report lays out key changes made to the annual report this year to adhere to the new guidance.

3. Report background

3.1 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 1st April to 31st March and that the SOA is free from material mis-statement.

3.2 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.

3.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued the

Code of Practice on Local Authority Accounting in the United Kingdom 2023-24 (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).

3.4 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.

3.5 The structure and content of the Annual Report is governed is governed by the new guidance issued by the Scheme Advisory Board in compliance with Regulation 57 of The Local Government Pension Scheme Regulations 2013 (as amended).

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 increase for the year was £499.3m, with the Fund's net assets rising to £4,731.1m reflecting positive performance during the year.

4.3 Contribution receipts have increased from £148.9m to £166.5m. The increase in contributions payments reflects two employers paying their 3-year deficit payments during the first year of valuation.

4.4 Benefit payments have increased from £123.5m to £138.7m. The increase in pension payments reflects the growth in the number of pensioners during the year and CPI uplifts to benefits in payment.

4.5 The Fund returned 11.7% net of fees on investments during the year, compared with a weighted benchmark return of 14.2%, resulting in a net market gain of £427.2m.

4.6 Investment income has increased from £52.6m in to £62.2m mainly due to large income distributions from JP Morgan Infrastructure, Osmosis and interest on cash deposits. Investment income is impacted by market performance however the main returns are reflected in market value increases.

5. Annual report

5.1 The Scheme Advisory Board issued new Annual Report Guidance for Pension Funds in March 2024. The purpose of new guidance is to assist local government pension funds with the preparation and publication of the pension fund annual report, as required by regulation 57 of the Local Government Pension Scheme Regulations 2013. It also aims to ensure that reporting across the scheme is consistent and provides comparable data for all funds.

5.2 The guidance applies to 2023-24 annual reports and later years. For annual reports covering 2023-24, funds have been advised to use their best endeavours to comply fully with this guidance.

5.3 The Annual Report draft is currently being finalised and will be subject to further refinement, external auditor oversight and accessibility checks and a final version for publication will be brought to the October Pension Committee.

5.4 The statutory date for publication of the Pension Funds Annual Report is 1st December.

5.5 The following terms are used for levels of compliance to the guidance:

5.5.1 Must - Compliance is strongly expected. Any non-compliance should be clearly identified in the annual report and an explanation provided.

5.5.2 Should - Compliance is anticipated but is discretionary. Where non-compliance may be significant or material for the readers the non-compliance should be identified and explained.

5.5.3 May - Compliance is recommended but is discretionary.

5.6 The Fund is making the following changes to adhere to the new guidance, categorised by the above terms:

Must	**Should**	**May**
Includes a summary of administration activities, linked to the business plan, undertaken during the year	Actions taken to deliver the communications policy	Freedom of Information Request received during the year
Additional information included on Key Performance indicators, including casework, communications and engagement, resources and data quality	More information included about the internal dispute resolution procedure (IDRP), The Pensions Ombudsman and the number of formal complaints received during the year (not through IDRP)	Table showing UK levelling up assets and % of total assets invested in levelling up assets
Further information on asset pooling and plans for the future.	Results from member and employer satisfaction surveys	
Table showing asset class split by pooled, under pooled governance and not pooled	Additional information on the roles of Committee and Board members and training that is required from each member	
Table showing UK assets split by pooled, under pooled governance and not pooled	Summary of activities carried out by Committee and Board during the year	
Net savings of pooling	Information on the Funds conflict of interest policy	

Value for Money statement	Breakdown of administration expenses	

5.7 In addition to the above, the annual report will include a summary report at the beginning of the document. This is being added to improve readability, make the report more engaging and signpost key information throughout the document.

5.8 A copy of the guidance can be found here: [Preparing the Pension Fund Annual Report - Guidance for Local Government Pension Scheme Funds (APRIL 2024) (lgpsboard.org)]

6. Relevant Pension Fund Objectives

6.1 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.

6.2 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.

6.3 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.

6.4 To continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.

6.5 To administer the Fund in a professional and efficient manner, utilising technological solutions and collaboration.

6.6 To maintain accurate records and ensure data is protected and used for authorised purposes only.

6.7 To promote the scheme as a valuable benefit.

6.8 To deliver accessible communications to stakeholders.

6.9 To provide scheme members with up-to-date information about the scheme in order that they can make informed decisions about their benefits.

6.10 To seek and review regular feedback from all stakeholders and use the feedback appropriately to shape the administration of the Fund.

7. Finance & Resources Implications

7.1 None, this paper is for information only.

8. Risk Management

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

Risk	Residual risk rating
Contributions to the Fund are not received on the correct date and/or for the correct amount	Amber
Failure to administer the scheme in line with regulations and guidance.	Green
Information may not be provided to stakeholders as required	Green
Those charged with governance are unable to fulfil their responsibilities effectively	Green
Risk of fraud or error	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
Incorrect production of accounts, notices, publications and management reports leading to possible financial and reputational damage.	Green

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

https://pensions.northamptonshire.gov.uk/governance/key-documents/cambridgeshire/

9. Communication Implications

9.1 This information only paper does not require any further communication activities.

10. Legal Implications

10.1 The production of the Annual Report is a regulatory requirement and needs to be published by 1 December. It is proposed that the Committee approves the Annual report its meeting in October to enable compliance.

10.2 No material issues have been identified which may give rise to legal liability and/or risk from an administering authority perspective. Squire Patton Boggs have conducted a review of the paper for legal implications.

11. Consultation with Key Advisers

11.1 The Pension Fund Accounts are 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 Not applicable.

13. Background Papers

13.1 Not applicable.

14. Appendices

14.1 Appendix A - Draft Statement of Accounts 2023-24

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	No.
Is this report proposing an amendment to the budget and/or policy framework?	No.
Has this report been cleared by Chief Finance Officer/Section 151 Officer?	Sarah Heywood – 10/07/2024

Has this report been cleared by Head of Pensions? Yes. Mark Whitby – 25/06/2024
Has this report been cleared by Legal Services? Emma Duncan -10/07/2024

Fund Account

31-Mar-23 £000		Notes	31-Mar-24 £000
	Dealings with members, employers and others directly involved in the fund:		
148,915	Contributions	Note 7	166,530
18,402	Transfers in from other pension funds	Note 8	23,390
167,317			**189,920**
-123,517	Benefits	Note 9	-138,653
-11,281	Payments to and on account of leavers	Note 10	-15,918
-134,798			**-154,571**
32,519	**Net additions/(withdrawals) from dealing with members**		**35,349**
-24,894	Management expenses	Note 11	-25,473
7,625	**Net additions/(withdrawals) including fund management expenses**		**9,876**
	Returns on investments:		
52,598	Investment income	Note 13	62,246
0	Taxes on income		-36
-133,859	Profit and (losses) on disposal of investments and changes in the value of investments	Notes 14a and 17b	442,319
-81,261	**Net return on investments**		**504,529**
-73,636	**Net increase/(decrease) in the net assets available for benefits during the year**		**514,405**
4,305,432	Opening net assets of the scheme		4,231,796
4,231,796	**Closing net assets of the scheme**		**4,746,201**

Notes on pages 75 to 104 form part of the financial statements.

Net Asset Statement

31-Mar-23 £000		Notes	31-Mar-24 £000
4,213,959	Investment assets		4,727,521
-2,699	Investment liabilities		-1,770
4,211,260	**Total net investments**	Note 14	**4,725,751**
26,287	Current assets	Note 21	27,851
-5,751	Current liabilities	Note 22	-7,401
20,536	**Net Current Assets**		**20,450**
4,231,796	**Closing net assets of the scheme**	Note 17a	**4,746,201**

Notes on pages 75 to 104 form part of the financial statements.

Note: The Fund's financial statements do not take account of the liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 20.

Notes to the Pension Fund Accounts

1. DESCRIPTION OF THE FUND

The Cambridgeshire County Council Fund is part of the Local Government Pension Scheme (LGPS) and is administered by Cambridgeshire County Council. The County Council is the reporting entity for this Pension Fund. The following description of the Fund is a summary only. For more detail, reference should be made to the Annual Report 2023-24 and the underlying statutory powers underpinning the scheme.

General

The Fund is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the LGPS Regulations 2013 (as amended);
- the LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended);
- the LGPS (Management and Investment of Funds) Regulations 2016;
- The Local Government Pension Scheme (Amendment) Regulations 2018.

The Fund is a contributory defined benefit pension scheme administered by Cambridgeshire County Council to provide pensions and other benefits for pensionable employees of Cambridgeshire County Council, the district councils in Cambridgeshire, and a range of other scheduled and admitted bodies within the county area. Teachers, Police Officers and Firefighters are not included as they come within other national pension schemes. The Fund is overseen by the Cambridgeshire Pension Fund Committee, which is a committee of Cambridgeshire County Council.

Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the Cambridgeshire Pension Fund include:

- Scheduled Bodies - local authorities and similar bodies whose staff are automatically entitled to be members of the Fund;
- Admitted Bodies - other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector;
- Resolution/Designated bodies – These are organisations that can admit their employees to the LGPS by passing their resolution (nominate employees for access to the LGPS) Parish/Town Council are under this category.

As at 31 March 2024 there was 197 (2023: 198) active employers within the Cambridgeshire Pension Fund, including the County Council itself.

	31-Mar-23	31-Mar-24
Number of employers with active members	198	197

The Fund has over 99,800 individual members, as detailed below:

Number of employees in scheme:	**31-Mar-23**	**31-Mar-24**
County council	9,299	9,407
Other employers	18,768	19,629
Total	**28,067**	**29,036**
Number of Pensioners:		
County council	10,003	10,310
Other employers	12,411	13,114
Total	**22,414**	**23,424**
Deferred pensioners:		
County council	15,772	16,343
Other employers	19,481	20,737
Total	**35,253**	**37,080**
Undecided Leavers:		
County council	4,525	3,971
Other employers	6,887	6,328
Total	**11,412**	**10,299**
Total members	**97,146**	**99,839**

Notes to the Pension Fund Accounts (continued)

Funding

Benefits are funded by contributions and investment earnings. Currently the level of contribution income is sufficient to fund regular benefit payments. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2024. Employers' contributions are set as part of the triennial actuarial funding valuation. The last such valuation was at 31 March 2022. Employers' contributions comprise a percentage rate on active payroll between 0% and 43.3% and deficit payments of fixed cash amounts set for each employer as part of the triennial funding valuation.

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service 1 April 2008 to 31 March 2014
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump Sum	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

Career Average Revalued Earnings (CARE)

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based upon their pensionable pay in that year at an accrual rate of 1/49th or 1/98th for those members who have taken up the 50/50 option and pay proportionately lower contributions.

Accrued pension is updated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, ill health pensions and death benefits. For more details, please refer to the Full Guide which can be found in the member section on the Pension's Fund website. [Member - Pension Details]

2. BASIS OF PREPARATION

The statement of accounts summarises the Fund's transactions for the 2023-24 financial year and its financial position at 31 March 2024. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023-24 (the Code), which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on a going concern basis.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits that fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The pension fund has opted to disclose this information in Note 20.

Notes to the Pension Fund Accounts (continued)

Going Concern

The Funding Level as per the recent triennial valuation exercise (March 2022) was 125%. The Funding Level at year ending March 2024 was 167%.

There are 344 individual active employers as at March 2024. All employers are paying their contributions as per the rates and adjustment certificate. No employer has deferred their payments. Benefits paid for the year were £139m, with contributions of £167m (subject to audit), showing a net cash inflow.

The actual annual investment return for March 2024 was 11.7% and the Fund value had increased to £4.75 billion, meaning the fund has increased by £514 million during the year. At 31 March 2024, the Pension Fund has 47% of its investments allocated to equities and 23% allocated to Bonds, with £75 million in cash, which are all assets that could be liquidated quickly to pay benefits should the need arise.

The Pension Fund has reviewed it's cash flow forecast for the going concern period to 30 March 2026. The Pension Fund has sufficient cash liquidity to meet its payments without the need to sell any investments.

The Pension Fund is satisfied that it is sufficiently liquid to conclude that it is a going concern, since the value of pension fund assets that can be liquidated at short notice if needed is £3.4 billion which significantly exceeds the annual expenditure of the fund.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. Contributions from members are set in accordance with LGPS regulations and contributions from employers are set at the percentage rate recommended by the actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due date on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Transfers to and from Other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 8 and 10).

Individual transfers in/out are accounted for on a cash basis.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipt basis and are included in Transfers In (see Note 8). Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement. There have been no group transfers in during 2022-23 and 2023-24.

Investment Income

i) Interest income

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

Notes to the Pension Fund Accounts (continued)

Investment Income (continued)

iv) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income or expense and comprise all realised and unrealised profits/losses during the year.

Fund Account – Expense Items

Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities and paid in the following month.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Management Expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund in accordance with Council policy.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. The costs of obtaining legal and consultancy advice are charged direct to the Fund. The cost of the Pool are charged direct to the Fund.

Investment Management Expenses

Investment Management expenses are accounted for on an accruals basis.

Fees of external Investment Managers and the Custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Investment fees are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported returns on investments. Where fees are netted off returns by investment managers, these expenses are grossed up to increase the change in value of investments.

Where an Investment Manager's fee note has not been received by the year end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the Fund Account. In 2023-24, £390k of fees are based upon such estimates (2022-23: £240K). In addition, manager fees deducted from pooled funds of £20.7m (2022-23: £20.1m) are based upon information received from fund managers.

Net Assets Statement

Financial Assets

Financial assets are included in the Net Assets Statement on a fair value basis, except for loans and receivables.

Loans and receivables are assets for which the amounts receivable are fixed and determinable and where the Fund has not designated the asset at fair value through profit and loss. This includes contributions owing from employers and cash deposits. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset.

Investment assets, other than cash held by Investment Managers on the Fund's behalf, are initially recognised at fair value and are subsequently measured at fair value with gains and losses recognised in the Fund Account. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 15).

Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Financial Liabilities

The Fund initially recognises financial liabilities at fair value and subsequently measure them at amortised cost. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability.

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on an annual basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (see Note 20).

Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund's AVC providers are Prudential and Utmost Life. AVCs are deducted from the individual member's pay and paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts, in accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, but are disclosed as a note only (see Note 23).

Notes to the Pension Fund Accounts (continued)

Contingent Assets and Liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of a narrative in the notes.

4. CRITICAL JUDGEMENT IN APPLYING ACCOUNTING POLICIES

Pension Fund Liability

The net Pension Fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

The estimated liability is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19.

Actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant Investment Management policies, for example in terms of the balance struck between longer term investment growth and short-term investment yield/return.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the Balance Sheet date and the amounts reported for the revenues and expenses during the year.

Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Net Assets Statement as 31 March 2024 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- **Actuarial Present Value of Promised Retirement Benefits Uncertainties:**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rates at which salaries and pensions are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. An independent firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.

- **Effect if Actual Results Differ from Assumptions:**

The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% decrease in the discount rate assumption would result in an increase in the pension liability by approximately £75m. A 0.1% increase in assumed earnings inflation would increase the value of liabilities by approximately £3m, and a 1-year increase in assumed life expectancy would increase the liability by approximately £161m. Although the example above is based on an increase, a decrease to discount rate and assumed life expectancy could also occur.

Notes to the Pension Fund Accounts (continued)

Cambridge and Counties Bank

- **Uncertainties:** Cambridge and Counties Bank is not publicly listed and as such there is a degree of estimation involved in the valuation. The Pension Fund has appointed an independent, professional valuer to advise a suitable valuation. The Fund's investment is valued on a market based approach with reference to price/earnings and price to book of comparable public companies.
- **Effect if actual results differ from assumptions:** The investment in the financial statements is £84.8m. There is a risk that this investment may be under or overstated in the accounts. As set out in the independent, professional valuation report, the valuation of the Cambridge and Counties Bank is in the range of £81.1m to £88.5m. The mid-point of this valuation range has been applied within the Fund's accounts.

Other Private Equity and Infrastructure Uncertainties:

- **Uncertainties:** All other private equity and infrastructure investments are valued at fair value. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. See Note 16a.
- **Effect if actual results differ from assumptions:** Total private equity and infrastructure investments (excluding Cambridge and Counties Bank – see above) at fair value in the financial statements are £844.8m. There is a risk that this investment may be under or overstated in the accounts. Note 18 gives a price sensitivity of Alternative investments of 23.9%, which indicates that Other private equity and infrastructure values may range from £642.9m to £1,046.7m.

6. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events since 31 March 2024, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7. CONTRIBUTIONS RECEIVABLE

By Category:

31-Mar-23 £000		31-Mar-24 £000
33,124	**Employees' contributions**	**36,248**
	Employers' contributions:	
100,571	Normal contributions	109,679
15,220	Deficit recovery contributions	21,158
0	Employers in surplus (exit credits paid)	-555
115,791	**Total employers' contributions**	**130,282**
148,915		**166,530**

By Authority:

31-Mar-23 £000		31-Mar-24 £000
31,699	Administering authority	35,202
108,666	Scheduled bodies	128,104
8,550	Admitted bodies	3,224
148,915		**166,530**

8. TRANSFERS IN FROM OTHER PENSION FUNDS

31-Mar-23 £000		31-Mar-24 £000
18,402	Individual transfers	23,390
18,402		**23,390**

Notes to the Pension Fund Accounts (continued)

9. BENEFITS PAYABLE

By category:

31-Mar-23 £000		31-Mar-24 £000
102,737	Pensions	115,544
17,863	Commutation and lump sum retirement benefits	20,353
2,917	Lump sum death benefits	2,756
123,517		**138,653**

By authority:

31-Mar-23 £000		31-Mar-24 £000
39,425	Administering authority	43,452
73,760	Scheduled bodies	84,069
10,332	Admitted bodies	11,132
123,517		**138,653**

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

31-Mar-23 £000		31-Mar-24 £000
1,053	Refunds to members leaving service	806
10,228	Individual transfers	15,112
11,281		**15,918**

11. MANAGEMENT EXPENSES

31-Mar-23 £000		31-Mar-24 £000
2,868	Administrative costs	3,010
20,968	Investment management expenses	21,345
1,058	Oversight and governance costs*	1,118
24,894		**25,473**

*Base fees payable to External Auditors, included within Oversight and Governance costs were £87k during the year (2022-23 £26k). The scale fee variation will be communicated in due course.

12. INVESTMENT MANAGEMENT EXPENSES

2023/24	Management fees £000	Performance related fees £000	Transaction costs £000	Other costs £000	Total £000
Equities	10	0	0	346	356
Bonds	38	0	0	0	38
Pooled investments	8,287	0	11	515	8,813
Pooled property investments	1,456	0	334	192	1,982
Private Equity/Infrastructure	5,793	1,958	96	2,274	10,121
Custody Fees	0	0	0	35	35
Total	**15,584**	**1,958**	**441**	**3,362**	**21,345**

2022/23	Management fees £000	Performance related fees £000	Transaction costs £000	Other costs £000	Total £000
Bonds	235	0	0	0	235
Pooled Investments	9,036	0	13	453	9,502
Pooled property investments	534	0	368	179	1,081
Private Equity/Infrastructure	5,156	3,527	154	1,274	10,111
Custody fees	0	0	0	39	39
Total	**14,961**	**3,527**	**535**	**1,945**	**20,968**

13. INVESTMENT INCOME

31-Mar-23 £000		31-Mar-24 £000
994	Income from bonds	762
0	Income from equities	4,409
27,542	Pooled investments – unit trusts and other managed funds	28,132
11,017	Pooled Property Investments	10,453
12,020	Private equity/infrastructure income	13,764
1,025	Interest on cash deposits	4,726
52,598		**62,246**

Notes to the Pension Fund Accounts (continued)

14. INVESTMENTS

31-Mar-23 £000		31-Mar-24 £000
	Investment assets	
0	Equities	320,177
197,030	Bonds	0
2,854,045	Pooled investments	3,030,883
267,510	Pooled property investments	381,638
879,370	Private equity/infrastructure	929,572
11,448	Cash deposits	60,400
	Derivatives contracts:	
4,141	· Options	0
0	· Futures	27
415	Investment income due	1,303
0	Amounts receivable for sales	3,521
4,213,959	**Total investment assets**	**4,727,521**
	Investment liabilities	
	Derivatives contracts:	
-2,699	· Options	0
0	· Futures	0
0	Amounts payable for purchases	-1,770
-2,699	**Total investment liabilities**	**-1,770**
4,211,260	**Net investment assets**	**4,725,751**

Notes to the Pension Fund Accounts (continued)

14(a). RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 01-Apr-23	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31-Mar-24
	£000	£000	£000	£000	£000
Equities	0	215,860	-194,372	298,689	**320,177**
Bonds	197,030	0	-9,708	-187,322	**0**
Pooled investments	2,854,045	891,228	-975,264	260,874	**3,030,883**
Pooled property investments	267,510	130,198	-10,237	-5,833	**381,638**
Private equity/infrastructure	879,370	82,884	-46,397	13,715	**929,572**
	4,197,955	**1,320,170**	**-1,235,978**	**380,123**	**4,662,270**
Derivative contracts:					
• Purchased/written options	1,442	1,760	0	-3,202	0
• Futures	0	6	-152	173	27
• Forward Currency Contracts	0	71	0	-71	0
	4,199,397	**1,322,007**	**-1,236,130**	**377,023**	**4,662,297**
Other investment balances:					
· Cash deposits	11,448				**60,400**
· Investment income due	415				**1,303**
· Amount receivable for sales	0				**3,521**
· Amounts payable for purchases of investments	0				**-1,770**
Net investment assets	**4,211,260**				**4,725,751**

Notes to the Pension Fund Accounts (continued)

14(a). RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES (continued)

	Market value 01-Apr-22	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31-Mar-23
	£000	£000	£000	£000	£000
Bonds	210,791	56,005	-7,795	-61,971	**197,030**
Pooled investments	2,945,943	74,471	-97,973	-68,396	**2,854,045**
Pooled property investments	301,637	19,021	-12,550	-40,598	**267,510**
Private equity/infrastructure	799,689	112,735	-70,504	37,450	**879,370**
	4,258,060	**262,232**	**-188,822**	**-133,515**	**4,197,955**
Derivative contracts:					
• Purchased/written options	8,690	32,114	-39,013	-349	**1,442**
	4,266,750	**294,346**	**-227,835**	**-133,864**	**4,199,397**
Other investment balances:					
· Cash deposits	19,850				**11,448**
· Investment income due	286				**415**
· Amount receivable for sales	849				**0**
· Amounts payable for purchases of investments	-35				**0**
Net investment assets	**4,287,700**				**4,211,260**

Notes to the Pension Fund Accounts (continued)

14(b). INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31-Mar-23 £000	% of net investment assets		Market value 31-Mar-24 £000	% of net investment assets
Investments managed under Pool Governance:				
1,687,761	40.0	Waystone Management Limitied	1,763,383	37.3
0	0.0	Aviva Investors	98,376	2.1
0	0.0	IFM Infrastructure	91,805	1.9
0	0.0	JP Morgan	75,653	1.6
0	0.0	Osmosis Investment Management	321,415	6.8
884,740	21.0	UBS Global Asset Management	1,171,181	24.9
2,572,501	**61.0**	**Total Investments managed under Pool Governance**	**3,521,813**	**74.6**
Investments managed outside Pool Governance:				
200,494	4.8	Adams Street Partners	216,430	4.6
14,084	0.3	Allianz Global Investors	14,305	0.3
43,061	1.0	Ares Management	28,630	0.6
186,233	4.4	BlueBay Asset Management	0	0.0
69,700	1.7	Cambridge and Counties Bank	84,800	1.8
15,000	0.4	Cambridge Building Society	15,000	0.3
31,132	0.7	Equitix Investment Management	31,046	0.7
43,089	1.0	Foresight Group	58,340	1.2
191,922	4.6	HarbourVest Partners (UK)	216,387	4.6
88,116	2.1	IFM Infrastructure	0	0.0
75,350	1.8	JP Morgan	0	0.0
66,872	1.6	M&G Investments	74,499	1.6
73,198	1.7	M&G Real Estate	107,480	2.3
41,131	1.0	Partners Group (UK)	34,510	0.7
469,831	11.2	Schroders Investment Management	274,908	5.8
9,122	0.2	UBS Infrastructure	6,316	0.1
20,424	0.5	Cash with custodian	41,287	0.9
1,638,759	**39.0**	**Total Investments managed outside Pool Governance**	**1,203,938**	**25.5**
4,211,260	**100.0**	**Net investment assets**	**4,725,751**	**100.1**

All the above companies are registered in the United Kingdom.

The following investments represent more than 5% of the net assets of the scheme as at 31st March 2024.

Security	31-Mar-23	% of total fund	31-Mar-24	% of total fund
	£000	%	£000	%
UBS Asset Management Life LTD - Life Climate Aware World Equity (Hedged)	0	0.0	**765,982**	**16.2**
UBS Asset Management Life LTD - Over 5 years Index Linked Gilts Tracker	0	0.0	**401,647**	**8.5**
WS ACCESS Total Return Credit - BlueBay	0	0.0	**307,872**	**6.5**
WS ACCESS Alpha Opportunities - M&G	0	0.0	**295,681**	**6.2**
WS ACCESS Global Stock - Dodge and Cox	575,434	13.6	**385,944**	**8.2**
WS ACCESS Global Equity - J O Hambro	470,975	11.1	**422,985**	**8.9**
WS ACCESS Global Equity - Longview	438,535	10.4	**350,900**	**7.4**
	1,484,944		**2,931,011**	

15. ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

•Forward foreign currency

The Fund's Investment Managers may enter into forward foreign currency contracts to secure current exchange rates in order to reduce the volatility associated with fluctuating currency rates.

There were no open forward currency contracts at 31 March 2024 or 31 March 2023. There is no specified requirement to use currency hedging within the Fund's Investment Management Agreements. Instead, the Fund managers use their discretion as to whether or not any currency hedging should be used to mitigate any potential risk.

Notes to the Pension Fund Accounts (continued)

•Options

In order to minimise the risk of loss of value through adverse equity price movements, equity option contracts can protect the Fund from falls in value in its main investment markets, principally the UK, USA and Europe.

Investment underlying option contract	Expires	Put/Call	Notional Holdings	31-Mar-23	Notional Holdings	31-Mar-24
Assets				**£000**		**£000**
Overseas equity purchased	One to three months	Put	149,636	4,141	0	0
Total assets				**4,141**		**0**
Liabilities						
Overseas equity written	One to three months	Put	-192,388	-556	0	0
Overseas equity written	One to three months	Call	-149,636	-2,143	0	0
Total liabilities				-2,699		0
Net purchased/written options				**1,442**		**0**

• Futures

The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements.

Type	Expires	Economic exposure	Market Value as at 31/03/2023	Economic exposure	Market Value as at 31/03/2024
Assets					
UK Equity Futures	Less than one year	0	0	160	6
Overseas Equity Futures	Less than one year	0	0	846	21
Total Assets					**27**
Total Liabilites		**0**	**0**	**0**	**0**
Net Futures					**27**

16. FAIR VALUE

Valuation of Financial Instruments Carried At Fair Value

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values.

Transfers between levels are recognised in the year in which they occur. The Fund has adopted the classification guidelines recommended in the Practical Guidelines on Investment Disclosures (PRAG/Investment Association, 2016).

Level 1 Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts.

Level 2 Assets and liabilities at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value. The price used is based upon inputs from observable market data.

Level 3 Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the Cambridgeshire Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines 2022, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

16a. Fair value hierarchy

The following tables provides an analysis of the financial assets at fair value through profit and loss of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable:

Value at March 2024	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss	**£000**	**£000**	**£000**	**£000**
Equites	320,177	0	0	**320,177**
Bonds	0	0	0	**0**
Pooled Investments	25,373	3,005,510	0	**3,030,883**
Pooled Property Investments	0	0	381,638	**381,638**
Private Equity/Infrastructure	0	0	929,572	**929,572**
Derivatives	27	0	0	**27**
Net Investment Assets	**345,577**	**3,005,510**	**1,311,210**	**4,662,297**

Value at March 2023	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss	**£000**	**£000**	**£000**	**£000**
Bonds	197,030	0	0	**197,030**
Pooled Investments	28,440	2,825,605	0	**2,854,045**
Pooled Property Investments	0	0	267,510	**267,510**
Private Equity/Infrastructure	0	0	879,370	**879,370**
Derivatives	0	4,141	0	**4,141**
Net Investment Assets	**225,470**	**2,829,746**	**1,146,880**	**4,202,096**

Notes to the Pension Fund Accounts (continued)

All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.
The fair valuation of each class of investment asset is set out below.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Quoted Equities	Level 1	The published bid market price on the final day of the accounting period	Not required	Not required
Cash and cash equivalents	Level 1	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Futures	Level 1	Published exchange price at the year-end	Not required	Not required
Pooled investments – not exchange traded open ended funds	Level 2	Closing bid and offer prices are published. Closing single price where a single price is published	NAV based pricing set on a forward pricing basis.	Not required
Unquoted bonds and unit trusts	Level 2	Average of broker prices	Evaluated price feeds.	Not required
Pooled Property	Level 3	Valued by investment managers on a fair value basis each year using PRAG guidance	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date.
Private equity and infrastructure- equity	Level 3	Comparable valuation of similar companies	Price/Earnings or EBITDA multiple	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date.
Private equity and infrastructure - other	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2022)	Share of net assets	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, and by any differences between audited and unaudited accounts.

Notes to the Pension Fund Accounts (continued)

Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisers, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2024.

Asset Type	Market Value as at 31-Mar-24 £000	Assessed valuation range (+/-)	Value on Increase £000	Value on Decrease £000
Pooled property investments	381,638	15.6	441,174	322,102
Private equity and infrastructure - equity	84,800	4.4	88,500	81,100
Private equity and infrastructure - other	844,772	23.9	1,046,673	642,871
Total Assets	**1,311,210**		**1,576,346**	**1,046,074**

16(b) RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2023-24	Market value 01-Apr-23 £000	Transfers in/out of Level 3 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Unrealised gains/(losses) £000	Realised gains/(losses) £000	Market value 31-Mar-24 £000
Pooled property investments	267,510	0	130,198	-10,237	-6,373	540	381,638
Private equity and infrastructure - equity	69,700	0	0	0	15,100	0	84,800
Private equity and infrastructure - other	809,670	0	82,884	-46,397	-16,947	15,562	844,772
Total	**1,146,880**	**0**	**213,082**	**-56,634**	**-8,220**	**16,102**	**1,311,210**

Notes to the Pension Fund Accounts (continued)

17. FINANCIAL INSTRUMENTS

17a. Classification of financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading.
No financial assets were reclassified during the year.

31-Mar-23				31-Mar-24		
Fair value through profit and loss	Loans and receivables	Financial Liabilities		Fair value through profit and loss	Loans and receivables	Financial Liabilities
£000	£000	£000		£000	£000	£000
			Financial assets			
0	0	0	Equities	320,177	0	0
197,030	0	0	Bonds	0	0	0
2,854,045	0	0	Pooled investments	3,030,883	0	0
267,510	0	0	Pooled property investments	381,638	0	0
879,370	0	0	Private equity/Infrastructure	929,572	0	0
4,141	0	0	Derivative contracts	27	0	0
0	25,360	0	Cash	0	74,544	0
0	415	0	Other investment balances	0	4,824	0
0	12,375	0	Debtors	0	13,707	0
4,202,096	**38,150**	**0**		**4,662,297**	**93,075**	**0**
			Financial liabilities			
0	0	-2,699	Derivative contracts	0	0	0
0	0	0	Other investment balances	0	0	
0	0	-5,751	Creditors	0	0	-9,171
0	**0**	**-8,450**		**0**	**0**	**-9,171**
4,202,096	**38,150**	**-8,450**		**4,662,297**	**93,075**	**-9,171**
		4,231,796	**Total**			**4,746,201**

17b. Net Gains and Losses on Financial Instruments

31-Mar-23 £000		31-Mar-24 £000
	Financial assets:	
-133,515	Fair value through profit and loss	380,123
5	Loans and receivables	65,658
	Financial liabilities measured at amortised cost	
	Financial liabilities:	
-349	Fair value through profit and loss	-3,100
0	Loans and receivables	-362
0	Financial liabilities measured at amortised cost	
-133,859	**Total gains/(losses)**	**442,319**

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall Pension Fund Risk Management Programme.

Responsibility for the Fund's Risk Management Strategy rests with the Pension Fund Committee. Risk Management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions. Risk Strategy Statement

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's Risk Management Strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. The Fund entered into derivative contracts to manage the overweight in equities compared to the strategic allocation.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund Investment Strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisers, the Council has determined that the following movements in market price risk would have reasonably been possible for the 2023-24 reporting period.

The sensitivities are consistent with the assumptions contained in the investment adviser's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset Type	Potential Market Movement +/- (%p.a.)
UK equities	16.0
Global equities	16.7
Index linked bonds	7.1
Pooled fixed interest bonds	7.0
Multi asset credit	7.1
Property	15.6
Cambridge and Counties Bank	4.4
Alternatives	23.9
Cash and other investment balances	0.3

Notes to the Pension Fund Accounts (continued)

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows:

31-Mar-24 Asset Type	Value as at 31-Mar-24 £000	% (rounded) Change	Value on Increase £000	Value on Decrease £000
UK equities	**11,951**	16.0	13,863	10,039
Global equities	**2,234,037**	16.7	2,607,121	1,860,953
Index linked bonds	**401,647**	7.1	430,164	373,130
Pooled fixed interest bonds	**74,499**	7.0	79,714	69,284
Multi asset credit	**603,554**	7.1	646,406	560,702
Property	**381,638**	15.6	441,174	322,102
Cambridge and Counties Bank	**84,800**	4.4	88,500	81,100
Alternatives	**844,772**	23.9	1,046,673	642,871
Cash and other investment balances	**88,853**	0.3	89,120	88,586
Total Assets	**4,725,751**		**5,442,734**	**4,008,768**

31-Mar-23 Asset Type	Value as at 31-Mar-23 £000	% (rounded) Change	Value on Increase £000	Value on Decrease £000
UK equities	**81,468**	18.2	96,295	66,641
Overseas equities	**2,288,216**	19.0	2,722,977	1,853,455
Index linked bonds	**197,030**	8.9	214,566	179,494
Pooled fixed interest bonds	**66,872**	7.5	71,887	61,857
Multi asset credit	**389,050**	7.8	419,396	358,704
Property	**267,510**	15.5	308,974	226,046
Cambridge and Counties Bank	**69,700**	4.2	72,600	66,800
Alternatives	**809,670**	24.0	1,003,991	615,349
Cash and Other investment balances	**41,744**	0.3	41,869	41,619
Total Assets	**4,211,260**		**4,952,555**	**3,469,965**

Notes to the Pension Fund Accounts (continued)

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Council and its investment consultant in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. The Fund's direct exposure to interest rate movements as at 31 March 2024 and 31 March 2023 is set out to the right. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. An 80 basis point (BPS) (i.e. 0.80%) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment consultant has advised that long-term average rates are expected to move less than 80 basis points from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS (1.0%) change in interest rates:

31-Mar-23 £000	Asset Type	31-Mar-24 £000
11,448	Cash and cash equivalents	60,400
13,912	Cash balances	14,144
197,030	Index-linked securities	401,647
455,922	Fixed interest securities	678,053
678,312	**Total**	**1,154,244**

Exposure to interest rate risk	Asset values 31-Mar-24 £000	Impact of 1% decrease £000	Impact of 1% increase £000
Cash and cash equivalents	**60,400**	60,400	60,400
Cash balances	**14,144**	14,144	14,144
Index-linked securities	**401,647**	405,663	397,631
Fixed interest securities	**678,053**	684,834	671,272
Total change in assets available	**1,154,244**	**1,165,040**	**1,143,448**

Exposure to interest rate risk	Asset values 31-Mar-23 £000	Impact of 1% decrease £000	Impact of 1% increase £000
Cash and cash equivalents	**11,448**	11,448	11,448
Cash balances	**13,912**	13,912	13,912
Index-linked securities	**197,030**	199,000	195,060
Fixed interest securities	**455,922**	460,481	451,363
Total change in assets available	**678,312**	**684,841**	**671,783**

Notes to the Pension Fund Accounts (continued)

Exposure to interest rate risk	**Interest receivable 2023-24 £000**	**Value on 1% increase £000**	**Value on 1% decrease £000**
Cash deposits, cash and cash equivalents	**4,726**	4,773	4,679
Index-linked securities	**762**	770	754
Fixed interest securities	**10,158**	10,260	10,056
Total	**15,646**	**15,802**	**15,490**

Exposure to interest rate risk	**Interest receivable 2022-23 £000**	**Value on 1% increase £000**	**Value on 1% decrease £000**
Cash deposits, cash and cash equivalents	**1,025**	1,035	1,015
Index-linked securities	**994**	1,004	984
Fixed interest securities	**6,689**	6,756	6,622
Total	**8,708**	**8,795**	**8,621**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of the assets and the income received from investments impact on the net assets available to pay benefits.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than GBP.

The Fund's currency rate risk is routinely monitored by the Investment Sub Committee and its investment advisers in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The Fund partially hedges its currency exposures on equity investments by transferring into currency hedged share classes of its passive equity funds.

Notes to the Pension Fund Accounts (continued)

Currency risk – sensitivity analysis

Following analysis of historical data with the Fund's advisers, the Council considers the likely volatility associated with foreign exchange rate movements to be 9.3% (the 1 year expected standard deviation). A 9.3%(31 March 2023: 9.9%) fluctuation in the currency is considered reasonable based on the Fund adviser's analysis of long-term historical movements in the month-end exchange rates over a rolling 36 month period. This analysis assumes that all other variables, in particular interest rates, remain constant. A 9.3% strengthening/weakening of the pound against the various currencies in which the fund holds investments would decrease/increase the net assets available to pay benefits as follows.

Assets exposed to currency risk	Value at 31-Mar-24 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Overseas equities - Hedged	**765,983**	0	765,983	765,983
Overseas equities - Unhedged	**1,468,054**	136,529	1,604,583	1,331,525
Overseas fixed income	**382,371**	35,561	417,932	346,810
Overseas cash fund	**8,656**	805	9,461	7,851
Total	**2,625,064**	**172,895**	**2,797,959**	**2,452,169**

Assets exposed to currency risk	Value at 31-Mar-23 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Overseas equities - Hedged	**513,465**	0	513,465	513,465
Overseas equities - Unhedged	**1,774,751**	175,700	1,950,451	1,599,051
Overseas fixed income	**455,922**	45,136	501,058	410,786
Overseas cash fund	**11,941**	1,182	13,123	10,759
Total	**2,756,079**	**222,018**	**2,978,097**	**2,534,061**

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipts that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties. Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectible deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2024 was £74.5m (31 March 2023: £25.4m). This was held with the following institutions:-

	Rating	31-Mar-23 £000	31-Mar-24 £000
Money market funds			
Northern Trust Global Investors Global Cash Fund	AAAm	1	0
Bank deposit account			
NatWest Bank	A-1	13,912	14,144
Bank current accounts			
Northern Trust custody accounts	A-1+	11,447	60,400
Total		**25,360**	**74,544**

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The Fund has immediate access to its cash holdings, with the exception of holdings that are for a fixed term when the deposit is placed. The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2024 the value of illiquid assets was £1,331.2m, which represented 27.6% of the total Fund assets (31 March 2023: £1,147m, which represented 27.2% of the total Fund assets).

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy. All financial liabilities at 31 March 2024 are due within one year.

d) Refinancing risk

A key risk for a Pension Fund is that it may be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

19. FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2022. The next valuation will take place as at 31 March 2025 and will be published in 2026.

The key elements of the funding policy are:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient Funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent Funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a maximum period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. Where an employer's funding level is less than 100%, a deficit recovery plan is put in place requiring additional contributions from the employer to meet the shortfall.

At the 2022 actuarial valuation, the Fund was assessed as 125% funded (100% at the March 2019 valuation). This corresponded to a surplus of £860m (2019 valuation: deficit of £11m) at that time.

The Contribution Objective is achieved by setting employer contributions which are likely to be sufficient to meet both the cost of new benefits accruing and to address any funding deficit relative to the funding target over the agreed time horizon. A secondary objective is to maintain where possible relatively stable employer contribution rates. For each employer in the Fund, to meet the Contribution Objective, a primary contribution rate has been calculated in order to fund the cost of new benefits accruing in the Fund. Additionally, if required, a secondary contribution rate has also been calculated to target a fully funded position within the employer's set time horizon.

The table below summarises the whole fund Primary and Secondary Contribution rates at the 2022 triennial valuation. These rates are the payroll weighted average of the underlying individual employer primary and secondary rates, calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate %	Secondary Rate £		
1 April 2023 to 31 March 2026	2023-2024	2024-2025	2025-2026
18.4%	£16,449,000	£14,485,000	£13,144,000

The Primary rate above includes an allowance of 0.8% of pensionable pay for the Fund's expenses. The average employee contribution rate is 6.4% of pensionable pay. Full details of the contribution rates payable can be found in the 2022 actuarial valuation report and the funding strategy statement on the Fund's website.

Notes to the Pension Fund Accounts (continued)

Basis of valuation

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

Financial assumptions

A summary of the main financial assumptions adopted for the valuation of members' benefits are shown below.

Assumption	31-Mar-19	31-Mar-22
Price Inflation (CPI)/ Pension increases	2.3%	2.7%
Pay increases	2.8%	3.2%
Discount rate	4.1%	4.9%

Mortality assumptions

Future life expectancy based on the actuary's fund-specific mortality review was:

Assumed life expectancy at age 65	Active and Deferred Members Male	Active and Deferred Members Female	Current Pensioners Male	Current Pensioners Female
2019 valuation	22.7	25.5	22.0	24.0
2022 valuation	22.8	26.1	22.0	24.6

Note that the figures for active and deferred members assume that they are aged 45 at the valuation date.
Various scaling factors have been applied to the mortality tables to reflect the predicted longevity for each class of member and their dependants.

Other demographic valuation assumptions:

a) Retirements in ill health - Allowance has been made for ill-health retirements before Normal Pension Age.
b) Withdrawals - Allowance has been made for withdrawals from service.
c) Retirement age - The earliest age at which a member can retire with their benefits unreduced
d) Death in Service - Allowance has been made for death in service.
e) Promotional salary increases – Allowance has been made for promotional salary increases.
f) Family details - A varying proportion of members are assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. The dependant of a male member is assumed to be 3 years younger than him and the dependent of a female member is assumed to be 3 years older than her.
g) Commutation - 51% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits.
h) 50:50 option - 1.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

20. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19). The actuary has also used valued ill health and death benefits in line with IAS 19.

31-Mar-23		31-Mar-24
£m		£m
-3,953	Present value of promised retirement benefits	-4,018
4,232	Fair value of scheme assets (bid value)	4,746
279	**Net (Liability) / Asset**	**728**

As noted above, the liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2022 triennial funding valuation (see Note 19) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

Assumptions used

31-Mar-23 % p.a.	Assumption	31-Mar-24 % p.a.
2.95	Inflation/pension increase rate assumption	2.75
3.45	Salary increase rate	3.25
4.75	Discount rate	4.85

Notes to the Pension Fund Accounts (continued)

21. CURRENT ASSETS

31-Mar-23 £000		31-Mar-24 £000
	Debtors:	
2,007	Contributions Due – Members	2,092
5,076	Contributions Due – Employers	6,167
5,292	Sundry Receivables	5,448
12,375		**13,707**
13,912	Cash Balances	14,144
24,465		**14,144**
26,287		**27,851**

22. CURRENT LIABILITIES

31-Mar-23 £000		31-Mar-24 £000
4,892	Sundry Payables	5,928
859	Benefits Payable	1,473
5,751		**7,401**

23. ADDITIONAL VOLUNTARY CONTRIBUTIONS

31-Mar-23 £000		31-Mar-24 £000
8,489	Prudential	8,000
275	Utmost	285
8,764		**8,285**

Total contributions of £1,014K (2022-23: £735K) were paid directly to Prudential during the year. No new contributions were paid to Upmost during the year, as it is a closed arrangement.

24. AGENCY

Agency Services represent activities administered by the Fund on behalf of scheme employers which are not included within the Fund Account but are provided as a service and are fully reclaimed from the employer bodies.

31-Mar-23 £000		31-Mar-24 £000
3,377	Unfunded pensions	3,582
3,377		**3,582**

Notes to the Pension Fund Accounts (continued)

25. RELATED PARTY TRANSACTIONS

Cambridgeshire County Council

The Cambridgeshire County Council Pension Fund is administered by Cambridgeshire County Council. Consequently there is a strong relationship between the Council and the Fund. The Council incurred costs of £3.4m (2022-23: £2.9m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

The Council is also the single largest employer of members of the Pension Fund and contributed £35.2m, excluding Local Education Authority schools, to the Fund in 2023-24 (2022-23: £31.7m). At 31 March 2024 there was £4.4m (31 March 2023: £7.1m) due to the Fund by the Council.

Governance

The following members of the Pension Fund Committee declared a personal interest due to either being a member of the scheme themselves or having a family member in the scheme.

Councillor Whelan, Matthew Pink, Howard Nelson and Liz Brennan.

The following member are on the Board of an employer body in the Pension Fund:

Councillor Boden

County Council members have declared their interests in their Register of Members' Interests. Other members of the Pension Fund Committee are required to declare their interests at each meeting.

Cambridge and Counties Bank

The Fund is joint owner, along with Trinity Hall, Cambridge, of Cambridge and Counties Bank (CCB). The Fund has no controlling interest in the Bank and it is included within the Fund's financial statements as a minority interest. Each shareholder is entitled to appoint one shareholder Non Executive Director to the Board of CCB. The Fund is represented by an external party to the Pension Fund (See Note 5).

ACCESS Pool

The Fund is working with ten like-minded LGPS funds to implement the ACCESS asset pool in response to the Government's LGPS reform agenda. On 31 March 2024, the Cambridgeshire Fund had invested £1,861.8m in the ACCESS pool and £1,660.1m under pooled management resulting in pooled assets of £3,521.8m, representing 74.8% of the Fund's assets.

During 2023-24 a total of £146.1k was charged to the Pension Fund by ACCESS asset pool in respect of operating costs (£106.9k in 2022-23).

25(a) KEY MANAGEMENT PERSONNEL

The administration of the Fund is provided by West Northamptonshire Council in partnership with Cambridgeshire County Council. The Head of Pensions reports directly to Assistant Director of Finance at West Northamptonshire Council, whose costs are reported in the West Northamptonshire Council statement of accounts. Other key personnel include the Cambridgeshire Section 151 Officer, who is Treasurer to the Fund. The Section 151 Officer is remunerated for their services to the organisation as a whole and it is not possible to identify within the overhead charge from the proportion of costs relating to these services to the Fund.

Notes to the Pension Fund Accounts (continued)

26. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding contractual commitments at 31 March 2024 totalled £249.9m (31 March 2023: £313.8m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between three and fifteen years from the date of each original commitment.

6 admitted body employers in the Cambridgeshire Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default, and usually only in the event of premature cessation.

A scheme employer may become an exiting employer when a cessation event is triggered. The LGPS regulations states that, where an employing authority ceases to be a scheme employer, the administrating authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date to identify whether cessation deficits or surplus exist. The regulations also state that where a cessation surplus exists, the Fund has full discretion over the extent to which any surplus results in the payment of an exit credit to the existing employer. The policy over the Fund's discretion at employer cessations can be found on our Cessation Policy.

The following table shows the open cessation cases as at 31/03/2024, which were possible to results in the payment of an exit credit, with the current progresses.

Existing employer	Case status	Exit Date	Cessation surplus	Exit credit value	Case progress details
Sanctuary Housing Group	Complete	31/05/2023	£2,337,000	£2,337,000	Exit credit was determined on 15/04/2024 and paid in April and June 24
Cross Keys Homes	Complete	30/04/2023	£1,655,000	£1,655,000	Exit credit was determined on 16/04/202 and paid in April 24.
Churchill (Cambs City Council)	Complete	31/03/2022	£732,000	Nil	Exit credit was determined to be Nil on 14/05/2024
Churchill (Cambs City Council)	Complete	31/03/2022	£732,000	Nil	Exit credit was determined to be Nil on 14/05/2024
Clarion Housing Group	On-going	30/11/2023	£2,339,000	TBC	Fund's determination process over exit credit is not yet complete.
Wimblington Parish Council	On-going	31/01/2024	£5,700	TBC	Fund's determination process over exit credit is not yet complete.
Goshen Multiservices (Lot2)	On-going	31/03/2024	TBC	TBC	Cessation valuation is not yet complete
Aspens (Sacred Heart)	On-going	25/02/2024	£4,500	TBC	Fund's determination process over exit credit is not yet complete.

Cambridgeshire Pension Fund Committee/Investment Sub Committee Agenda Plan

Meeting Date	Agenda item	Lead officer
July 2024 PFC	Multiple Investment Strategies	C Blose
	Audit Plan	B Barlow
	Annual Report and Statement of Accounts	B Barlow
	LGPS Efficiencies Response to Government	M Whitby
	Annual Investment Review exempt	B Barlow
	Annual Investment Consultancy Provider Review exempt	B Barlow
October 2024 PFC	Administration Report [standing item]	M Oakensen
	Business Plan Update [standing item]	M Whitby
	Governance and Compliance Report [standing item]	M Oakensen
	Employer Admission and Cessation Report [standing item]	C Blose
	Code of Practice compliance and action plan [review]	M Oakensen
	Cambridgeshire Pension Fund Committee Effectiveness Review	M Oakensen
	Dashboard Update & Matching Criteria Policy	M Oakensen
	Overpayment of Pension Entitlement Policy	M Oakensen
	AVC Framework Review	M Oakensen
	ACCESS Update [standing item] exempt	M Whitby

December 2024 PFC	Administration Report [standing item]	M Oakensen
	Business Plan Update [standing item]	M Whitby
	Governance and Compliance Report [standing item]	M Oakensen
	Employer Admission and Cessation Report [standing item]	C Blose
	Annual Report and Statement of Accounts [to note]	B Barlow
	External audit plan [to note]	B Barlow
	Training Strategy	M Oakensen
	EDI Policy	M Oakensen
	Admission Bodies, Scheme Employers and Bulk Policy [approval]	C Blose
	Cyber Strategy	M Oakensen
	Risk Strategy [approval]	M Oakensen
	Risk Monitoring [standing item] exempt	M Oakensen
	ACCESS Update [standing item] exempt	M Whitby
March 2025 PFC	Administration Report [standing item]	M Oakensen
	Governance and Compliance Report [standing item]	M Oakensen
	Business Plan Update [standing order]	M Whitby
	Annual Business Plan and Medium-Term Strategy [to approve]	M Whitby
	Employer Admission and Cessation Report [standing item]	C Blose
	Communication Plan	C Blose
	Payment of Employee and Employer Pension Contributions Policy [approval]	F Coates

	Investment Strategy Statement	B Barlow
	Multiple Investment Strategies	B Barlow
	Anti-Fraud and Corruption Policy [approval]	M Oakensen
	ACCESS Update [standing item] exempt	M Whitby

Agenda Item No: 8

Cambridgeshire Pension Fund

Pension Fund Committee

18 July 2024

Report by: Head of Pensions

Subject:	LGPS Efficiencies Response to Government
Purpose of the Report:	To note the draft Minister's response on efficiencies in Local Government Pension Scheme (LGPS) funds
Recommendations:	The Pension Fund Committee: a) Note the report
Enquiries to:	Ben Barlow, Investments & Fund Accounting Manager Tel – 07831 123167 E-mail – Ben.Barlow@Westnorthants.gov.uk

1 Executive summary

1.1 The Fund has produced a draft response on efficiencies in local government and the management of LGPS Funds (at Appendix A) to a letter received from the Minister for Local Government (Appendix B).

2 Report background

2.1 The Chief Executive and Section 151 Officers of the administering authorities of the LGPS received a letter dated 15th May 2024 from the Minister for Local Government (at Appendix B), requesting information regarding each authority's approach to efficiencies in the management, governance, and administration of the funds.

2.2 Despite entering an election period, the LGPS community has been advised to respond to the Minister's letter.

2.3 The response at Appendix A represents the views of Cambridgeshire County Council, administering authority to the Cambridgeshire Pension Fund and has been approved by the Council's Section 151 Officer and Chief Executive.

3 Efficiencies in local government and the management of LGPS funds

3.1 The Minister asked how the Cambridgeshire Fund will complete the process of pension asset pooling to deliver the benefits of scale.

3.1.1 The Cambridgeshire Fund has already completed the pooling of 100% of its listed assets.

3.1.2 The Fund has also pooled or placed under pool governance certain non-listed assets including infrastructure and long-lease real estate. It has plans to transition its UK core real estate and new private equity commitments to the pool.

3.1.3 The Fund has already/will shortly benefit from ACCESS reporting services including performance reporting for active listed sub-funds and passive mandates, performance reporting for pool aligned non-listed assets, ClearGlass cost savings analysis, and manager reporting and presentations.

3.1.4 Responsible Investment reporting is under development at ACCESS alongside consideration of a Voting and Engagement adviser.

3.1.5 The Fund has spent £399.5k in 2023/24 on investment consultancy advice, representing under 1 bps of total Assets Under Management (AUM).

3.2 The Minister also asked how the Fund ensures it is efficiently run, including consideration of governance and the benefits of scale.

3.2.1 The shared service under a lead authority model has provided strong governance arrangements which have been mirrored across the two funds. These arrangements are scrutinised by the Fund's governance bodies.

3.2.2 Voluntarily operating the management and administration of the Fund on a shared service basis in partnership with WNC has led to long-term savings and efficiencies that did not require merger.

3.2.3 Procurement activity has been undertaken to procure the same supplier for each fund, sometimes under a single contractual relationship. This has enabled the Fund to obtain both competitive fees due to scale and contractual fee reductions in situations where the same piece of work is undertaken for both funds at the same time.

3.2.4 The Fund has a strong relationship with the ACCESS asset pool and has a representative sitting on the ACCESS Joint Committee, an appropriate avenue for holding the pool to account.

3.3 The full responses can be found in Appendix A.

4 Finance and Resources Implications

4.1 There are no direct resources or financial implications arising from this paper.

5 Risk Management

5.1 The mitigated risks associated with this report has been captured in the Fund's risk register as detailed below –

Risk	Residual risk rating
The Fund does not meet the proposed timeframe to pool assets, by March 2025, and/or is unable to adequately "comply or explain" why assets remain outside the pool.	Amber
Failure to understand and monitor risk and compliance	Green
Those charged with governance are unable to fulfil their responsibilities effectively.	Green
Failure to administer the scheme in line with regulations and guidance.	Green
Failure to provide relevant information to the Pension Fund Committee/Local Pension Board to enable informed decision making.	Green

5.2 The Fund's full risk register can be found on the Fund's website at the following link: https://pensions.northamptonshire.gov.uk/governance/key-documents/cambridgeshire/

6 Communication Implications

6.1 The Fund will send the response to the Department for Levelling Up, Housing and Communities.

7 Legal Implications

7.1 No material issues have been identified which may give rise to legal liability and/or risk from an administering authority perspective.

8 Consultation with Key Advisors

8.1 Not Applicable.

9 Alternative Options Considered

9.1 Not applicable.

10 Background Papers

10.1 Not applicable.

11 Appendices

11.1 Appendix A - Response on efficiencies in local government and the management of LGPS funds

11.2 Appendix B - Efficiencies in LGPS Letter from the Minister for Local Government

Checklist of Key Approvals

Has this report been cleared by Section 151 Officer? Sarah Heywood – 10/07/2024
Has this report been cleared by Head of Pensions? Mark Whitby – 25/06/2024
Has this report been cleared by Monitoring Officer? Emma Duncan -10/07/2024

Date: 27.06.24
Contact: Michael Hudson
Telephone: 01223 699013
Email: michael.hudson@cambridgeshire.gov.uk

Cambridgeshire County Council

Finance & Resources Directorate

New Shire Hall, Emery Crescent

Enterprise Campus, Alconbury Weald

Huntingdon PE28 4YE

LGF Pensions Team
Department for Levelling Up, Housing and Communities
2nd Floor
Fry Building
2 Marsham Street
London
SW1P 4DF

Dear Sir/Madam,

Efficiencies in local government and the management of LGPS funds

Thank you for your letter of 15 May 2024 and for the opportunity for Cambridgeshire County Council to set out its approach to efficiencies in the management, governance and administration of the Cambridgeshire Pension Fund.

1. **How the Cambridgeshire Fund will complete the process of pension asset pooling to deliver the benefits of scale.**

The Cambridgeshire Fund, a member of the ACCESS asset pool, has already completed the pooling of 100% of its listed assets.

The Fund has also pooled or placed under pool governance certain non-listed assets including infrastructure and long-lease real estate. It has plans to transition its UK core real estate allocation to a UK direct real estate portfolio within ACCESS and will redirect new private equity commitments to the pool when this asset class is made available.

The total assets pooled or under pool governance as at 31st March 2024 is 74.8%.

The Fund has already/will shortly benefit from ACCESS reporting services including performance reporting for active listed sub-funds and passive mandates, performance reporting for pool aligned non-listed assets, ClearGlass cost savings analysis, and manager reporting and presentations. Responsible Investment reporting is under development alongside consideration of a Voting and Engagement adviser.

ACCESS does not advise the Fund on investment strategies, and such advice would raise concerns around conflicts of interest, priorities of advice and fiduciary responsibility. The Fund, like the majority of respondents to the 2023 consultation, opposed the proposal of Pools advising funds on investment strategies.

The Fund has spent £399.5k in 2023/24 on investment consultancy advice, representing under 1 bps of total Assets Under Management (AUM).

ACCESS has an effective, modern governance structure in place based around a third-party FCA regulated ACS operator at the heart of the pool, alongside a third-party Investment Manager for passive investments and a third-party implementation adviser for non-listed assets.

The use of third parties has distinct advantages over "built" pool models, including:

- The market can be retested at regular intervals ensuring service, performance, risk management, oversight etcetera remain best in class over time.
- This model avoids conflicts of interest inherent in the "built" pool model such as those related to the performance of in-house investment managers being assessed by the in-house operator function responsible for hiring and firing.

ACCESS has a cohesive structure for day-to-day activity with an efficient centralised support unit overseen by subject matter experts within an Officer Working Group, supplemented by a s151 Officers Group, and a Joint Committee who meet around six times a year or more frequently if required.

ACCESS has considered recommendations following an independent review of its governance arrangements and these recommendations are being implemented. The Fund expects this review exercise to be periodically repeated.

2. How you ensure your LGPS fund is efficiently run, including consideration of governance and the benefits of scale.

The management and governance of the Cambridgeshire Fund is undertaken in partnership with West Northamptonshire Council (WNC), administering authority to the Northamptonshire Pension Fund, under a lead authority shared service model.

This arrangement has provided strong governance arrangements which have been mirrored across the two funds. These arrangements are scrutinised by the Fund's governance bodies by regular reporting on matters such as administration effectiveness, governance and compliance, business plan progress, risk management, and investment performance.

The service has been able to consistently recruit and retain skilled staff to deliver business as usual as well as an increasing volume of large-scale projects, such as the McCloud age discrimination remedy and Pension Dashboards, as well as projects relating to asset pooling.

The Fund has a strong relationship with the ACCESS asset pool and has a representative sitting on the ACCESS Joint Committee, an appropriate avenue for holding the pool to account.

Voluntarily operating the management and administration of the Fund on a shared service basis in partnership with WNC has led to long-term savings and efficiencies that did not require merger.

The Fund has been able to align business processes, policies, and strategies and will often align the timing of critical decisions between the respective Pension Committees and

Boards, for example bringing a newly developed strategy to the same Committee cycle for each fund.

Procurement activity has been undertaken to procure the same supplier for each fund, sometimes under a single contractual relationship. This has enabled the Fund to obtain both competitive fees due to scale and contractual fee reductions in situations where the same piece of work is undertaken for both funds at the same time.

However, there are limits to the impact of scale on supplier relationships, with local authority charges already significantly below that for the private sector in disciplines such as actuarial and investment consultancy, even prior to the reductions mentioned above. Development costs for the Fund's pensions administration system are already shared across the wider LGPS community – if there were less funds, charges per fund would be expected to go up proportionately.

Furthermore, if there was fund merger this could lead to a less competitive supplier marketplace than exists presently and associated performance concerns; any short-term fee reductions could be reversed as competitors fall away, with the Fund especially having concerns around the competitiveness of the critical administration software supplier marketplace.

Whilst operating a shared service model has enabled some efficiencies due to the removal of duplicate roles, on the administration side it remains the case, irrespective of scale, that you need a certain number of junior officers to administer each 1,000 scheme members.

The loss of the most experienced officers can also be harmful to the Fund and the LGPS community, with the latter being a particular strength of the LGPS. Any period of uncertainty in advance of mergers could prove devastating to fund administration scheme-wide, which would adversely affect the ability to pay pensions to members as they fall due.

Smaller teams can deliver excellent fund administration, and when larger funds fail the impacts can be devastating e.g. the failed implementation of a software system at a large fund or a cyber breach impacting a large pension provider.

The main costs in the LGPS relate to investments, and these are already being materially reduced through the Government's existing asset pooling agenda, which the Cambridgeshire Fund has evidentially supported.

Yours sincerely

M. Hudson

Michael Hudson
Executive Director for Finance and Resources
Cambridgeshire County Council

Department for Levelling Up,
Housing & Communities

Simon Hoare MP
Minister for Local Government
2 Marsham Street
London
SW1P 4DF

Chief Executives and Section 151 Officers of
Administering Authorities in England

By email

15th May 2024

Dear Colleagues,

Efficiencies in local government and the management of Local Government Pension Scheme (LGPS) funds

I wrote to all chief executives on 16 April setting out my expectations for the productivity plans to be developed by each authority as announced at the local government finance settlement. In this, I asked for plans covering service transformation, better use of technology and data and reduction of wasteful spend as well as views on barriers which government could remove (letter at annex A).

I am now writing to you to ask you to set out your approach to efficiencies in the management, governance and administration of your LGPS fund and asset pool in a separate letter. I am interested in what is happening across local government to deliver efficiencies in the management of the £359 billion of pension assets you hold, and in your administration of pension benefits for the 6.6 million members.

Since taking on ministerial responsibility for the LGPS I have been grateful for the generous engagement I have received, and I have been struck by the generally strong financial position of the scheme, as well as the strong commitment to serving scheme members. However, it is clear that there is also a need for improvements, including to meet the expectations set out on asset pooling and investments set out at the Autumn Statement. More efficiencies in fund administration and management should also be achieved: across the scheme in 2022-3 investment management costs were £1.7 billion and £280 million on administration and governance.

Your response should consider the following themes on pensions.

1. **How your fund will complete the process of pension asset pooling to deliver the benefits of scale.**

- What proportion of assets have been pooled in your chosen LGPS asset pool? Is your fund on track to pool all listed assets by March 2025, and if not, what are the barriers to this?
- Is there scope for minimising waste and duplication by making use of your LGPS asset pool's services and expertise in reporting and development of the pensions investment strategy ? What is your expenditure on pensions investment consultancy ?
- Does your LGPS asset pool have an effective, modern governance structure in place, which is able to deliver timely decisions and ensure proper oversight ? If not, what steps are you taking to make your pool's governance more effective?

2. **How you ensure your LGPS fund is efficiently run, including consideration of governance and the benefits of greater scale.**

- Does your LGPS fund have effective and skilled governance in place, which is able to hold officers, service providers and the pool to account on performance and efficiency?
- Would you be likely to achieve long-term savings and efficiencies if your LGPS fund became part of a larger fund through merger or creation of a larger pensions authority?

As set out in my previous letter I do not wish to impose excessive burdens. I expect your letter to be no more than two pages in length. Your plans must be returned by 19 July 2024, by email to lgpensions@levellingup.gov.uk. We will review your responses and consider the issues emerging and the implications for future national policy.

I look forward to working with you to deliver the best outcomes.

with every good wish.
Yours,

SIMON HOARE MP
Minister for Local Government