

## Matter arising

Pension Fund – Annual Report

We have reviewed the information included within the Pension Fund Annual Report to ensure that it was consistent within the financial statements and complied with the guidance issued by CIPFA.

## Auditor commentary

We identified some “must do” requirements as set out in the CIPFA guidance – “Preparing the annual report – Guidance for Local Government Pension Scheme Funds (2019 Edition) which had not been included in the 2020/21 Pension Fund Annual Report. Whilst this does not impact on our opinion on the Annual Report, as we are only required to report on inconsistencies between the Annual Report and the financial statements, we have raised a recommendation relating to compliance with CIPFA guidance in this area. Further details are set out on page 30.

The “must do” requirements not included were:

### Financial performance –

- current year performance against budget
- forecast v outturn report on the pension fund cash flows
- details of pension overpayments, recoveries and any amounts written off, including the results of participation in (NFI) exercises (data matches, overpayments identified, actions taken, etc).

### Pension scheme administration

- details of new pensioners analysed by ill health, early and normal retirements.
- a statement on Value for Money

### Dealings with employer bodies

- a summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities).

In addition, a number of other “should” and “may” requirements were not included.

We have recommended that the Pension Fund review the disclosures included in the Annual Report in future years to ensure full compliance with CIPFA guidance on its contents.

## Officer Response

The financial information in the Pension Fund Annual Report is consistent with the financial statements. Hence, the auditors can sign-off the accounts without the requirements above being cleared. Their duty is discharged by highlighting the omissions.

Current Year Performance Vs Budget

Reporting to the Committee outside of the annual report started in the current financial year (September meeting). The outturn for 2020/21 was:

<b>Heading</b>	<b>Budget £000s</b>	<b>Actual £000s</b>	<b>Variance £000s</b>
Investment Management Expense:			
o Management	26,400	23,284	-3,116
o Transaction	9,900	7,071	-2,829
o Performance	5,500	13,241	7,741
<b>Sub Total</b>	<b>41,800</b>	<b>43,596</b>	<b>1,796</b>
LGPS Central costs	950	993	43
Staffing	1,300	1,202	-98
IT costs	500	425	-75
Actuarial costs	400	77	-323
Support Services	400	451	51
<b>Total</b>	<b>45,350</b>	<b>46,744</b>	<b>1,394</b>

### Forecast v Outturn report on pension fund cash flows

The Fund is cash flow positive (income exceeds the liabilities to be paid) meaning that sale of investments is not required outside of asset transitions. As such the cash flow monitoring is focused on making investments to keep the variance to the strategic asset allocation as low as possible. Hence the approach taken to date has been to forecast cash-flow when deciding the funding approach for new investments. An overview of the Fund's cashflow and forecasting approach is shown below and will be included in the annual report.

<b>Heading</b>	<b>£ millions</b>	<b>Forecast approach</b>
Net investment activity	55	Significant underlying activity, in excess of £1Bn, due to transitions to LGPS Central. Target net investment, rather than income, due to the positive cash flow position. Net income shown is distributions from private market managers. Guidance by managers tends to be short term, so difficult to predict overall but as spread through year can 'mop-up' when investing. Reinvestment wasn't achieved due to waiting for capital calls and availability of LGPS Central products.
Currency Hedge	140	Dependent upon relative currency performance and Aegon's decisions. Very hard to forecast and necessitates the holding of a cash buffer
Management Expenses	(44)	Able to make good level of prediction, although elements are performance dependant
Investment Income	31	Primarily from Infrastructure and property assets, usually predictable
Non-investment income	63	Employer and employee contributions exceed the benefit payments made. Only moves gradually compared to the previous year, unless a step change following the tri-annual valuation.
<b>Cash increase</b>	<b>245</b>	Aim to keep cash change close to zero by reinvesting. Has been difficult due to currency volatility and availability of private market investments.

### Details of over payments, recoveries and amounts written off, including the results of participation in NFI exercises

The biennial National Fraud Initiative (NFI) exercise for 2020/21 identified four pensions overpayments totalling £18k. NFI matches current pensions to Department for Work and Pensions (DWP) deceased persons data to identify anomalies. The cases noted were exceptions to the rule such as overseas pensioners where preventative controls are somewhat weaker, i.e. where a death was not registered in the UK. Recovery is underway in each of the four cases and there is no indication of fraud. Moving forward, the Pensions Section will data match to DWP deceased persons data twice-yearly, in addition to the standard NFI cycle, in order that anomalies can be identified and investigated earlier in the process, and recovery initiated without delay.

No overpayments were identified outside of the NFI exercise

Details of new pensioners analysed by ill health, early and normal retirements.

The information below will be added to the annual report

Early	1,128
Ill health	75
Normal	97
Late	167
Redundancy/Flexible	134
<b>Total</b>	<b>1,601</b>

Statement on Value for money

A formal value for money statement has not been completed. Elements of what would be included in such a statement are already included in the Annual Report. For example, pensions administration 20-21 KPIs covering business process and member experience and investment performance against benchmark.

It is proposed to develop a statement and include in the next Annual Report from 2021/22.

Summary of the number of employers in the fund

The information below will be added to the annual report

Employers with Active Members:	
Scheduled and resolution bodies	146
Admitted Bodies	45
Employers with no active members:	
Scheduled and resolution bodies	66
Admitted Bodies	26
<b>Total Employers</b>	<b>283</b>