

AUDIT

COMMITTEE

27 September 2017

Northumberland County Council Pension Fund Final Annual Report and Accounts 2016-2017

Report of Alison Elsdon Director of Corporate Resources

Cabinet Member: Councillor Nicholas Oliver – Portfolio Holder for Corporate Services

Purpose of Report

The purpose of this report is to provide the members of the Audit Committee with information about any changes made to the draft Northumberland County Council Pension Fund Annual Report and Accounts published in July 2017, and request approval of the Report and Accounts.

Members are also requested to note the 2016-2017 Annual Reports of both the NCC Firefighters' Pension Scheme Local Pension Board and the NCC Local Government Pension Scheme Local Pension Board.

Recommendations

It is recommended that the members of the Audit Committee should:

- **note the changes made to the draft document contained in Appendix A and B;**
- **approve the Pension Fund Annual Report and Accounts 2016-2017;**
- **note the 2016-2017 Annual Report of the NCC Firefighters' Pension Scheme Local Pension Board, and;**
- **note the 2016-2017 Annual report of the NCC Local Government Pension Scheme Local Pension Board.**

Link to the Corporate Plan

This report is relevant to all priorities included in the NCC Corporate Plan 2013 to 2017.

BACKGROUND

1. The draft 2016-2017 Pension Fund Annual Report and Accounts was published in July 2017. Since then a number of amendments have been made to the document including changes recommended by the external auditors.
2. The key changes made to the figures are set out in Appendix A.
3. There have been a number of amendments to the Pension Fund Financial Statements including disclosing administrative expenses and investment management expenses as one category of 'management expenses'. This has resulted in the removal of Note 12 Investment Management Expenses and consequently all subsequent notes have now been re-numbered. The statements have also been revised to include a disclosure on senior officers remuneration and the notes relating to financial instrument disclosures have been expanded.
4. Although the external audit was substantially completed at the time of writing this report, the auditor was still finalising some testing. If any changes are requested as a result of the later audit work, information will be tabled at the meeting.
5. Members should note that the financial statements of the Pension Fund Annual Report and Accounts also form part of the Northumberland County Council Statement of Accounts, reflecting the legal status of the Fund as part of NCC. The Pension Fund is a separate reporting entity, not a separate legal entity. The separate Annual Report and Accounts for the Pension Fund is required by the LGPS Regulations. The draft Annual Report was reported to the meeting of the Pension Fund Panel held on 4 September 2017, together with the draft ISA 260 for the Pension Fund.
6. The external auditor's opinion on the Financial Statements of the Pension Fund is included in Northumberland County Council's Statement of Accounts. The external auditor's statement shown within the Pension Fund Annual Report and Accounts comments only that the Financial Statements are "consistent with" Northumberland County Council's audited Statement of Accounts.
7. The final version of the Pension Fund Annual Report and Accounts and the ISA 260 will be published on the Council's website once approved at this meeting.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy:	None.
Finance and value for money:	The Pension Fund Annual Report and Accounts summarises the financial position of the Fund and net withdrawals from dealings with the members of the LGPS in the financial year 2016-2017 and shows the Fund's net assets as at 31 March 2017.
Human Resources:	None.
Property:	None.
Equalities:	None.
Risk Assessment:	The risks within the preparation of the Pension Fund Annual Report and Accounts are well managed through the embedded processes in place, and the Accounts and audit reports (both planning and final) are reported to the Pension Fund Panel as well as the Audit Committee.
Customer Considerations:	None.
Carbon Reduction:	None.
Consultation:	Portfolio Holder for Corporate Services.
Wards:	All.

Background papers

Draft Pension Fund Annual Report and Accounts 2016-2017.

Report sign off:

Finance	Andy Stewart
Interim Chief Executive	Daljit Lally
Portfolio Holder	Nick Oliver

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Summary of Key Changes to the Figures within the Pension Fund Accounts
Appendix A

Page	Description	Changed from £'000	Changed to £'000
78	Dealings with members employees and others directly involved with the Fund		
	Administrative expenses (Note 9) line removed		
	Sub total	(54,421)	(53,277)
	Net (withdrawals) from dealings with members	(6,882)	(5,738)
	Management Expenses (New line added)	-	(6,261)
	Net (withdrawals after Fund management expenses (New line added)	-	(11,999)
	Returns on investments		
	Investment management expenses (Note 12) line removed		
	Net return on investments	259,942	265,059
85	Note 9 – Management Expenses (previously named Administration Expenses and revised to incorporate Note 12)		
	Investment management expenses (new line)	-	(5,117)
	Total	(1,144)	(6,261)
	New table:		
	Investment management expenses can be further analysed as follows:		
	Management fees	-	(5,082)
	Custody Fees	-	(35)
	Total	-	(5,117)

Page	Area	Change
79	Net Assets Statement	<p>Current Assets - originally referred to Note 13, revised to refer to Note 12.</p> <p>Current Liabilities – originally referred to Note 14, revised to refer to Note 13.</p> <p>Net Assets of the Fund at 31 March – originally referred to Note 15, revised to refer to Note 14.</p> <p>The sentence “The accounts summarise the transactions of the Fund and the net assets. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the Statement of the Actuary and the Whole of Pension Fund Disclosures under IAS26 (also prepared by the actuary) shown in Appendices 2 and 3 respectively of the Annual Report and these accounts should be read in conjunction with that.” Has been replaced with:</p> <p>“The Fund Account and Net Assets Statement do not take account of obligations to pay pensions and benefits which fall due after 31 March 2017. The actuarial position of the Fund is shown in the “Statement of the Actuary” and the “Whole of Pension Fund Disclosures under IAS 26” shown in Appendices 2 and 3 respectively of the Annual Report these Financial Statements should be read in conjunction with that”.</p>
80	Note 1 – Basis of preparation	<p>The sentence “The accounts have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and comply with the provisions of Chapter 2 of the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007), except if reference to the contrary is made”. Has been replaced with:</p> <p>“The accounts have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016-17, which is based on International Financial Reporting Standards as amended for the UK public sector, and incorporates the provisions of <i>Financial Reports of Pension Schemes: A Statement of Recommended Practice (2015)</i>.</p> <p>The accounts summarise the Fund’s transactions for the year to 31 March 2017 and the net assets to pay LGPS pension benefits as at 31 March 2017. They do not take account of obligations to pay pensions and benefits which fall due after 31 March 2017. However the actuarial present value of the promised retirement benefits as set out in “Option C” of IAS 26 (calculated on assumptions set in accordance with IAS 19) is disclosed in Appendix 3 to the Annual Report and these Financial Statements should be read in conjunction with that”.</p>

85	Note 9 – Management Expenses (previously named Administration expenses)	<p>The sentence “Administration expenses are analysed between administrative costs and oversight and governance costs in accordance with CIPFA guidance Accounting for Local Government Pension Scheme Management Costs”. Has been replaced with:</p> <p>“Indirect management fees charged within pooled investment vehicles and partnerships have been included in investment management expenses, and management expenses analysed in accordance with CIPFA guidance Accounting for Local Government Pension Scheme Management Costs”.</p>
87	Note 12 – Investment management expenses	<p>This note has been removed and Investment Management Expenses are now included within Note 9.</p> <p>All subsequent Note numbering has been revised.</p>
89	Note 16 – Significant Holdings	<p>This Note has been re-numbered to Note 15 with prior year information added to each of the 3 bullet points as follows:</p> <p>Bullet point 1: (Two separate holdings of £128.1 million and £128.0 million totalling £256.1 million or 24.2% as at 31 March 2016)</p> <p>Bullet point 2: (Two separate holdings of £80.8 million and £80.8 million totalling £161.6 million or 15.4% as at 31 March 2016)</p> <p>Bullet point 3: (£59.5 million or 5.6% as at 31 March 2016)</p>
93	Note 22 – Financial Instruments	<p>This Note has been re-numbered to Note 21. The sentence “Financial instruments as at 31 March 2016 have been restated, classifying the financial assets at fair value through profit and loss previously shown as level 1 as level 2 instead, to better reflect the valuation methods used for these assets”. Has been removed.</p> <p>The sentence “The majority of the Fund assets are classified as level 2. The Fund has no investment assets classified as level 1 and has private equity and infrastructure investments classified as level 3 which are based on the valuations provided by the general partners to the funds invested in. Private equity and infrastructure investments are categorised as “ventures and partnerships” in the Net Assets Statement”. Has been removed.</p> <p>An additional sentence has been added “Level 3 instruments include unquoted investments which are valued using various techniques requiring significant judgement in determining appropriate assumptions. The Fund’s level 3 investments comprise infrastructure and private equity partnerships which are valued in the Net Assets Statements based on unaudited valuations at either 31 December 2016 or 31 March 2017 provided by the managers controlling the partnerships”.</p>

New tables have been added (page 94) showing the basis of valuation of each class of investment asset and a reconciliation of fair value measurements within level 3.

