

# **CUMBRIA PENSIONS COMMITTEE**

**Meeting date: 16 June 2022**

**From: Pam Duke, Director of Finance (S151 Officer)**

## **DRAFT UNAUDITED ACCOUNTS TO 31 MARCH 2022**

### **1.0 EXECUTIVE SUMMARY**

- 1.1 *As reflected in the Constitution, the Terms of Reference of the Pensions Committee states that the Committee is required to submit the Accounts (subject to any final Audit amendments) to the Council. This is accomplished by submitting the Accounts to the Audit and Assurance Committee for approval on behalf of the Council.***
- 1.2 *This report presents to Members the draft (subject to audit) Accounts of the Cumbria Local Government Pension Scheme 2021/22 with a recommendation; to submit the Accounts (subject to any final Audit amendments) to the Audit and Assurance Committee for approval on behalf of the Council.***
- 1.3 *Preliminary work for the audit review by Grant Thornton has commenced and their substantive work is due to start in early July. It is anticipated that the Audit Findings Report (AFR) from the external auditor, Grant Thornton will not be available until late August and will hopefully be available to be presented to the September Pensions Committee. Once the final AFR is received and the Accounts are approved by Audit Committee the final Accounts of Cumbria LGPS 2021/22 will be published on the Council's website.***
- 1.4 *In addition to this, the draft Cumbria LGPS Accounts 2021/22 will be published as Section 10 of Cumbria County Council's accounts and, in accordance with regulations, they will be included in the Annual Report and Accounts of the Pension Fund. Completion of the Annual Report and Accounts 2021/22 is in progress and will be presented to Members for review and approval for publication at the September 2022 Committee meeting.***

## **2.0 STRATEGIC PLANNING AND EQUALITY IMPLICATIONS**

**2.1 The purpose of the Fund is to pay Cumbria LGPS members' pension benefits in accordance with regulations and in a secure, affordable and sustainable manner over the short, medium and long term. To do this, the Fund seeks to:**

- ensure that sufficient resources are available to meet all liabilities as they fall due;**
- manage employers' liabilities effectively and enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers and the scheduled, resolution and admitted bodies;**
- achieve and maintain Fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future; and**
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.**

**2.2 The Cumbria LGPS Accounts 2021/22 summarise the Fund's transactions for the 12 months and presents the assets and liability position as at 31 March 2022. They also set out details of how the investments and risks have been managed throughout the year.**

**2.3 The Fund seeks to invest assets effectively to meet all liabilities as they fall due.**

**2.4 The costs of administration of the Cumbria LGPS have a direct impact on the funding level of the Scheme and therefore the rate of employers' contribution. This will in turn impact on the employers' revenue budgets.**

**2.5 There are no direct equality implications arising out of the recommendations in this report.**

## **3.0 RECOMMENDATION**

**It is recommended that Members:**

**3.1 Submit to the Audit and Assurance Committee (subject to any final Audit amendments) the Cumbria LGPS Accounts 2021/22 for approval on behalf of the Council.**

**3.2 Note that the completion of the Cumbria LGPS Annual Report and Accounts 2021/22 (including the Governance Compliance Statement) is progressing and will be reviewed by auditors for consistency with the Accounts. The full draft Annual Report will be presented to Members for review and approval for publication at the September 2022 Pensions Committee meeting.**

## 4.0 BACKGROUND

- 4.1 The Accounts and Audit Regulations 2015 (as amended) usually require each Local Authority to prepare their accounts by 31 May and publish their completed and audited accounts by 31 July.
- 4.2 In recent years, however, temporary changes have been made to the publication deadline:
  - 4.2.1 In recognition of the impact of COVID-19 the publication deadline for the year ended 31 March 2020 was extended to 30 November 2020. Despite the extended timescale, only 45% of 2019/20 audits were completed by that date.
  - 4.2.2 Following the Redmond Review into the effectiveness of external audit the deadline for the year ended 31 March 2021 was revised to 30 September 2021. Only 9% of 2020/21 audits were completed by this revised deadline.
  - 4.2.3 Cumbria County Council and Cumbria LGPS met both of these deadlines.
- 4.3 In response to this, in January 2022, the Department for Levelling Up, Housing and Communities (DLUHC) issued a letter providing an update on actions the government was taking to help tackle audit delays which they acknowledged are caused by a variety of complex factors. Full details of the measures have been published at <https://www.gov.uk/guidance/measures-to-improve-local-audit-delays>. The main impact on the timescales for the production and audit of the 2021/22 Accounts is the extension of the audit deadline from 30 September to 30 November 2022 (which will be followed by a period of 6 years where the deadline will be 30 September starting with 2022/23 accounts).
- 4.4 Officers have been advised by the external auditor, Grant Thornton that their Local Authority Audits will be progressing in 2 phases this year and plan to complete that of Cumbria County Council and Cumbria Pension Fund in phase 1 between July and September 2022 with the aim being to produce an Audit Findings report for presentation to the September meeting of the Pensions and the Audit and Assurance Committees.
- 4.5 Officers are on track to achieve the year-end deadlines and, whilst this work is still ongoing, currently there are no areas of concern to highlight to Members.
- 4.6 The accounts for the Local Government Pension Scheme form part of the Administering Authority's accounts and the draft unaudited accounts are expected to be published around the end of June in advance of the statutory deadline. It is anticipated that an update report on the preparation of the draft accounts will be presented to the June meeting of the Audit and Assurance Committee.
- 4.7 In addition to this, the Local Government Pension Scheme Regulations 2013 (as amended) require each Administering Authority to prepare an Annual

Report and Accounts for the Pension Fund and publish it before 1 December following the year end. Cumbria County Council, as Administering Authority, has initially prepared the draft Accounts 2021/22 for the Cumbria Local Government Pension Scheme (Appendix 1) and is in the process of preparing the Annual Report to meet this deadline. The complete draft document will be presented to the Committee for approval and publication at the September meeting.

- 4.8 As stated above, the Accounts are subject to audit and, at the time of writing, the work for the external audit of the Fund's Accounts is in progress. Grant Thornton (the Fund's external auditors) will audit the Accounts and review the draft Annual Report to ensure that any figures within it are consistent with those in the Accounts.
- 4.9 The Audit Plan has been received from Grant Thornton, which shows the key risks are the same as those they identified for the Fund for 2020/21 and include the valuation of Directly held property, and other Level 3 Investments. Officers acknowledge these risks but are confident that the accounts will be produced on-time and to a high standard as in previous years. Additionally, the Fund is unaware of any significant issues arising in relation to these risks.
- 4.10 In addition to this, Grant Thornton have indicated that there will again be heightened focus on fraud risk and on the key internal controls related to estimates.
- 4.11 In respect of the use of estimates, Officers have once again responded to a number of questions raised by the auditors related to the calculation, management controls and governance of the main estimates used in the accounts. These included a number of queries raised by the auditor in its "General Enquiries of Management". The Fund's response to the auditor's "General Enquiries of Management" has been reviewed by the Chair and Vice Chair of the Audit & Assurance Committee in recognition of the Audit & Assurance Committee's role as "those charged with governance". Furthermore, to ensure that the Audit & Assurance Committee understand and are content with both the Fund's use of estimates and the levels of scrutiny and controls in place where estimates are applied, a briefing session on the Fund's use of material estimates was received by the Audit & Assurance Committee on 12 May 2022.
- 4.12 In addition to the increased focus and scrutiny that is expected to be applied during the 2021/22 Cumbria LGPS Audit, Grant Thornton's team working on the LGPS audit has changed. Whilst Richard Anderson continues to be the Audit Manager, following staff movements within Grant Thornton a new Associate has been appointed the team. This staff change is not considered to be material risk for the completion of the audit and Grant Thornton have given no indications to date that there is any risk that the abovementioned dates for sign-off of the Accounts and Annual Report will not be achieved.
- 4.13 The terms of reference of the Pensions Committee include the requirement that they submit the Accounts to the Council. This is accomplished by submitting the Annual Accounts to the Audit & Assurance Committee as part of the Council's Accounts for approval on behalf of Council. This report

therefore presents to Members the 'subject to audit' Accounts of the Cumbria LGPS for 2021/22 (Appendix 1) and recommends that these (subject to any final Audit amendments) be submitted to the Audit & Assurance Committee for approval on behalf of the Council.

4.14 As has been the practice in previous years, the publication of the Accounts will continue to be in electronic rather than printed format. This is part of the ongoing drive to reduce costs and consider environmental factors by reducing the volume of printed materials. The Fund's Accounts, and later the Annual Report 2021/22 (which includes the Fund's Annual Accounts), will again be published electronically (although paper copies will continue to be available on request).

#### **4.15 Summary of performance of the Fund to 31 March 2022**

4.15.1 2021/22 was another successful year for the Fund, whilst some officers have chosen to return to working some of time in the office the key functions of the Pensions Service continue to be carried out by the team in a largely remote fashion. Local Pensions Partnership Administration (LPPA) also continued to provide pension administration services to high standards largely remotely.

4.15.2 The key messages and details of performance of Cumbria LGPS during 2021/22 as set out in the Accounts include:

- The Fund's net assets increased by £250.508m<sup>1</sup> from £3,067.207m as at 31 March 2021 to £3,317.715m as at 31 March 2022. The Fund's Actuary has estimated that the Cumbria LGPS was approximately 110% funded as at 31 March 2022, (this is based on assumptions per the full actuarial valuation as at 31 March 2019 and is likely to change following the updating of assumptions for the 2022 actuarial valuation).
- The Fund returned 9.7% (net of fees) for the year which was ahead of the Fund's bespoke index performance benchmark for the year of 8.6%. Positive returns in the year were seen across all asset classes. Outperformance was seen from most private market assets such as infrastructure and private equity, together with the Fund's property portfolio. However, relative performance was diluted by the underperformance by the managers of the Fund's publicly listed assets.
- The Fund is primarily focussed on longer-term performance and, pleasingly outperformed its 3, 5 and 10 year benchmarks (3 year: 7.9% p.a. (net of fees) against a benchmark of 7.5%, 5 year: 6.9% p.a. (net of fees) against a benchmark of 6.7% and 10 year: 9.1% p.a. (net of fees) against a benchmark of 8.2%).
- The Fund underwent a full review of the Investment Strategy in 2019/20 following the completion of the Triennial Actuarial Valuation of the Fund, and the revised Investment Strategy was agreed by the Pensions

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<sup>1</sup> The net asset value has increased from the £3,306m reported to the Investment Sub Group (ISG) on 26 May. This is due to the figure being updated to reflect final valuation figures for some level 3 (i.e. less liquid) assets held by the Fund.

Committee in December 2019. During 2020/21, however, with the impact of the pandemic on global investment markets it became clear that expectations of future investment returns had reduced. It was recognised that this increased the risk of the Fund achieving lower investment returns than those reflected in the Actuary's assumptions which would then reduce the funding level of the Cumbria Fund. Importantly, this could have a material impact on employer future service rate contributions in future years. In response the Fund, in conjunction with Investment Consultants, Isio, undertook a further review of its Investment Strategy.

- The outcome of this review gave the Fund both an interim 2020 asset allocation, agreed by the Pensions Committee in September 2020, and a longer-term Target strategic allocation - an evolution of the Fund's strategy from the 2019 position - which was agreed at Pensions Committee in March 2021. Officers and Advisors have progressed selective investments during the year towards achieving the agreed Target investment strategy, this is detailed in Note 1 (c) of the accounts provided as Appendix 1.
- All targets set within the 2021/22 Business Plan have been achieved during the year with key tasks either completed, or ongoing work that is on track for completion and these have been delivered within the approved budget. The Fund's officers seek continual improvement of activities within the major annual pieces of work, e.g. preparation of the Annual Report and Accounts.
- In addition to the activities planned and delivered through the 2021/22 Business Plan, new issues arising during the year were:
  - Preparations for the impact of Local Government Reorganisation (LGR) on the Cumbria Pension Fund, and
  - Reviewing the implications for the Fund of an initial public offering (IPO) by one of its investment managers, including the relevant tax implications.

## **5.0 OPTIONS**

- 5.1 That the Committee receive and submit the Cumbria LGPS Accounts for 2021/22 (subject to any audit amendments) to the Audit and Assurance Committee to approve on behalf of the Council and, in addition, note that the final Cumbria LGPS Annual Report and Accounts 2021/22 (subject to any final amendments) will be presented to the September Pensions Committee, or
- 5.2 That Members request amendments to the narrative within the Accounts 2021/22 prior to the Accounts being submitted to the Audit and Assurance Committee for approval on behalf of the Council.

## 6.0 RESOURCE AND VALUE FOR MONEY IMPLICATIONS

- 6.1 Resource and value for money implications are considered throughout this report and within the draft Cumbria LGPS Annual Report and Accounts 2021/22 presented in Appendix 1.

## 7.0 LEGAL IMPLICATIONS

- 7.1 Part 2H of the Constitution 2.1(a) provides that it is a function of the Pensions Committee to submit the Pension Fund Accounts to the Council in line with current Financial Standing Orders. SD 31/05/22

## 8.0 CONCLUSION

- 8.1 The draft Cumbria LGPS Accounts 2021/22 have been prepared in accordance with regulations and are presented to the Pensions Committee with recommendations that the Committee submit them (subject to any external audit amendments) to the Audit and Assurance Committee for approval on behalf of the Council.
- 8.2 A report containing details of Grant Thornton's Audit Findings Report on the findings of their 2021/22 audit of the Cumbria LGPS Pension Fund financial statements is expected to be presented to the 27 September 2022 meeting of the Audit and Assurance Committee.

**Pam Duke**  
**Director of Finance (S151 Officer)**

16 June 2022

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## APPENDICES

**Appendix 1** – Cumbria LGPS Draft Unaudited Accounts to 31 March 2022 (subject to final audit changes).

Electoral Division(s): All

Executive Decision

	No
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Key Decision

	No
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If a Key Decision, is the proposal published in the current Forward Plan?

		N/A
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Is the decision exempt from call-in on grounds of urgency?

	No
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If exempt from call-in, has the agreement of the Chair of the relevant Overview and Scrutiny Committee been sought or obtained?

		N/A
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Has this matter been considered by Overview and Scrutiny?  
If so, give details below.

	No
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Has an environmental or sustainability impact assessment been undertaken?

	No	
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Has an equality impact assessment been undertaken?

	No	
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***N.B. If an executive decision is made, then a decision cannot be implemented until the expiry of the eighth working day after the date of the meeting – unless the decision is urgent and exempt from call-in and necessary approvals have been obtained.***

### **PREVIOUS RELEVANT COUNCIL OR EXECUTIVE DECISIONS**

***No previous relevant decisions.***

### **REPORT AUTHOR**

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