

Regulation, Audit and Accounts Committee

1 December 2023

Pension Fund Financial Statements 2022/23

Report by Director of Finance and Support Services

Summary

The audit of the Statement of Accounts for 2022/23 for the West Sussex Pension Fund has now concluded. The Committee received a verbal update on the Pension Fund accounts at their meeting on 14 July 2023. A further update was provided and the audit plan from Ernst and Young (EY) shared at the meeting on 21 September 2023.

The audited Statement of Accounts for West Sussex Pension Fund are attached and reflect the changes which EY have identified as part of their audit. The following are highlighted:

- Contributions and benefits paid have both slightly increased year to year and continue to be the largest cashflow movements within the Fund Accounts. Investment income received in 2022/23 is substantially higher than the prior year due to an increase in equity and bond income.
- The market environment over the twelve months to 31 March 2023 has been challenging, with uncertainty continuing to govern the economic outlook. This is reflected in the change in market value reported (-£284m).
- Investment assets were valued at £5.3bn which are made up of Equities, Bonds, Private Equity, Private Debt, Infrastructure and Property. This reflects the update to the estimated valuations used for the private equity portfolio and part of the private debt portfolio in the draft Statements, following receipt of confirmed valuations by the respective fund managers.
- For one private equity fund alternative procedures undertaken by EY did not return a valuation within EY's tolerance when compared to the figures included in the Pension Fund Statement of Accounts. Officers are of the view that the valuations reported in the Statement of Accounts should not be amended as the approach.

Recommendations

The Committee is asked to:

- (1) Consider and approve the Pension Fund's Statement of Accounts for 2022/23, as attached at Appendix A.
 - (2) Delegate authority to the Chairman to sign the Pension Fund Statement of Accounts for 2022/23 on behalf of the Regulation, Audit & Accounts Committee and sign-off any minor changes which may be required after the date of this Committee.
-

1. Background and context

- 1.1 The Pension Fund draft Statement of Accounts were [published on the County Council's website](#) and submitted to Ernst and Young (EY) for their external audit on 31 May 2023. EY Audit commenced on 4 September 2023.
- 1.2 The Committee received a verbal update on the Pension Fund Statement of Accounts at their meeting on 14 July 2023 and noted the audit plan from EY at their meeting on 21 September 2023.
- 1.3 Members received a briefing on the Pension Fund Statement of Accounts on 16 November 2023. This aimed to provide members with a greater understanding of the 2022/23 Pension Fund accounts and included a walk-through of the financial statements and areas of audit focus.
- 1.4 The Pension Fund Accounts form part of the County Council's consolidated Statements. Regulations also require that they are published as part of the Pension Fund's annual report.

2. 2022/23 Financial Statements

- 2.1 The Pension Fund accounts are made up of two main statements - the Fund Account and Net Asset Statement both of which are supported by notes to the accounts. The final Pension Fund Statements are appended (Appendix A).
- 2.2 The basis of preparation and judgements made in preparing the accounts are consistent with prior years as presented to the Committee at their meeting on [20 March 2023](#).
- 2.3 The Fund Account reports on expenditure incurred and income received by the Pension Fund in 2022/23. The following aspects are highlighted:
 - Contributions and benefits paid have both slightly increased year to year and continue to be the largest cashflow movements within the Fund Accounts.
 - Management expenses in the prior year (2021/22) were offset by a £12m fee reduction agreed with one of the appointed fund managers, Baillie Gifford. On a year-to-year comparison, it therefore appears that management fees have substantially increased. Management fees reported for the 2022/23 financial year is considered more reflective of the annual cost.
 - Investment income received in 2022/23 is substantially higher than the prior year due to an increase in equity and bond income, reflecting market conditions and changes to the underlying portfolio. The income for addition, 2022/23 also reflects new investments in infrastructure investments, and an increase in income received from maturing private debt investments.
 - There is a loss on disposal of investments and changes in market value reported (£284m). The market environment over the twelve months to 31 March 2023 has been challenging, with uncertainty continuing to govern the economic outlook. Whilst markets have been negative, the Fund has outperformed its benchmark. Most of the unrealised loss reported is due to a reduction in the market value of bonds in year.

- 2.4 The Net Asset Statement reports on our investment assets valued at £5.3bn which are made up of Equities, Bonds, Private Equity, Private Debt, Infrastructure and Property.
- 2.5 Investment liabilities (relating to rental income received in advance), short-term current assets (which includes contributions due from employers and members at year end, and cash) and liabilities (which includes benefits payable) are also shown in the Net Asset Statement. The main movement relates to current assets because of the decision to re-classify the Pension Fund's holdings from cash (in 2021/22) to cash deposits (in 2022/23) as these amounts are held in Money Market Funds by the County Council's Treasury Management team.

3. Audit Process

- 3.1 The audit work by EY on the Pension Fund's Statements is now substantially complete.
- 3.2 The following amendments have been made during audit feedback.
- Estimated valuations used for the private equity portfolio and part of the private debt portfolio in the draft Statements have been replaced by confirmed valuations by the respective fund managers. This is an approach agreed with EY and reflects the tight deadline to complete the draft accounts. The final valuations were received from the remaining private equity and private debt managers during the audit. These showed valuations which were £4.8m (3.4%) higher than estimated for private equity and £2.4m (1.2%) higher for private debt.
 - Minor amendments were made to a couple of narratives for clarity.
- 3.3 During the audit work EY undertook alternative procedures to provide them with assurance on the valuations included in the statements for level 3 investments (i.e., Private Equity, Private Debt and Infrastructure). For one private equity fund these alternative procedures did not return a valuation within EY's tolerance of the figures included in the Pension Fund Statement of Accounts. Officers are of the view that the valuations reported in the Statement of Accounts should not be amended as the approach taken is consistent with the valuation process set out in the Fund Accounts, they have assurance of the valuation framework adopted by the Fund Managers and the valuations provided by these Managers reflect individual factors and place particular emphasis on the underlying portfolio companies.

4. Finance

- 4.1 EY's proposed audit fee for the West Sussex Pension Fund as set out in their Audit Planning Report (Appendix A), is a base scale fee of £28,989. EY have advised there will be further fees which are yet to be confirmed.

5. Risk implications and mitigations

Risk	Mitigating Action (in place or planned)
Failure to complete the Pension Fund accounts by the due date and to appropriate standards undermines the reputation of the Pension Fund and ability to move ahead in its management of the current year and planning for future years. It also increases the risk of additional fees if more audit testing is required for EY to issue its opinion.	Within the project plan and management handbook, which was approved by the Committee on 20 March 2023, there is a detailed risk register which was monitored throughout both the preparation and audit of the West Sussex Pension Fund statements.

Taryn Eves

Director of Finance and Support Services

Contact Officer: Dara Quaid, Pension Fund Finance Manager, 033 022 25023, dara.quaid@westsussex.gov.uk

Appendices

Appendix A – West Sussex Pension Fund County Council – Statement of Accounts 2022/23

Background Papers

None