
Regulation, Audit & Accounts Committee

25 September 2024

Pension Fund Financial Statements 2023/24

Report by Interim Director of Finance and Support Services

Summary

The audit of the Statement of Accounts for 2023/24 for the West Sussex Pension Fund has now concluded subject to internal review by Ernst and Young (EY). The audit plan from EY was shared at the meeting on 8 July 2024.

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 increased year to year and continue to be the largest cashflow movements within the Fund Accounts. Investment income received in 2023/24 is substantially higher than the prior year due to an increase in equity and bond income and private debt income.
- The market environment over the twelve months has improved in comparison to the previous year and whilst portfolio managers have underperformed relative to the market the change in market value reported is still positive. (£332m). The Pension Fund has a diversified portfolio to manage market volatility and active Fund Managers who over time should outperform the market.
- Investment assets were valued at £5.8bn 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.

Recommendations

The Committee is asked to:

- (1) Consider and note the Pension Fund's Statement of Accounts for 2023/24, as attached at Appendix A for the Chairman to approve and sign on behalf of the Regulation, Audit & Accounts Committee when the County Council Accounts are available.
 - (2) To agree that if further changes are required after the date of this Committee these are considered by the Regulation, Audit & Accounts Committee when it meets in November 2024.
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1. Background and context

- 1.1 The Pension Fund draft Statement of Accounts were submitted to Ernst and Young (EY) for their external audit on 31 May 2024 and [published on the County Council's website](#) shortly after following approval from the Interim Director of Finance and Support Services. EY Audit commenced on week commencing 3 June 2024.
- 1.2 Members received a briefing on the Pension Fund Statement of Accounts on 19 June 2024. This aimed to provide members with a greater understanding of the 2023/24 Pension Fund accounts and included a walk- through of the financial statements and areas of audit focus.
- 1.3 The Committee received and noted the audit plan from EY at their meeting on 8 July 2024.
- 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, which is approved by the Pensions Committee.

2. 2023/24 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 [11 March 2024](#).
- 2.3 The Fund Account reports on expenditure incurred and income received by the Pension Fund in 2023/24. The following aspects are highlighted:
 - Contributions and benefits paid have both increased year to year and continue to be the largest cashflow movements within the Fund Accounts.
 - Management expenses have increased in comparison to the prior year. This reflects the additional contributions of over £80m made to private equity and private debt in the period. Illiquid asset classes require high levels of expertise and specialized management, which translates into higher fees. However, it is expected that these investments will deliver a higher net return compared to more liquid asset classes.
 - Investment income received in 2023/24 is higher than the prior year due to an increase in equity and bond income, reflecting market conditions and changes to the underlying portfolio and income from maturing private debt investments.

- 2.4 The Net Asset Statement reports on our investment assets valued at £5.8bn 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 liabilities reflecting the VAT due to HMRC.

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 £6.0m (3.5%) higher than estimated for private equity and £3.6m (1.5%) higher for private debt.
 - Asset and liabilities are classified into levels according to the quality and reliability of information available to determine fair value. The ACCESS Sterling Aggregate Bond Fund has been reclassified from a Level 1 to Level 2 investment as pricing was no longer available on a public exchange. This has no impact on the valuation but is more reflective of the transparency of the source of pricing.
 - Minor amendments were made to some 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) all of which returned a valuation within EY's tolerance when compared to the figures included in the Pension Fund Statement of Accounts.

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 £94,589 in line with the Public Sector Audit Appointments (PSAA) 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 11 March 2024, there is a detailed risk register which was monitored throughout both the preparation and audit of the West Sussex Pension Fund statements.

Mike Suarez

Interim 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 2023/24

Background Papers

None