

# MUNICIPAL YEAR 2019/2020 REPORT NO. 146

**MEETING TITLE AND DATE:**

Pension Policy & Investment Committee  
21<sup>st</sup> November 2019

**REPORT OF:**

Director of Finance  
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<b>Agenda – Part:</b>	<b>Item: 8</b>
<b>Subject: Pension Fund Annual Report and Accounts 2018/19</b>	
<b>Wards: All</b>	
<b>Key Decision No:</b>	
<b>Cabinet Member consulted:</b>	

<b>1. EXECUTIVE SUMMARY</b>	
<b>There is a Statutory Requirement to prepare Pension Fund Annual Report and Accounts</b>	This report updates members on the arrangements for the preparation of the Pension Fund Annual Report and Accounts 2018/19 in accordance with regulations and the arrangements for the separate audit engagement, opinion and certificate for the Fund.
<b>External audit resulting in the auditor’s opinion and certificate for the Fund</b>	The Audited Pension Fund Accounts 2018/19 is in Section 2 of the attached Appendix A to this report. The Pension Fund Accounts are subject to the normal audit of accounts process, which was completed in September and it forms part of the overall external audit programme for the Council.
<b>Fund assets increased by £86.5m over the year</b>	The net asset statement represents the net worth (£1,185.5m) of the Fund. This improvement was because of the market performance.
<b>PIRC ranked the Fund 24th in their league table with return on investment of 7.2% for 2018/19</b>	The PIRC average universe for local authority Pension Fund return in 2018/19 was 6.6%. The Enfield Pension Fund had a return on investment of 7.3% and ranked 24th in the performance league. Looking at the longer-term performance, the three-year return for the Fund was 0.6% per annum above its benchmark return and for over five years, the Fund posted a return of 8.5% p.a. outperforming the benchmark return of 8.3% by 0.3%.
<b>The initial results of 31st March 2019 triennial valuation demonstrated the Fund is fully Funded from the last formal valuation by 16% to 103%</b>	At the last formal valuation (31st March 2016) the Fund assets were £916.3m and the liabilities were £1,048.2m, exhibiting deficit of £132m which establishes a funding level of 87%. From the last formal valuation of March 2016, the funding level has increased to 103%, with some assets of £1,185m and liabilities of some £1,146m, giving rise to a surplus of over £39m. This is definitely a great news for the Fund and its employers and this position of strength would afford the Committee to explore and implement new investment strategy with embedded ESG considerations.

## 2. **RECOMMENDATIONS**

### 2.1. Members are recommended to

- i) Note the contents of this report;
- ii) Note and approve the Annual Report for 2018/19 with all the statutory documents. (attached as Appendix A to this report);
- iii) Note the Enfield Pension Fund ranking and returns as prepared and produced by PIRC (Pensions & Investment Research Consultants Ltd) UK Local Authority League table for 2018/19, set in section 3.24 to 3.27 and Appendix B of this report; and
- iv) Approve the publication and distribution of the Annual Report to interested parties.

## 3. **BACKGROUND**

- 3.1. The Council as an administering authority under the Local Government Pension Scheme Regulations and is therefore required to produce a separate set of accounts for the scheme's financial activities and assets and liabilities.
- 3.2. The contents and format of the accounts are determined by statutory requirements and mandatory professional standards as established by the Chartered Institute of Public Finance (CIPFA) in their Service Code of Recommended Practice (SERCOP). The annual report has been prepared in accordance with the Local Government Pension Scheme Regulations 2013 and includes all the items required.
- 3.3. The London Borough of Enfield is the Administering Authority for the London Borough of Enfield's Pension Fund and the Pensions Committee act as trustees of the Pension Fund which includes overseeing the accounting and financial management of the Pension Fund.

### **The Annual Report and Statement of Accounts**

- 3.4. The Accounts comprise two main statements with supporting notes. The main statements are:
  - i) Dealings with Members Employers and Others which is essentially the fund's revenue account; and
  - ii) The Net Assets Statement which can be considered as the fund's balance sheet.
- 3.5. The return on investment section of the accounts sets out the movement in the net worth of the fund in the year by analysing the relevant financial transactions and movements in the market value of the investment portfolio. The statement has two main sections:
  - i) The financial transactions relating to the administration of the fund; and

ii) The transactions relating to its role as an investor.

- 3.6. Overall, the Fund's assets had increased by £86.5m in the financial year. The improvement was due to the performance of the financial markets in which the Fund held its investments and a net surplus of fund income over expenditure.
- 3.7. The net asset statement represents the net worth (£1,185m) of the Fund as at the 31st March 2019. The statement reflects how the transactions outlined in the other statement have impacted on the value of the Fund's assets.
- 3.8. The Fund income section of the report principally relates to the receipt of contributions, from employers and active members, and the payment of pensions benefits. The section indicates that the Fund is cash positive in that that the receipt of contributions exceeds payments, which stood at £4.1m net additions for 2018/19 compared to net addition of £541k in 2017/18.
- 3.9. Investment income increased considerably over the year as expected in line with improved assets value by some £1.3m. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) was significantly more by £2.17m over the year. It is not possible to predict the value of transfer value payments as they are dependent on an individual's length of service and salary and as such may vary significantly. The total contributions increased over the year by £3.454m compared to last year this was due to LB Enfield employer contribution rate increasing from 23.9% to 24.4%.
- 3.10. In 2018/19 the overall expenditure increased substantially by £2.2m. The major contributors were the overall benefits paid which increased substantially by £2m over the year. The management expenses went up by £150k and this is solely and increase from administration costs.
- 3.11. Overall, fund membership has increased slightly from 21,347 to 22,281, an increase in membership number of 934. The active members reduced by 139 members over the year whilst deferred members increased significantly by 1039. Retired membership increased moderately by 265 members.
- 3.12. The investment performance section of the report details returns on the investment portfolio, the impact of managers' activities and investment markets on the value of investments.
- 3.13. The annual report also includes three key statements (Funding Strategy Statement, Investment Strategy Statement that replaced Statement of Investment Principles and Governance Compliance Statement) relating to the management and governance of the scheme and each statement serves a different purpose.
- 3.14. The Funding Strategy Statement (FSS) undergoes a detailed review and was updated after the triennial valuation. The 2016 triennial valuation outcome was reported, discussed and approved at the Committee meeting in February/March 2017.
- 3.15. The FSS is currently being review due to the ingoing triennial valuation and the current changes and uncertainties surrounding Local Government Pension Scheme. This statement is being tabled at this meeting for consideration of the committee.
- 3.16. The purpose of the Funding Strategy statement is threefold:

- i) To establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward;
    - ii) To support the regulatory framework to maintain as nearly constant employer contributions rates as possible; and
    - iii) To take a prudent longer-term view of funding those liabilities.
  - 3.17. The Investment Strategy Statement (ISS). The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.
  - 3.18. This ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused.
  - 3.19. The Governance Compliance Statement sets out the Council's policy as the administering authority in relation to its governance responsibilities for the Fund.
  - 3.20. The Audit Plan for the Pension Fund and any reports arising from the audit will be reported to the Pensions Committee. However, as the pension fund accounts remain part of the financial statements of the Council as a whole, the Audit Committee retain ultimate responsibility for receiving, considering and agreeing audit plans as well as receiving any reports arising from the audit.
  - 3.21. The External Auditor provides an independent assessment of the Council's Pension Fund financial statements, systems, procedures and performance. The external auditor is required to issue an ISA 260 report, an opinion on the Council's accounts and this will include an opinion on the Pension Fund accounts. The ISA 260 report sets out their opinion and any issues which they believe the Committee should be aware of.
  - 3.22. The audit of the Pension Fund accounts is complete and an ISA 260 report was issued. At the time of writing this report the Fund's auditors, BDO cannot progress to a consistency opinion for the Pension Fund financial statements within the Pension Fund's Annual Report until the Pension Fund financial statements within the Statement of Accounts of the Council opinion is signed.
  - 3.23. The Pension Fund audit is being undertaken by BDO and the audit fee is being maintained at £21,000, this would be charged to the Pension Fund.
- PIRC League Table Performance**
- 3.24. PIRC measures the performance of the Fund against their Local Authority Universe data. The PIRC Local Authority Universe is an aggregation of Funds (currently 64 Funds) within the LGPS sector that is used for peer group comparisons. The performance results set out in this section are from the league tables.
  - 3.25. The PIRC universe average for local authority Pension Fund return for 2018/19 was 6.6% compared to the Fund benchmark of 5.3%, the Fund outperformed the its benchmark and PIRC universe, ranked at 24<sup>th</sup> position for this period.

- 3.26. The PIRC universe 3-year average performance return for 2018/19 was 10.5% and the Fund benchmark return was 8.2%, the Enfield Fund outperformed its benchmark by 0.6% and underperformed the PIRC universe by 1.7% and was ranked in 82<sup>nd</sup> position for this period.
- 3.27. Over the longer period of 5, 10, 20 and 30 year are shown in below table:

	<b>One year</b>	<b>3 years</b>	<b>5 years</b>	<b>10 years</b>	<b>20 years</b>	<b>30 Years</b>
Enfield Fund % p.a.	7.3	8.8	8.5	9.7	6.2	8.6
Benchmark % p.a.	5.3	8.2	8.3	9.4	6.3	-
PIRC Universe % p.a.	6.6	10.5	8.8	10.7	6.4	8.4
Ranking	24	82	49	86	43	23

### **Funding Update**

- 3.28. This funding update has been provided to give the initial 2019 formal valuation result of the Fund funding level compared to its last formal valuation of 31 March 2016. At the last 2016 formal valuation, the Fund assets were £916m and the liabilities were £1,048m, which resulted in a deficit of £132m and a funding level of 87%. The initial result of the 2019 formal valuation confirmed a significant improvement to the Enfield Pension Fund funding level, this has increased by 16% to 103%, with Fund assets of £1,185m and liabilities of £1,146m, generating a surplus of some £39m as at 31st March 2019.

## **4. ALTERNATIVE OPTIONS CONSIDERED**

There are no alternative options in so far as the publication of the Statement of Accounts and Annual Reports is a legislative requirement.

## **5. REASONS FOR RECOMMENDATIONS**

- 5.1. The Committee acts as quasi-trustee to the Pension Fund and as such acts in the capacity of the Administering Authority of the Pension Fund. The Committee's terms of reference require that the Annual Report and Accounts on the activities of the Fund are presented and approved prior to their publication. The Local Government Pension Scheme Regulations 2013, Regulation 57 require the Pension Fund to publish its report and accounts by 1st December following the financial year end and for the Report to contain a number of standard items.
- 5.2. The publication of the Pension Fund Annual Report and Statement of Accounts helps to keep Fund members informed, shows good governance and also helps to demonstrate effective management of Fund assets

## **6. COMMENTS FROM OTHER DEPARTMENTS**

### **6.1 Financial Implications**

- i) The Council as Administering Authority has the responsibility of ensuring that the Pension Fund is administered effectively and efficiently and that

arrangement for financial management are properly scrutinised. The performance of the fund affects the level of employer's contribution to the fund.

- ii) The Pension Fund Annual Report and Accounts sets out the financial position of the Pension Fund as at 31st March 2019 and acts as the basis for understanding the financial wellbeing of the Pension Fund. It enables Members to manage and monitor the Scheme effectively, helping to ensure that they are able to fully understand the financial implications of the decisions they make.

## 6.2 Legal Implications

- i) Regulation 57 of the Local Government Pension Scheme Regulations 2013 imposes a duty on the Council as an administering authority to prepare a pension fund annual report. The report must be published by 1st December following the financial year end.
- ii) The report should deal with the following matters:
  - a. management and financial performance during the year of the pension;
  - b. an explanation of the investment policy for the fund and a review of performance;
  - c. a report on arrangements made during the year for administration of the fund;
  - d. a statement by an actuary who carried out the most recent valuation of the fund and the level of funding disclosed by that valuation;
  - e. a Governance Compliance Statement;
  - f. a Fund Account and Net Asset Statement;
  - g. an Annual Report dealing with levels of performance set out in the pension administration strategy and any other appropriate matters arising from the administration strategy;
  - h. the Funding Strategy Statement;
  - i. the Investment Statement Strategy;
  - j. statements of policy concerning communications with members and employing authorities; and
  - k. any other material which the authority considers appropriate.
- iii) When performing its functions as administrator of the Enfield pension fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

## 7. KEY RISKS

- 7.1 Accounts provide an effective mechanism to safeguard the Council's assets and assess the risks associated with its activities.

### **Background Papers – None**

### **Appendices – The below appendices are attached electronically but not in the main pack.**

- Appendix A – Pension Fund Annual Report and Accounts 2018/19
- Appendix B – PIRC UK Local Authority League table for 2018/19

### **Officer contact details for documents:**

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