

London Borough of Enfield

LOCAL PENSION BOARD

Meeting Date: 30 September 2020

Subject: Draft Pension Fund Annual Report and Accounts 2019/20

Cabinet Member: Cllr Maguire

Executive Director: Fay Hammond

Key Decision: []

Purpose of Report

1. There is a Statutory Requirement to prepare Pension Fund Annual Report and Accounts and this report updates members on the arrangements for the preparation of the Pension Fund Annual Report and Accounts 2019/20 in accordance with regulations and the arrangements for the separate audit engagement, opinion and certificate for the Fund.
2. The Audited Pension Fund Accounts 2019/20 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 should be completed in September and it forms part of the overall external audit programme for the Council.

Proposal(s)

3. Members are recommended to:
 - a) note the contents of this report; and
 - b) Note and consider the Annual Report for 2019/20 with all the statutory documents. (attached as Appendix A to this report);
 - c) 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 2019/20, set in section 32 to 35 and Appendix B of this report.

Reason for Proposal(s)

4. 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. The publication of the Pension Fund Annual Report and Statement of Accounts helps to keep Fund members informed, shows good governance and helps to demonstrate effective management of Fund assets.
6. The Pensions Board's role is to assist the Administering Authority in ensuring compliance with the regulations. This requires that a number of monitoring and management activities are undertaken to ensure that it fully discharges its scrutinising responsibilities to the Fund and minimise risks relating to the management of the Fund and could assist in managing down the risk of non-compliance with the Council's obligations under the Regulation as the administering authority of the London Borough of Enfield Pension Fund.

Relevance to the Council's Corporate Plan

7. Good homes in well-connected neighbourhoods.
8. Build our Economy to create a thriving place.
9. Sustain Strong and healthy Communities.

Background

10. 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.
11. 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.
12. The London Borough of Enfield is the Administering Authority for the London Borough of Enfield's Pension Fund and the Pension Policy and Investments 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

13. 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.

14. 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.
15. Overall, the Fund's assets had decreased by £35.7m in the financial year. The reduction was due to the under performance of the financial markets in which the Fund held its investments and a net withdrawals of fund expenditure over income.
16. The net asset statement represents the net worth (£1,149.8m) of the Fund as at the 31st March 2020. The statement reflects how the transactions outlined in the other statement have impacted on the value of the Fund's assets.
17. 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 £7.1m net additions for 2019/20 compared to net addition of £4.1m in 2018/19.
18. Investment income decreased slightly over the year as expected in line with weakened assets value by some £0.5m. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) was slightly less by £40k 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 £3.9m compared to last year this was due to LB Enfield employer contribution rate increasing from 24.4% to 24.9%.
19. In 2019/20 the overall expenditure increased by some £875k. The major contributors were the overall benefits paid which increased by some £810k over the year. The management expenses went up by £190k and this is solely and increase from administration costs.
20. Overall, fund membership has increased slightly from 22,281 to 23,123, an increase in membership number of 842. The active members increased by 223 members over the year whilst deferred members increased significantly by 218. Retired membership increased significantly by 401 members.
21. 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.
22. The Audit Plan for the Pension Fund and any reports arising from the audit will be reported to the Pension Policy & Investments 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.

23. 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.
24. The audit of the Pension Fund accounts is yet to be completed and an ISA 260 report will be issued by the auditor once completed.
25. 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.
26. The annual report also includes three key statements (Funding Strategy Statement, Investment Strategy Statement and Governance Compliance Statement) relating to the management and governance of the scheme and each statement serves a different purpose.
27. The Funding Strategy Statement (FSS) undergoes a detailed review and was updated after the triennial valuation. The 2019 triennial valuation outcome was reported, discussed and approved at the Committee meeting in November 2019 and February 2020 and this was tabled at the January 2020 Board meeting.
28. 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.
29. 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.
30. 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.
31. The Governance Compliance Statement sets out the Council's policy as the administering authority in relation to its governance responsibilities for the Fund.

PIRC League Table Performance

32. PIRC measures the performance of the Fund against their Local Authority Universe data. The PIRC Local Authority Universe is an aggregation of Funds (currently 63 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.
33. The PIRC universe average for local authority Pension Fund return for 2019/20 was -4.8% compared to the Fund benchmark of -0.84%, the Fund underperformed its benchmark but outperformed the PIRC universe and ranked at 10th position for this period.
34. The PIRC universe 3-year average performance return for 2019/20 was 1.9% and the Fund benchmark return was 2.4%, the Enfield Fund outperformed its benchmark by 0.3% and the PIRC universe by 0.6% and was ranked in 23rd position for this period.
35. Over the longer period of 5, 10, 20 and 30 year are shown in below table:

	One year	3 years	5 years	10 years	20 years	30 Years
Enfield Fund % p.a.	-1.5	2.5	5.4	6.8	5.4	8.1
Benchmark % p.a.	-0.8	2.2	5.0	-	-	-
PIRC Universe % p.a.	-4.8	1.9	5.2	6.9	5.5	7.9
Ranking	10	23	27	48	35	22

Funding Update

36. This funding update has been provided to give the result of the Fund funding level compared to its last formal valuation of 31 March 2019. At the last 2019 formal valuation, the funding ratio of 103%, with Fund assets of £1,185m and liabilities of £1,146m, generating a surplus of some £39m as at 31st March 2019. The update position as at 31st March 2020 indicates a weakened funding level position of 96%, a 7% reduction from 2019 funding level of 103%, creating a deficit of some £50m as at 31st March 2020.

Safeguarding Implications

37. The report provides clear evidence of sound financial management, efficient use of resources, promotion of income generation and adherence to Best Value and good performance management.

Public Health Implications

38. The Enfield Pension Fund indirectly contributes to the delivery of Public Health priorities in the borough.

Equalities Impact of the Proposal

39. The Council is committed to Fairness for All to apply throughout all work and decisions made. The Council serves the whole borough fairly, tackling

inequality through the provision of excellent services for all, targeted to meet the needs of each area. The Council will listen to and understand the needs of all its communities.

Environmental and Climate Change Considerations

40. There are no environmental and climate change considerations arising from this report.

Risks that may arise if the proposed decision and related work is not taken

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

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

42. Not approving the report recommendations and not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Enfield Pension Fund.

Financial Implications

43. The Council as Administering Authority has the responsibility of ensuring that the Pension Fund is administered effectively and efficiently and that arrangements for financial management are properly scrutinised. The performance of the fund affects the level of employer's contribution to the fund.
44. The Pension Fund Annual Report and Accounts sets out the financial position of the Pension Fund as at 31st March 2020 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.

Legal Implications

45. Administering authorities are now bound by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which have replaced the 2009 Regulations. These regulations set out an administering authority's statutory duties in ensuring the proper administration and management of its pension fund.
46. One of the functions of the Pension Policy and Investment Committee is to meet the Council's duties in respect of investment matters. It is appropriate having regard to these matters, for the Committee to receive information about budgetary matters. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

47. 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.
48. The report should deal with the following matters:
- i) management and financial performance during the year of the pension;
 - ii) an explanation of the investment policy for the fund and a review of performance;
 - iii) a report on arrangements made during the year for administration of the fund;
 - iv) a statement by an actuary who carried out the most recent valuation of the fund and the level of funding disclosed by that valuation;
 - v) a Governance Compliance Statement;
 - vi) a Fund Account and Net Asset Statement;
 - vii) 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;
 - viii) the Funding Strategy Statement;
 - ix) the Investment Statement Strategy;
 - x) statements of policy concerning communications with members and employing authorities; and
 - xi) any other material which the authority considers appropriate.
49. 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).

Workforce Implications

50. The employer's contribution is a significant element of the Council's budget and consequently any robust monitoring and reviewing system will bring about an improvement in the Fund's performance and will allow the Council to meet this obligation easily and could also make resources available for other corporate priorities.

Property Implications

51. None

Other Implications

52. None

Options Considered

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

Conclusions

54. The attached Appendix A - annual report is a work in progress and the final version will be brought to the next Board meeting after it has been tabled for an approval at the next PPIC meeting scheduled for 26 November 2020.
55. Fund assets decreased by £35.7m over the year. The net asset statement represents the net worth (£1,149.8m) of the Fund. This improvement was because of the market performance.
56. The PIRC average universe for Local Authority Pension Fund return in 2019/20 was -4.8%. The Enfield Pension Fund had a return on investment of -1.5% and ranked 10th in the performance league. Looking at the longer-term performance, for three year return PIRC ranked the Fund 23rd in their league table with return on investment of 2.5% per annum and for five year return, PIRC ranked the Fund 27th in their league table with return on investment of 5.4% per annum.
57. The Fund underperformed its benchmark by returning -0.7% below its benchmark of -0.8% for the year 2019/20. The three-year return for the Fund was 0.3% per annum above its benchmark return and for over five years, the Fund posted a return of 5.4% p.a. outperforming the benchmark return of 5% by 0.4% per annum.
58. The valuation updates as at 31st March 2020 demonstrated the Fund funding level is slightly weakened from the last formal valuation by 7% from 103% to 96%. At the last formal valuation (31st March 2019) the funding level increased to 103%, with assets of £1,185m and liabilities of some £1,146m, giving rise to a surplus of over £39m. This reduction in funding level gave rise to a deficit position of some £50m.

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Appendices

Appendix A – Pension Fund Annual Account For 2019/20

Appendix B – PIRC UK Local Authority League table for 2019/20

Background Papers - None