

London Borough of Enfield

GENERAL PURPOSES COMMITTEE

Meeting Date: 15 October 2020

Subject: Enfield Pension Fund Financial Statement for 2019/20

Cabinet Member: Cllr Maguire

Executive Director: Fay Hammond

Key Decision: []

Purpose of Report

1. This report presents the Pension Fund Statement of Accounts for 2019-20 for approval.
2. As part of this meeting agenda, the external auditors, BDO are also tabling their draft report to this Committee, charged with governance (ISA260) for 2019-20.
3. The audited Pension Fund Statement of Accounts 2019/20 is attached as Appendix A to this report.

Proposal(s)

4. The Committee are recommended to:
 - i) Approve the audited Pension Fund Statement of Accounts for 2019/20. (attached as Appendix A to this report);

Reason for Proposal(s)

5. The Accounts and Audit Regulations 2015 require that each Local Authority approve its audited financial report statements by the statutory deadline of 31st July each year. The external auditors are required to audit this report and to provide an audit opinion by the same date.
6. The Pension Policy & Investment Committee (PPIC) acts as quasi-trustee to the Pension Fund and as such acts in the capacity of the Administering Authority of the Pension Fund. The PPIC'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.

7. 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

Relevance to the Council's Corporate Plan

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

Background

THE STATEMENT OF ACCOUNTS

11. 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.
12. 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.
13. Overall, the Fund's assets had decreased further from £16.7m reported in the account to £35.7m in the final accounts for the financial year (the further £19m reduction experienced by the Fund was due to the global custodian using February 2020 valuation positions to close five portfolios at the end of March 2020 as these managers were not able to produce March month end valuations in time). The overall reduction for the year was due to the financial markets under performance in which the Fund held its investments and the contribution of the net withdrawals of the fund expenditure over income.
14. The restated net asset statement represents the net worth (£1,150m) 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.
15. 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.

16. Investment income decreased slightly over the year as expected in line with weakened assets value by some £0.7m. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) were 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%.
17. 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.
18. Overall, fund membership has increased slightly from 22,281 to 23,123, an increase in membership number of 842. The active members increased by 167 members over the year whilst deferred members increased significantly by 465. Retired membership increased by 210 members.
19. 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.
20. The Audit Plan for the Pension Fund and any reports arising from the audit will also 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, this Committee retains ultimate responsibility for receiving, considering and agreeing audit plans as well as receiving any reports arising from the audit.
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 include an opinion on the Pension Fund accounts.
22. The audit of the Pension Fund accounts is now complete, and an Audit Completion Report (ACR/ISA 260 report) will be table by the auditor at this meeting. The ACR/ISA 260 report sets out their opinion and any issues which they believe the Committee should be aware of.
23. The Pension Fund audit is being undertaken by BDO and the audit fee is being maintained at £19,000, this would be charged to the Pension Fund.

PIRC LEAGUE TABLE PERFORMANCE

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 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.

25. 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.
26. The PIRC universe 3-year average performance return for 2019/20 was 1.9% and the Fund benchmark return was 2.2%, 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.
27. 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

28. 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.

Assumption	31st March 2016 Valuation Results	31st March 2019 Final Valuation Results	31st March 2020 Estimated Valuation Update
Main scheduled body funding target:			
Probability of funding success	69%	80%	80%
Discount rate	4.50%	4.20%	4.20%
Ongoing orphan funding target:			
In service discount rate	4.10%	3.30%	3.30%
Left service discount rate	2.50%	1.60%	1.60%
RPI inflation	3.10%	3.20%	3.10%
CPI inflation (pension increases / CARE rev)	2.00%	2.10%	2.20%
Post 88 GMP pension increases	1.80%	1.90%	1.70%
Pay inflation	3.50%	3.60%	3.40%
Value of Assets	£916.3m	£1,185.5m	£1,169m
Value of Liabilities	(£1,048.2m)	(£1,146.2m)	(£1,119m)
(Deficit)/Surplus	(£131.9m)	£39.3m	(£50m)
Funding Ratio	87%	103%	96%
Primary Contribution	17.70%	18.50%	18.50%
Secondary Contribution (to reduce deficit)	5.10%	0%	0%
Extraordinary Contribution (possible cost of McCloud)		1.50%	1.50%

Total Employer Contribution	22.80%	20.00%	20.00%
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29. Shown above is the update position as at 31st March 2020 which 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 as shown below.
30. Liabilities increased significantly on a gilts basis over the quarter as long-dated bond yields fell sharply. This, along with the risk asset selloff, led to deteriorating funding ratios. Long-dated fixed interest gilt yields (20-year duration) decreased by 48bps to 0.87% over the quarter. 20-year real yields also fell over the quarter but by comparatively less due to the fall in breakeven inflation.

Safeguarding Implications

31. 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

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

Equalities Impact of the Proposal

33. 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

34. 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

35. 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

36. 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

37. 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.
38. The Pension Fund Statement of 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

39. 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.
40. The Council is required to prepare a statement of accounts in accordance with the Accounts and Audit Regulations 2015.
41. The Accounts and Audit Regulations 2015 specify a procedure for signing, approval and publication of a statement of accounts. The chief finance officer is required to sign and date the statement of accounts by 31 May each year, certifying that it presents a true and fair view of the Council's financial position at the end of the relevant financial year and of the Council's income and expenditure for the year. The Audit Committee must approve the statement of accounts by 31 July each year and the statement must be signed by the chair of the meeting at which the accounts were approved. The statement of the accounts must be published by 31 July along with any certificate, opinion or report issued or given by the Local Auditor under the Local Audit and Accountability Act 2014.
42. As indicated in the report, it is consistent with good practice for the committee to see the statement of accounts at an early stage, given that it will be asked to approve the accounts upon completion of the audit.

Workforce Implications

43. The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will allow the Council to meet this obligation easily and could also make resources available for other corporate priorities.

Property Implications

44. None

Other Implications

45. None

Options Considered

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

Conclusions

47. The Fund assets reduced by £35.7m over the year. The net asset statement represents the net worth (£1,149.8m) of the Fund. This reduction was because of the Covid-19 outbreak turned into a global pandemic. Whereby, global equities sold off sharply after reaching all time highs in mid-February. By end of June 2020 the audited custodian accounts demonstrate the Fund assets appreciated by over £96m due to the bounced back effect of global equity markets
48. 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 table. Looking at the longer-term performance, the three-year return for the Fund was 2.5% per annum and for over five years, the Fund posted a return of 5.4% p.a. the Fund outperforming the universe average return of 1.9% and 5.2% respectively.
49. 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.
50. The valuation updates as at 31st March 2020 was received from the Fund actuary 4th May 2020 and this demonstrated the Fund funding level was slightly weakened from the last formal valuation by 7% from 103% to 96%. This reduction in funding level gave rise to a deficit position of some £50m. There is a possibility of this position to have improved significantly if were to carry out this assessment again as the net assets value of the Fund appreciated by over £95m.

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Appendices

Appendix A – Enfield Pension Fund Financial Statements For 2019/20

Background Papers

None