

London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 5 October 2022

Subject: Draft Enfield Pension Fund Annual Report and Accounts 2021/22

Cabinet Member: Cllr Leaver

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 2021/22 in accordance with regulations and the arrangements for the separate audit engagement, opinion and certificate for the Fund.
2. The Pension Fund Accounts 2021/22 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 forms part of the overall external audit programme for the Council.

Fund assets increased significantly by £117m over the year

The net asset statement represents the net worth (£1,523m) of the Fund. This increase was due to the outperformance of the global equity market.

PIRC ranked the Fund 39th in their league table with return on investment of 9.1% for 2021/22

The PIRC average universe for local authority Pension Fund returns in 2021/22 was 8.6%. The Enfield Pension Fund had a return on investment of 9.1% and ranked 39th in the performance league. Looking at the longer-term performance, the 3 year return for the Fund was 8.6% p.a. compared with 8.3% delivered by the PIRC average universe return and for over five years, the Fund posted a return of 7% p.a. under performing the PIRC average universe of 7.1% by 0.1%.

The valuation update results as at 31st March 2022 demonstrated a Funding level of 112%, given rise to a fund surplus of £159m.

At the last formal valuation (31st March 2019) the Fund assets were £1,186m and the liabilities were £1,146m, exhibiting a surplus of £39m which gave rise to a funding level of 103%. An estimated valuation update was carried out as at 31 March 2022, the outcome gave rise to a fund surplus of £159m with a stronger funding level of 112%.

Proposal(s)

3. Members are recommended to:
 - a) Note the contents of this report;
 - b) Note the Pension Fund Accounts for 2021/22, set at Section 2 of the Pension Fund Annual Report attached as Appendix A to this report;
 - c) Consider and approve the draft Enfield Pension Fund Annual Report and Accounts for 2021/22 attached as Appendix A to this report;
 - d) 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 2021/22, set in section 31 to 34 and Appendix B of this report.
 - e) Delegate completion, approval, the publication and distribution of the annual report to interested parties once the audit process is complete to the Executive Director of Resources in consultation with Chair and Vice Chair.

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.

Relevance to the Council's Corporate Plan

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

Background

9. 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.

10. 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.
11. 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

12. 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.
13. 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.
14. Overall, the Fund's assets had increased by £117m in the financial year. The improvement was due to the out performance of the financial markets in which the Fund held its investments and a net withdrawals of fund expenditure over income.
15. The net asset statement represents the net worth (£1,523m) of the Fund as at the 31st March 2022. The statement reflects how the transactions outlined in the other statement have impacted on the value of the Fund's assets.
16. 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 the receipt of contributions exceeds payments, which stood at £3.25m net additions for 2021/22 compared to net addition of £5.5m in 2020/21.
17. Investment income increased by some £3.45m over the year as expected this is in line with the Fund assets appreciation. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) was lesser by £2.5m 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 £401k.

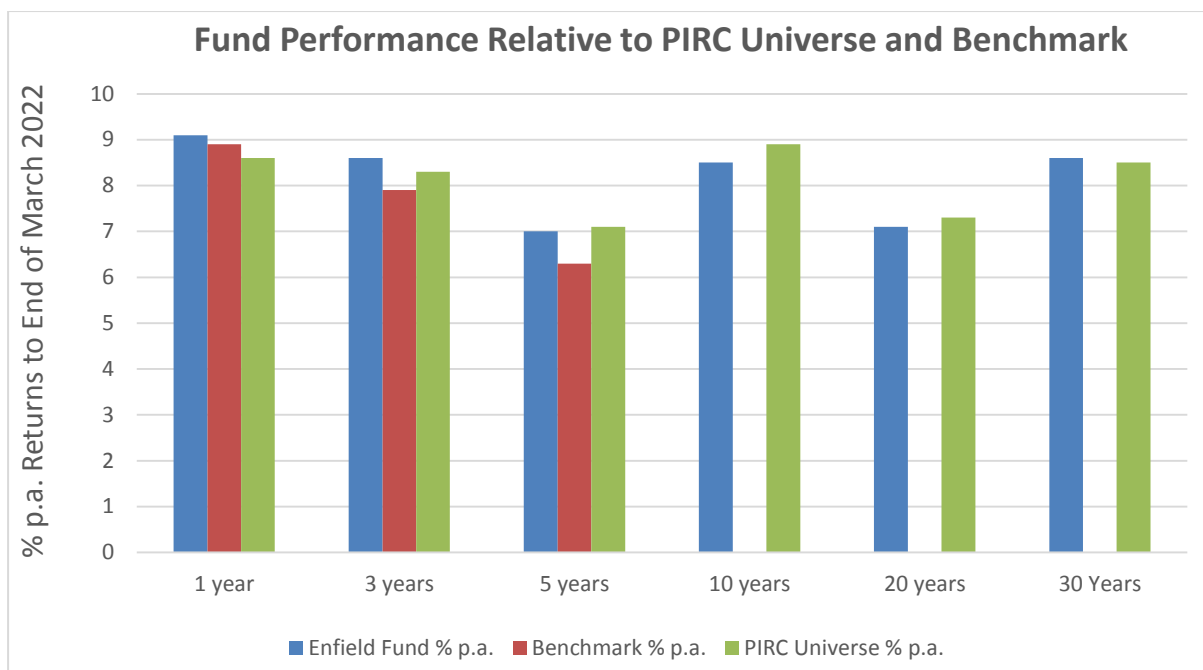
18. In 2021/22 the overall expenditure increased by some £2.625m. The major contributors were the overall benefits paid which increased by some £2.5m over the year. The management expenses went up by £541k.
19. Overall, fund membership has increased slightly from 23,690 to 24,646, an increase in membership number of 956. The active members increased by 182 members over the year, deferred members increased by 440 and the retired membership increased by 334 members.
20. 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.
21. 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. However, the Audit Plan for the Pension Fund and any reports arising from the audit will be reported to this Committee.
22. 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.
23. 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, at the time of writing this report ISA 260 has not been issued.
24. 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.
25. 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.
26. The Funding Strategy Statement (FSS) is currently being review, although a detailed review was carried out after the 2019 triennial valuation.
27. 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.

28. 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.
29. 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.
30. 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

31. 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.
32. Fund Performance 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.	9.1	8.6	7.0	8.5	7.1	8.6
Benchmark % p.a.	8.9	7.9	6.3	-	-	-
PIRC Universe % p.a.	8.6	8.3	7.1	8.9	7.3	8.5
Ranking	39	48	53	66	56	36



33. The PIRC universe average for local authority Pension Fund returns for 2021/22 was 8.6% and ranked at 39th position on the league table for this period comparing this return with the Fund benchmark return of 8.9%, the Fund outperformed its benchmark and the PIRC universe average by generated 9.1% return for the period.
34. The PIRC universe 3-year average performance return for 2021/22 was 8.3% and the Fund benchmark return was 7.9%, the Enfield Fund out performed its benchmark by 0.7% and out performed the PIRC universe by 0.3% and was ranked in 48th position for this period.

Funding Update

35. An estimated funding update was carried out using the data and some assumptions of the last 2019 formal valuation, the outcome was a stronger funding level of 112% compared to 103% funding level of, the last Fund formal valuation of 31 March 2019. The Fund is currently undergoing 2022 triennial valuation and the initial results will be table at this meeting by the Fund actuary.
36. 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 but the update position as at 31st March 2022 gave rise to a fund surplus of some £159m as at 31st March 2022, as shown in the below:

Funding Position – Ongoing funding target from 31 March 2019

Funding level

112%

31 Mar 2022

▲ 9%
vs 31 Mar 2019

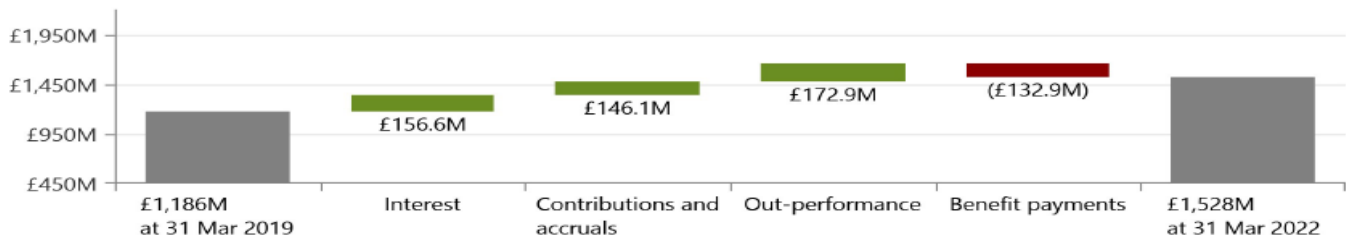
Surplus

£159M

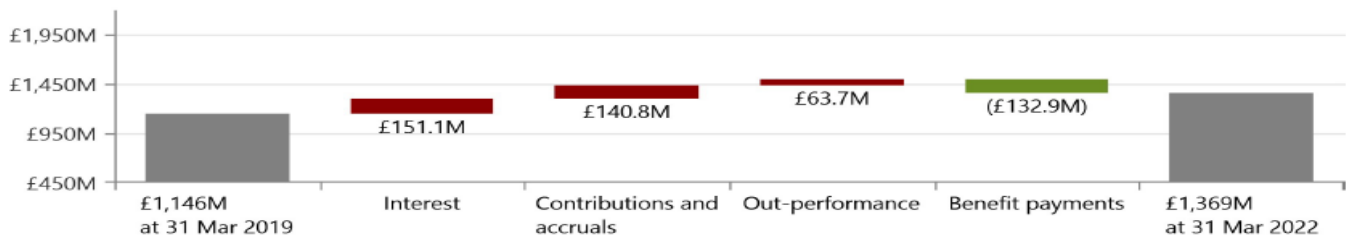
31 Mar 2022

▲ £120M
vs 31 Mar 2019

Change in asset value since 31 March 2019



Change in liability value since 31 March 2019



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 2022 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.

Workforce Implications

49. 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.

Other Implications

50. None

Options Considered

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

Conclusions

52. Fund assets increased by £117m over the year. The net asset statement represents the net worth (£1,523m) of the Fund. This improvement was because of the market performance.
53. The PIRC average universe for Local Authority Pension Fund returns in 2021/22 was 8.6%. The Enfield Pension Fund had a return on investment of 9.1% and ranked 39th in the performance league. Looking at the longer-term

performance, for three year return PIRC average universe returns was 8.3%, ranked the Fund 48th in their league table with return on investment of 8.6% per annum and for five year return, PIRC average universe return was 7.1%, ranked the Fund 53rd in their league table with return on investment of 7% per annum.

54. The Fund outperformed its benchmark by returning 9.1% compared to its benchmark return of 8.9% for the year 2021/22. For the three-year return, the Fund generated 8.6% per annum and its benchmark returned 7.9% and for over five years, the Fund posted a return of 7% p.a. outperforming its benchmark return of 6.3% by 0.7% per annum.
55. The estimated valuation updates as at 31st March 2022 demonstrated that since the last formal valuation (31st March 2019) the assets and liabilities have both increased, and the total surplus in the Fund has increased. The Fund funding level has been further strengthened from the last formal valuation by 9% from 103% to 112%, this improvement also gave rise to a significant surplus of some £159m from £39m.

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Date of report 14th September 2022

Appendices

Appendix A – Draft Pension Fund Annual Report and Accounts For 2021/22

Appendix B – PIRC UK Local Authority League table for 2021/22

Background Papers - None