

PENSIONS COMMITTEE 9 OCTOBER 2020

PENSION FUND ANNUAL STATUTORY FINANCIAL STATEMENTS AND ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2020

Recommendation

- 1. The Chief Financial Officer recommends that the Pension Fund Annual Statutory Financial Statements and Annual Report for the financial year ended 31 March 2020 be approved.**

Background

2. The Council and Pension Fund are required to prepare annual Statement of Accounts and to arrange for them to be audited and reported in accordance with the Accounts and Audit Regulations 2015 (as amended), and the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Statement of Accounts presents the overall financial position of the Pension Fund, reflecting the Pension Fund net asset position
3. In response to an unprecedented situation relating to the COVID-19 pandemic and the need to reduce the immediate resources pressure on councils and auditors to meet statutory audit deadlines, the Accounts and Audit Regulations 2015 were amended to allow the publication of the Statement of Accounts and public inspection of the accounts to be delayed.
4. Accordingly, a Progress Report prepared by the Council's and Pension Fund external auditor, Grant Thornton, was provided to the last Audit and Governance Committee in July 2020 on progress made and any issues arising from the external audit of the Council's and Pension Fund's financial statements.
5. Since then, the audit process has continued, and the Pension Fund has now received Audit Findings Reports (AFR) along with the County and a link is provided here which are part of the Audit and Governance Committee (A&GC) agenda item 6 Appendix 2 of the 2 October [Pensions AFR](#) for member review.
6. It is noted that we will be one of the first County Councils to have produced and have audited accounts available for this year. The Pension Fund accounts are included as part of the County Councils accounts (from page 155 onwards on the A&GC agenda item 9) and a link is provided here [Pensions Final Accounts 2019/20](#)

Annual Report

7. The annual report is a key communications channel between the fund and a wide variety of stakeholders. The report contains information relating to the Pension funds unaudited annual accounts including the fund investments, administration, governance, valuations, accounts and membership. This is the draft annual report as this has not been verified by External Audit. An update will be provided to the December Committee of any changes made by External Audit. At the time of writing this report the annual report is being finalised and will be circulated to Committee before the meeting.

Key issues arising - Worcestershire Pension Fund Statutory Accounts 2019/20

8. The key issues are given in the draft of the Grant Thornton report and are summarised below:

- Grant Thornton anticipates issuing an unqualified audit opinion, subject to outstanding queries being resolved.
- The audit identified a number of misclassification and disclosure changes. All material changes have been adjusted.
- The audit did not identify any events or conditions which may cast significant doubt on the going concern assumption.
- The audit opinion for the County Council includes an 'Emphasis of Matter' comment with regard to the potential effects of COVID-19 on the market valuation of Pensions indirect property and Infrastructure assets. This is in particular to the indirect property asset valuations where Fund managers have acknowledged that there may be a material uncertainty on the valuation work undertaken this year. This is standard guidance and is expected to be the case across all local government audits.
- There remain a small number of non-material changes which have not been adjusted in the accounts and these are recommended by Grant Thornton as future improvements which are accepted

9. The key points to note on the accounts are as follows (figures in brackets relate to the equivalent 2018-19 position);

- The Fund had a revenue deficit of £38.7m before the net return on investments (deficit £33.4m). This is mainly due to several organisations prepaying their 3-year (2017/18 to 2019/20) employer deficit recovery contributions and 90% of their normal contributions in 2017/18 up to the next triennial valuation due to take effect from the 1st April 2020
- Employers' contributions into the fund were £87.5m (£81.8m).
- Benefit payments increased by £5.6m (5.3%) to £111.9m (£106.3m) mainly due to an increase in pension payments reflecting the rise in the number of pensioners and an increase in lump sum payments.
- Management Expenses (which include fees pay to external investment managers) have increased from £12.0m to £14.5m. The £2.5m increase reflects the 2016 strategic asset allocation decision to disinvest from passive equity investments into property and infrastructure funds for which the management fees tend to be more expensive.

- The Payments to and on account of leavers increased by £2.5m year on year to £11.2m (£8.7m). This figure varies each year due to a combination of the number of staff moving to employers outside the Fund and value of the pension these staff members have accrued, along with the impact of freedom and choice, which allows members to transfer to an external pension and access their benefits.
- Investment income of £48.6m (51.7m) decreased mainly due to the reduction in dividends paid as a result of the impact of Covid-19.
- The Fund incurred a loss of £244.2m compared to 2018.19 as a result of the impact of Covid-19 on investment returns cushioned somewhat by the equity protection and diversification of the Fund. The loss was £149.9m compared to profit in 2018-19 of (£94.3m).
- The value of net assets as at 31 March 2019 is £2.645.4bn from £2.795.3bn in 2018-19. This represents a decrease of £0.150bn.
- As in the previous year's accounts, the Fund has included an estimate to reflect the possible impact of the McCloud judgement (Note 2) on the cost of paying LGPS benefits. The actuary has provided some costings of the potential effect of McCloud as at 31 March 2020, based on the individual member data as supplied to them for the 2019 actuarial valuation and this results in an additional liability for past service liabilities of broadly £29 million and an increase in the Primary Contribution rate of 0.6% of Pensionable Pay per annum.

Contact Points

Specific Contact Points for this report

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Supporting Information

- Link provided above to the Pension Fund Audit Findings Report (AFR) and County Final accounts (Pension Fund accounts from page 155 onwards) as part of Audit and Governance Committee on the 2 October 2020
- Appendix - Annual Report – To follow

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.