worcestershire countycouncil

PENSIONS COMMITTEE
28 JUNE 2022

PENSION FUND UNAUDITED ANNUAL ACCOUNTS 2021/22

Recommendation

1. **The Chief Financial Officer recommends that the unaudited Pension Fund Annual Accounts 2021/22 (Appendix 1) and the review of the level 3 Fund investments (Appendix 2) be approved.**

Background

2. The annual report is a key communications channel between the fund and a wide variety of stakeholders and will be available at the Committee in October 2022. The report contains information relating to the Pension funds unaudited annual accounts (which are part of the Annual Report) including the fund investments, administration, governance, valuations, accounts and membership.

Legislative Requirements and Guidance

3. The requirement for and content requirements of LGPS pension fund annual reports in England and Wales was initially introduced under Regulation 34 of the LGPS (Administration) Regulations 2008. For reporting periods beginning 1 April 2014 and beyond, the statutory requirement in England and Wales can be found in Regulation 57 of The Local Government Pension Scheme Regulations 2013.

4. CIPFA published updated guidance in January 2022 that represents a general framework for pension fund administering authorities to meet their statutory obligation to prepare and publish an annual report for the pension fund. The Department for Communities and Local Government has adopted this guidance as statutory guidance for the purposes of regulation 57(3) in the 2013 Regulations.

5. The CIPFA guidance included the requirement for specific information to be published to assist the production of the scheme annual report compiled by the LGPS scheme advisory board.

Some Key Highlights are as follows:

6. The key points to note on the accounts are as follows (figures in brackets relate to the equivalent 2020/21 position).

- The Fund had a revenue deficit of £7.4m before the net return on investments (surplus £116.6m). This is mainly due to several organisations prepaying their 3-year (2020/21 to 2022/23) employer deficit recovery contributions and 90% of their normal contributions in 2020/21 up to the next triennial valuation due to take effect from the 1 April 2023.

- Employers' contributions into the fund were £90.7m (£201.2m).
- Benefit payments increased by £3.0m (2.7%) to £115.6m (£112.6m) 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 £18.2m to £21.5m. The £3.3m increase reflects the 2019 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. Also, the Funds asset valuation increased which results in increased management fees.
- The Payments to and on account of leavers increased by £0.5m year on year to £10.0m (£9.5m). 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 £37.2m (29.1m) increased mainly due to increased dividends paid as a result of the recovery from the impact of Covid-19.
- The Fund incurred a surplus of £227.2m on investment returns compared to the surplus of £602.8m in 2020.21 which is a result of the continuing market rally following the major impact of Covid-19 on investment returns in 2019.20.
- The value of net assets as at 31 March 2022 is £3.584.6bn from £3.364.8bn in 2020/21. This represents an increase of £0.219.8bn.

7. 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 2022, 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.

Review of Level 3 Investments

8. Grant Thornton our external auditors provided their Pension Fund Audit Plan for the year ending the 31 March 2022 and one of the key risks is the valuation of level 3 investments. The key reason being that **Level 3 assets** are financial **assets** and liabilities considered to be the most illiquid and hardest to value. A fair value for these **assets** cannot be determined by using readily observable inputs or measures, such as market prices or models.

9. Financial assets are included in the Net assets statement (page 12 of the accounts) on a fair value basis as at the reporting date with a description of how the value of investments have been determined.

10. The Funds level 3 investments mainly relate to the Property and Infrastructure investments and our Corporate private debt investment with Bridgepoint. All these Fund managers provide regular quarterly investment performance reports and some monthly reports within 45 to 60 days after the period end.

11. Our custodian BNY Melon who manages our Pension Fund assets reconciles each fund manager on a monthly basis and provides a monthly report within 15 days after month end. The custodian reports are used as the basis for the investment valuations within the Funds final accounts. The custodian uses the latest available investment performance information taking on board any capital drawdowns and distributions. Therefore, for year-end there is a timing issue between the information we are using to closedown our accounts in a timely manner to the availability of the most up to date valuation information from our level 3 investment managers.

12. The differences in valuation each year are normally below the Auditors materiality levels overall which is 1% of the Fund value as at the 31 March 2022 being £35.8m. Appendix 2 provides a comparison to the market valuations within the custodian report to those provided by the Fund managers towards the end of May / beginning of June 2022. This shows a difference of £10.8m which is mainly due to an increase in valuations.

13. The key reason for the increases in valuation will be the more positive outlook in terms of asset valuations in particular as the Covid recovery continues. The Property and Infrastructure Managers all have professional independent valuers who value the Fund's assets every 6 months at the end of June and end of December. Therefore, the valuation increase would not have been reflected in the valuations provided to the custodian at the time of reconciling the Funds overall assets at year-end.

14. The Finance Manager for Investment & Treasury Management and the Funds Independent Investment advisor meet quarterly with all the Funds level 3 Managers and discuss asset performance, valuation, impact of Covid, risk, etc as part of these meetings which are covered in the investment update to Pensions Investment Sub Committee on a quarterly basis.

15. Pensions Committee are asked to note the process on how level 3 investments are shown at fair value in the final accounts and agree that these were a fair assessment at the time the draft accounts were provided to the auditors. The Pensions Committee is also asked to note the differences in valuation reflected in Appendix 2 acknowledging that these are below the materiality levels of the Fund.

Supporting Information

- Appendix 1 – Unaudited Pension Fund Accounts 2021/22
- Appendix 2 - Review of the level 3 Fund investments

Contact Points

Specific Contact Points for this report
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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.