

WILTSHIRE COUNCIL

WILTSHIRE LOCAL PENSION BOARD
01 February 2023

COST OF LIVING REVIEW

Purpose of the Report

1. The purpose of this report is to highlight the significant findings of a review into the impact of the cost-of-living crisis on the Fund.

Background

2. A full report into the impact of the cost-of-living crisis is attached in Appendix 1. The current economic situation impacts on almost every area of the Fund.

Key Considerations for the Board

Background

3. 2022 has seen some extreme market conditions. Inflation has been rising, mainly driven by increases in the price of food and energy. Reasons for this have been pent up post-pandemic demand, further compounded by the invasion of Ukraine, which has meant that supply of energy from Russia has been restricted, as well as reductions in the amount of grain exported from Ukraine. This has led to rising interest rates as the Bank of England attempted to control inflation back to its long-term target of 2%.
4. The UK mini-budget in September 2022 announced large unfunded tax cuts, leading to a complete loss of confidence by investors. Sterling fell, and gilt yields rose dramatically. The International Monetary Fund took the unprecedented step of writing to the chancellor expressing concern, and the Bank of England stepped in with temporary quantitative easing measures to stabilise the situation. Pension funds were making the headlines due to the impact that this situation was having on them. Many of these measures were reversed in the Autumn Statement, but the environment remains challenging. Local authorities and most public sector services will need to make significant cuts to balance their budgets.
5. The cost-of-living crisis affects Wiltshire Pension Fund across the entire fund. Perhaps the area of biggest concern is the influence that the differing pressures in this situation will have on cashflow, and the consequent demand for liquidity. The appended paper examines the impact of the cost-of-living crisis on the following areas:
 - Investment performance and strategy
 - The funding level
 - Administration issues and the fund's membership profile
 - Cashflow
 - Communications with stakeholders
 - Operations and resourcing

Conclusions from the review

6. These are challenging times, with competing pressures in the form of high inflation (applied to pension increases), low wage growth, a tough financial situation for both our scheme members and the public sector bodies who make up our employer base, as well as being a difficult year for investment returns. As an open pension scheme with a long-term time horizon, WPF is able to weather many of these challenges.
7. Perhaps the area of most concern in the short term is cashflow, caused by a potential shift in the membership profile, and rising pension payments alongside static contribution receipts. Our rough estimates indicate that we should be positioned to deal with the expected magnitude of changes to our cashflow demands, however due to the importance of this area, more analysis is needed, and we have commissioned further modelling work from the Fund's actuary.
8. There are also concerns around resourcing, which we are working to mitigate to the best of our ability. Our investment strategy has recently been reviewed, and the modelling shows that in spite of the recent turmoil, we should be well positioned to deliver the investment returns needed over the long term. We have established processes for monitoring the investment performance, funding level, contribution receipts, cashflow position and administration performance, and we will continue to keep the situation under review and proactively address any emerging concerns.

Environmental Impacts of the Proposals

9. There is no known environmental impact of this report.

Safeguarding Considerations/Public Health Implications/Equalities Impact

10. There are no known implications at this time.

Proposals

11. The Board is asked to note the work done and the impacts on the Fund.

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Unpublished documents relied upon in the production of this report: NONE

Appendices

Appendix 1 – Cost of Living review paper