Wiltshire Pension Fund Committee – Statement of Going Concern

Introduction

In compiling financial statements any organisation must consider whether they anticipate being able to continue operating for at least the next 12 months, or a longer time period, from the date of signing the accounts. This is a key assumption for making accounting assessments and is stated explicitly as using the Going Concern Basis.

Management, when making this assessment should consider factors that relate to the entity's current and expected profitability, the timing of repayment of existing financing facilities and potential sources of replacement financing, taking into account all available information about the future.

The Pension Fund is required to make this assessment annually and must use measures of ongoing viability relevant to its own operations, this paper provides supporting evidence in making this statement.

Going Concern Requirement

The LGPS is administered by individual "administering authorities", these being prescribed in statute. Wiltshire Council is the administering authority for the County area of Wiltshire, including Swindon. It has delegated this function to the Wiltshire Pension Fund Committee (the Committee).

Administering authorities are responsible for the administration of a Pension Fund established on behalf of all employer bodies in their Scheme. The Funds are not separate legal entities from administering authorities and therefore are not covered by trust law. Nevertheless, the role of the administering authority is very similar to that of a trustee and members of the Committee therefore act in a quasi-trustee role.

In the capacity described above, the Committee confirms that members have considered the evidence set out below, as well as their knowledge of the legislative framework surrounding the LPGS, and confirm that the Wiltshire Pension Fund is a going concern as at the date of this meeting and thus the going concern assessment is applicable for the statement of accounts for year ending 31 March 2023.

Supporting evidence

Funding level

The Pension fund has a strong funding level on an ongoing basis.

The Funding level (i.e. the ratio of the Fund's asset to liabilities) as at the last actuarial valuation (31 March 2022) was 103%. Despite negative investment performance since this formal valuation the funding level has reached 122.9% (31 March 2022). The improvement in this funding level has been as a result of increases to gilt yields throughout this period, which has the effect of decreasing the present value of future pension liabilities. The value of the fund assets have decreased much less than the value of pension fund liabilities improving the funding level. The well diversified asset allocation has ensured the value of assets have not declined materially over this period, and have weathered this difficult period of market volatility well.

Strategic Asset Allocation

The strategic asset allocation is set in order to deliver the investment returns which the Fund requires over time, in order to achieve full funding, and was modelled over a wide range of possible market environments. The strategic asset allocation was reviewed as part of the triennial valuation from March 2022. This work will included detailed work to assess resilience under a variety of market conditions and under a variety of climate change scenarios. This will provide further assurance of the fund's ability to maintain a sustainable ongoing funding level.

Liquidity

As set out in the Investment Strategy Statement, the Fund's approach to Liquidity risk is as follows:

"Liquidity risk – the Committee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the Committee believes that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund's assets are realisable at short notice."

In the year the fund has implemented a new treasury management strategy which makes use of a liquidity fund ensuring cash is always available at short notice to meet capital calls and other payments. It also ensures the fund is not likely to be a forced seller of assets.

Given the recent large inflationary increase to pension payments the fun commissioned a review of the cashflow position of the fund. The cash flow position of the Fund is broadly neutral, which is to say that contributions from employers and employees are sufficient to meet the payments of benefits due without needing to utilise investment income, or liquidate investment assets. The modelling work showed the fund would likely maintain this position for several more years.

Value of assets

During the year to 31 March 2023, the Fund experienced negative investment performance, mainly due to increases in interest rates and market volatility following the war Ukraine. Despite this negative investment performance over the 1 year period, looking back over a 4 year time frame the fund has performed well and in line with actuarial expectations.

Arrangements with employers

The majority of the Fund's employers by liability, are public sector bodies, such as councils and academies, who are long term secure, tax backed employers, where the covenant is strong and backed by statute or the Department of Education guarantee. These types of bodies are unlikely to pose an insolvency risk to the Fund. Similarly, they are likely to able to make contributions when they fall due.

The most significant impact on covenant is in respect of other employers including those who are close to exit and/or are not public sector. However, it should be noted that from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date; the regulations required Admission Bodies to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a greater than expected rise in liabilities;

- allowance for the possible non-payment of employer and member contributions to the Fund;
  and/or
- the current deficit

Employer support for the scheme is crucial to the ongoing success of the fund, maintaining an open fund with a mix membership profile is essential to allow the fund to maintain a long term investment strategy.

Valuing the fund on a Gilts/cessation basis leaves the Fund at a 84.5% funded level, the ongoing investment returns which can be accessed from an open fund maintain the well funded position. The recently set strategic vision goal of ensuing employers are advocates for the scheme will partially address this risk, and is supported by clear employer and member communications. Current legislation also makes offering the LGPS scheme to employees a mandatory requirement for the funds largest employers, (Councils, Academies, Colleges, Police)

Operational concerns

Wiltshire Council itself is experiencing some budgetary difficulties, but this does not affect the Pension Fund, as it is funded by its own budget, which is agreed by the Committee. However due to staff in the Pension Fund being employed on Wiltshire Council terms and conditions the impact of incremental pay freezes and negotiated national pay settlements does impact the pay of Fund employees.