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 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 31 March 2022.

Supporting evidence

Funding level

The Funding level (i.e. the ratio of the Fund's asset to liabilities) as at the last actuarial valuation (31 March 2019) was 96.6%. With positive investment performance since this formal valuation the funding level has reached 103.1% (31 March 2022). 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 Fund is undertaking work to review the strategic asset allocation as part of the triennial valuation from March 2022. This work will include 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.”

The Fund maintains a balance of cash sufficient to meet operational requirements, and this is reviewed on a regular basis. If cash balances fell (for example, due to payment of a large invoice, or from employers failing to make contribution payments), the Fund has sufficient liquid assets which can be liquidated to fund benefit payments, for example the gilts portfolio (which is currently over 14% of the Fund’s total assets). As an illustration, the gilts portfolio at the end of March 2021 was valued at £462m. Total benefits payable for 2021/22 was £102m. Using the liquid gilts portfolio alone, the Fund has sufficient assets to pay the benefits for 4 years.

Currently 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.

Employer contributions

The Fund actively monitors timeliness of receipt of employer contributions on a monthly basis, and this data is reported to the Committee. The latest set of data reported to the Committee was up to 31 January 2021, 89.6% by value of contributions were received on time. For all late payments the outstanding contributions were received on average, within 13 days.

Value of assets

During the year to 31 March 2020, the Fund experienced negative investment performance, mainly due to market turbulence during March 2020 due to the emergence of Covid-19. The fund started the year with £2.5bn of assets, during the year to 31 March 2021 investment values rebounded significantly and grew to reach £3.0bn. In the financial year to 31 March 2022 investments have outperformed the actuarial rate and the benchmark delivering a net return of 8.5%. Despite more recent market volatility following the war in Ukraine and interest rate rises, the investment portfolios are performing in line with expectations and providing suitability diversification.

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 65.4% 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.

Signed on behalf of the Wiltshire Pension Fund Committee: