

Open Report on behalf of Andrew Crookham, Executive Director – Resources

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| Report to: | Pensions Committee |
| Date: | 16 July 2020 |
| Subject: | Pension Fund Draft Annual Report and Accounts |

Summary:

This report brings the draft Annual Report and Accounts for the Pension Fund to the Pensions Committee for approval.

Recommendation(s):

That the Committee approve the draft Pension Fund Annual Report and Accounts.

Background

1. The Pension Fund Annual Report and Accounts for the year ended 31 March 2020 (included at **Appendix A**) has been completed and is being independently audited by the Council's external auditors, Mazars. These accounts also form part of the Lincolnshire County Council Statement of Accounts.
2. The Annual Report and Accounts have been produced taking into account the guidance produced by Chartered Institute of Public Finance Accountants (CIPFA) and relevant accounting standards. There have been no changes to the guidance for preparing the annual report or accounts for 2019/20.

Covid-19 Impact

3. The coronavirus pandemic has had an impact on the preparation of the Pension Fund's Statement of Accounts. This includes:
 - Accounts and Audit Regulations 2015. On 30 April 2020 the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 came into force. This moved the deadline for publication of audited Statement of Accounts from 31 July 2020 to 30 November 2020. Approval and publication of draft accounts deadline also moved from 31 May to 31 August.

This change only applies to the 2019/20 accounts.

- Valuation of Illiquid Assets. The impact of the Covid-19 pandemic has created uncertainty surrounding illiquid asset values. As such some of the Pension Fund's holdings as at 31 March 2020 are difficult to value according to preferred accounting policy.

a. Pooled property unit trusts. Covid-19 has caused huge disruption and exceptional circumstances within property markets, as a result of this, the valuations provided by independent valuers for these property funds are subject to a 'material valuation uncertainty' qualification as set out in VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty and a higher degree of caution should be attached to these valuations than would normally be the case.

This uncertainty has been disclosed within the Pension Fund Accounts.

b. Unquoted assets (including alternatives and private equity holdings). The fair value of these investments is unavoidably subjective in normal circumstances and Covid-19 disruptions may increase this. The valuations are based on forward-looking estimates and judgements involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards.

The Fund accounts are currently prepared using valuation information available at 31 March 2020 provided by investment managers and validated by the Fund's Custodian. These valuations are mainly based on audited accounts from earlier periods (e.g. 31 December 2019) rolled forward for cashflows, as is allowable by the Code. Normally these valuations would see small incremental movements in value, however, due to the coronavirus pandemic the 31 March actual valuations may be materially different to the rolled forward valuations currently reported in the accounts.

The Fund expects to start receiving the 31 March valuations in July 2020. When these valuations are received Fund Officers will consider their materiality both individually and collectively and revise the accounts to reflect these valuations if necessary.

Next Steps

4. Valuation information from Fund Managers relating to unquoted assets will be considered by Fund Officers for materiality both individually and collectively when received. Following this consideration the accounts may be subject to amendment to take into account any valuation movements identified (including any potential impact on the fair value hierarchy disclosures). If required these changes will affect notes: 12, 14, 15 and 16, in addition to the Net Asset Statement. Any changes to the accounts will be shared with the external auditor before completion of this element of their audit work.

5. The draft Pension Fund Accounts, as part of the County Council draft Statement of Accounts, will be approved by the Audit Committee at its meeting on Monday 13 July.
6. Subject to the completion of audit work the final Pension Fund Accounts will be presented to the Audit Committee at their meeting in September. The final Pension Fund Annual Report and Accounts will then be reported to this Committee in October along with comments from the External Auditors report to 'Those Charged with Governance'.

Conclusion

7. The Lincolnshire Pension Fund Report and Accounts has been produced for the year ended 31 March 2020 and presented to the Committee. The Accounts element of the report is subject to change in light of outstanding valuation information relating to unquoted asset valuations as at 31 March 2020.
8. Subject to completion of External Audit work the final Annual Report and Accounts will be presented to the Pensions Committee in October.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

Appendices

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| These are listed below and attached at the back of the report | |
| Appendix A | Lincolnshire Draft Pension Fund Annual Report and Accounts 2020 |

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Claire Machej, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

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