


Non-Executive Report of the:  <b>Pensions Board</b>  31 July 2017	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Zena Cooke, Corporate Director, Resources	<b>Classification:</b> Unrestricted
<b>Draft Pension Fund Annual Report and Accounts 2016/17</b>	

<b>Originating Officer(s)</b>	Bola Tobun, Investment and Treasury Manager
<b>Wards affected</b>	All wards

### Summary

This report is to update members on the arrangements for the preparation of the Pension Fund Annual Report and Accounts 2016/17 in accordance with regulations and the arrangements for the separate audit engagement, opinion and certificate for the Fund.

The Draft Pension Fund Accounts 2016/17 are attached in annex 1 to this report. The Pension Fund Accounts are subject to the normal audit of accounts process, which will be carried out in July and August 2017 and forms part of the audit programme for the Council.

### Recommendations:

The Pensions Board is recommended to:

- Note the contents of this report;

## **1. REASONS FOR THE DECISIONS**

- 1.1 The Committee acts as quasi-trustee to the Pension Fund and as such acts in the capacity of the Administering Authority of the Pension Fund. The Committee's terms of reference requires that the Annual Report and Accounts on the activities of the Fund are presented and approved prior to their publication. The Local Government Pension Scheme Regulations 2013, Regulation 57 require the Pension Fund to publish its report and accounts by 1st December following the financial year end and for the Report to contain a number of standard items.
- 1.2 The publication of the Pension Fund Annual Report and Statement of Accounts helps to keep Fund members informed, shows good governance and also helps to demonstrate effective management of Fund assets

## **2. ALTERNATIVE OPTIONS**

- 2.1 There are no alternative options in so far as the publication of the Statement of Accounts and Annual Reports is a legislative requirement.

## **3. DETAILS OF REPORT**

- 3.1 The Council as an administering authority under the Local Government Pension Scheme Regulations and is therefore required to produce a separate set of accounts for the scheme's financial activities and assets and liabilities.
- 3.2 The contents and format of the accounts are determined by statutory requirements and mandatory professional standards as established by the Chartered Institute of Public Finance (CIPFA) in their Service Code of Recommended Practice (SERCOP). The annual report has been prepared in accordance with the Local Government Pension Scheme Regulations 2013 and includes all the items required.
- 3.3 The London Borough of Tower Hamlets is the Administering Authority for the London Borough of Tower Hamlets' Pension Fund and the Pensions Committee act as trustees of the Pension Fund which includes overseeing the accounting and financial management of the Pension Fund.

## **3.4 THE ANNUAL REPORT AND STATEMENT OF ACCOUNTS**

- 3.4.1 The Accounts comprise two main statements with supporting notes. The main statements are:
- Dealings with Members Employers and Others which is essentially the fund's revenue account; and
  - The Net Assets Statement which can be considered as the fund's balance sheet.
- 3.4.2 The return on investment section of the accounts sets out the movement in the net worth of the fund in the year by analysing the relevant financial transactions and movements in the market value of the investment portfolio. The statement has two main sections:
- The financial transactions relating to the administration of the fund; and

- The transactions relating to its role as an investor.
- 3.4.3 The fund income section of the report principally relates to the receipt of contributions, from employers and active members, and the payment of pensions benefits. The section indicates that the Fund is cash positive in that the receipt of contributions exceeds the pension payments which were £8.56m in 2016/17 compared to £4.37m in 2015/16.
- 3.4.4 The Fund net cash flow position in 2016/17 is 51% more than the previous year. Investment income increased over the year by £3.5m (24.5%) largely due to an increase in dividend income. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) was relatively static. It is not possible to predict the value of transfer value payments as they are dependent on an individual's length of service and salary and as such may vary significantly. Employee contributions increased slightly by £200k. Employer contributions went up by roughly £2.8m.
- 3.4.5 In 2016/17 the overall expenditure reduced slightly by £700k. The major contributor to the reduction was the fall in transfers out by £500k. The investment management costs reduced by £197k and administration costs also reduced by £66k. The overall benefits payable fell by £435k over the year, largely due to lump sum benefit paid in the year, reducing by £575k.
- 3.4.6 Overall, fund membership has increased slightly. The number of active members increased marginally by 132 (2%) and deferred members by 306 (4.5%) whereas retired membership only increased by 4.
- 3.4.7 The investment performance section of the report details returns on the investment portfolio, the impact of managers' activities and investment markets on the value of investments. The Fund achieved a return of 20.7% in 2016/17 on its investment portfolio outperforming the benchmark return of 19% by 1.7%. The Fund posted a 3 year return of 10% which is marginally lower than the benchmark return of 10.3% but delivered a 5 year return of 10% outperforming the benchmark return of 9.8% by 0.2%.
- 3.4.8 Overall, fund assets increased by £241.548m. The improvement was due to the performance of the financial markets in which the Fund held its investments plus the net gain of some £8.56m between fund income and expenditure.
- 3.4.9 The net asset statement represents the net worth (£1,368m) of the Fund as at the 31<sup>st</sup> March 2017. The statement reflects how the transactions outlined in the other statement have impacted on the value of the Fund's assets.
- 3.4.10 The annual report also includes three key statements (Funding Strategy Statement, Investment Strategy Statement that replaced Statement of Investment Principles and Governance Compliance Statement) relating to the management and governance of the scheme and each statement serves a different purpose.
- 3.4.11 The Funding Strategy Statement undergoes a detailed review and was updated after the triennial valuation. The 2016 triennial valuation outcome was reported, discussed and approved at the Pensions Committee meeting of 16<sup>th</sup> March 2017.
- 3.4.12 The purpose of the Funding Strategy statement is threefold:

- To establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward;
- To support the regulatory framework to maintain as nearly constant employer contributions rates as possible; and
- To take a prudent longer-term view of funding those liabilities.

3.4.13 The Investment Strategy Statement (ISS) replaced the Statement of Investment Principles from 1<sup>st</sup> April 2016. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

3.4.14 This ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused. This document will be reviewed following the completion of the Fund investment strategy review and updated revised version will be brought to the Committee meeting of September 2017 for approval.

3.4.15 The Governance Compliance Statement sets out the Council's policy as the administering authority in relation to its governance responsibilities for the Fund.

3.4.16 The Audit Plan for the Pension Fund and any reports arising from the audit will be reported to the Pensions Committee. However, as the pension fund accounts remain part of the financial statements of the Council as a whole, the Audit Committee retain ultimate responsibility for receiving, considering and agreeing audit plans as well as receiving any reports arising from the audit.

3.4.17 The External Auditor provides an independent assessment of the Council's Pension Fund financial statements, systems, procedures and performance.

3.4.18 The audit plan outlines their intended work on the financial statements for 2016/17, which will be carried out in July and August 2017 as part of the Audit programme for the Council. The outcome of which will be reported to this Committee later (September/November 2017) in the year.

3.4.18 KPMG, as external auditor, is required to issue an ISA 260 report and opinion on the Council's accounts and this will include an opinion on the Pension Fund accounts. The ISA 260 report sets out their opinion and any issues which they believe the Committee should be aware of.

3.4.19 The Pension Fund audit is being undertaken by KPMG and the audit fee has been maintained at £21,000.

#### **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

4.1 The Council as Administering Authority has the responsibility of ensuring that the Pension Fund is administered effectively and efficiently and that arrangements for financial management are properly scrutinised. The performance of the fund affects the level of employer's contribution to the fund (i.e. the contribution towards employees' pensions from Council budgets).

- 4.2 The increase in employer contribution between 2015/16 and 2016/17 was approximately £2.8m in total and appropriate budget provisions were set aside through the Council's budget process to meet its share of this additional commitment.
- 4.3 The performance of the separate audit has placed additional responsibilities on both the Fund and the Auditors and will help to ensure full compliance of the Administration Regulations.
- 4.4 There are no other financial implications arising from this report.

## **5. LEGAL COMMENTS**

- 5.1 Regulation 57 of the Local Government Pension Scheme Regulations 2013 imposes a duty on the Council as an administering authority to prepare a pension fund annual report. The report must be published by 1st December following the financial year end.
- 5.2 The report should deal with the following matters:
- (a) management and financial performance during the year of the pension;
  - (b) an explanation of the investment policy for the fund and a review of performance;
  - (c) a report on arrangements made during the year for administration of the fund;
  - (d) a statement by an actuary who carried out the most recent valuation of the fund and the level of funding disclosed by that valuation;
  - (e) a Governance Compliance Statement;
  - (f) a Fund Account and Net Asset Statement;
  - (g) an Annual Report dealing with levels of performance set out in the pension administration strategy and any other appropriate matters arising from the administration strategy;
  - (h) the Funding Strategy Statement;
  - (i) the Investment Statement Strategy;
  - (j) statements of policy concerning communications with members and employing authorities; and
  - (k) any other material which the authority considers appropriate.
- 5.3 When performing its functions as administrator of the LBTH pension fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

## **6. ONE TOWER HAMLETS CONSIDERATIONS**

- 6.1 The Pension Fund Accounts demonstrate financial stewardship of the fund's assets. A financially viable and stable pension fund is a valuable recruitment and retention incentive for the Council.

**7. BEST VALUE (BV) IMPLICATIONS**

- 7.1 The monitoring arrangement for the Pension Fund and the work of the officers, advisers and consultants should ensure that the Fund optimises the use of its resources in achieving the best returns for members of the Fund.

**8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

**9. RISK MANAGEMENT IMPLICATIONS**

- 9.1 Accounts provide an effective mechanism to safeguard the Council's assets and assess the risks associated with its activities.

**10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 10.1 There are no any Crime and Disorder Reduction implications arising from this report.

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**Linked Reports, Appendices and Background Documents**

**Linked Report**

- NONE

**Appendices**

- Appendix A – Draft Pension Fund Annual Report and Accounts 2016/17

**Local Government Act, 1972 Section 100D (As amended)**

**List of “Background Papers” used in the preparation of this report**

- NONE

**Officer contact details for documents:**

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