

Non-Executive Report of the: PENSIONS COMMITTEE 14 March 2018	
Report of: Zena Cooke, Corporate Director of Resources	Classification: Unrestricted
Pension Fund Business Plan, Pensions Committee Work Plan and Budget for 2018/19	

Originating Officer(s)	Bola Tobun, Investment and Treasury Manager
Wards affected	All

Summary

The purpose of this report is to set out a business plan for the Pension Fund and to outline the Fund's goals and objectives for the Council's statutory function as the administering authority of the London Borough of Tower Hamlets Pension Fund.

This report also presents the budget for the Pension Fund for 2018-19 along with an update of the outturn for 2017/18. It considers income and expenditure from various sources and the impact on these for the Pension Fund in the next financial year.

Recommendations:

Members are asked to:

- review and note the Business Plan attached as Appendix 1 to this report;
- review and note work plan for 2018/19 attached as Appendix 2; and
- approve the Revenue Budget for 2018/19 attached as Appendix 3.

1. REASONS FOR THE DECISIONS

- 1.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other scheduled bodies as defined in the Regulations. The Regulations also empower the Fund to admit employees of other defined (e.g. other public bodies, housing corporations) bodies into the Fund.
- 1.2 The proposed business plan for the Fund has been put together to assist in the management of the Fund, so that the Council is able to perform its role as the administering authority in a structured way. The Business Plan is not intended to cover all aspects of Pension Fund administration; rather it is designed to assist with meeting part of its delegated function as administering authority to the Fund.
- 1.3 The Pension Committee is charged with meeting the duties of the Council in respect of the Pension Fund. Therefore it is appropriate that the Committee formally adopts a work plan to assist with the discharge of its duties.

2. ALTERNATIVE OPTIONS

- 2.1 The development and implementation of a work plan should ensure that a structured approach is in place for the monitoring and management of the Pension Fund. This should in turn ensure that the Council meets its statutory obligations as administering authority to the Fund. However, the Committee is under no obligation to adopt a work plan in carrying out its duties.

3. OVERVIEW OF THE WORK OF THE COMMITTEE

- 3.1 The Council has specific delegated functions that it has to fulfil as the administering authority to the Pension Fund. This requires that a number of monitoring and management activities are undertaken to ensure that it fully discharges its oversight and governance responsibilities to the Fund.
- 3.2 The key decision making for, and management of, the Fund has been delegated by the London Borough of Tower Hamlets (the Council) to a formal Pensions Committee, supported by officers of the Council and advisers to the Pension Fund. The Section 151 Officer has a statutory responsibility for the proper financial affairs of the Council including Fund matters. A local pension board is in place to assist with:
 - securing compliance of Fund matters and
 - ensuring the efficient and effective governance and administration of the Fund.
- 3.3 It is appropriate that the Committee should set out how it intends to fulfil its obligations as the delegated authority appointed by the Council to be responsible for the Fund. Adopting a planned approach should make monitoring easier for the Committee and ensure that activities critical to the effective management of the Fund are being undertaken.

3.4 The primary objectives of the Fund are sub-divided into specific areas of governance, funding, investments, administration and communications which are covered in turn below.

3.5 Governance Objectives

- 1) All staff, Pension Board and Pension Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.
- 2) The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties.
- 3) To understand and ensure compliance with all relevant legislation.
- 4) To ensure the Fund aims to be at the forefront of best practice for LGPS funds
- 5) Ensures the Fund manages Conflicts of Interest

3.6 Funding Objectives

- 6) To ensure the long-term solvency of the Fund.
- 7) To help employers recognise and manage pension liabilities as they accrue.
- 8) To minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so.
- 9) To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations. (Including: addressing the different characteristics of disparate employers or groups of employers to the extent that this is practical and cost effective).

3.7 Investment Objectives

- 10) Optimising the return on investment consistent with a prudent level of risk
- 11) Ensure that there are sufficient assets to meet the liabilities as they fall due (i.e. focus on cash flow requirements)
- 12) Ensure the suitability of assets in relation to the needs of the Fund (i.e. delivering the required return).
- 13) Ensuring that the Fund is properly managed (and where appropriate being prepared to change).
- 14) Set an appropriate investment strategy for the Fund to allow the Administering Authority to seek to maximise returns (and minimise the cost of benefits) for an acceptable level of risk'. Ensure return seeking assets are in line with Funding objectives.

3.8 Administration Objective

- 15) To deliver an efficient, quality and value for money service to its scheme employers and scheme members.

3.9 Communications Objective

- 16) Ensure that all stakeholders are kept informed of developments within the Pension Fund. Ensuring that all parties are aware of both their rights and obligations within the Fund.

4. WORK PLAN

- 4.1 In designing the work plan, the priorities of the Council as the administering authority of the Fund have been considered and incorporated into the Fund Business Plan. The Pensions Committee Work Plan has therefore been developed using the business plan attached as appendix 1 to this report.

5. PENSION FUND REVENUE ACCOUNT

- 5.1 The budget estimate outlined in this report will assist the Council in monitoring expenditure of the Fund's revenue account in accordance with its requirement to manage resources effectively. The report provides details of the actual figures as at 31st March 2017 and revenue budget estimates for 2017/18 in respect of income and expenditure elements of the Pension Fund.
- 5.2 Members are requested to note the pension fund's Revenue Account position for 2017/18 and approve the proposed budget set out in Appendix 3.
- 5.3 **2017/18 Actual expenditure** - The estimates for the Pension Fund can be difficult to predict because of the uncertainty surrounding a number of aspects such as transfer values, death grants, and volatility in investment markets. Total expenditure of £70.6m was budgeted for in 2017/18; the actual amount as at December 2017 is £54.5m. This indicates a reduction in payments.
- 5.4 **2017/18 Actual income** - A lump sum payment of some £36m in respect of prepaid deficit contribution was paid into the Fund by the Council for this financial year; hence the total income as at 31st December was some £81.5m compared to £65.3m budget set for 2017/18.
- 5.4 **2018/19 Proposed Budget** – As indicated above, the budget can be difficult to predict however the following paragraphs set out some of the assumptions behind the proposed 2018/19 budget estimates set out in Appendix 3.

a) Contribution Receivable

The budget figure is based on 2017/18 activity levels using the contribution rate as stipulated by the actuary plus a 2.5% to reflect the pay award for 2018/19. A lump sum payment of some £36m in respect of the deficit has been paid into the Fund by the Council in financial year ending 2017/18; hence expected contribution rate for 2018/19 is less due to this deficit contribution prepayment.

b) Transfer Values In

The level of transfers of staff in and out of the fund is not subject to control by the Council. Transfer values vary significantly depending on length of service, salary and can be either payable or receivable by the authority. It is not possible to make reliable forecasts of the financial effect of transfer activity.

c) Benefits Payable

For 2018/19, the budget figure is based on 2017/18 activity levels with a 1% Pensions Increase plus a year on year increase in the number of pensioners by 2% has been applied.

d) Payments to and on account of leavers

e) The level of transfers of staff in and out of the fund is not subject to control by the Council. Transfer values vary significantly depending on length of service and salary and can be either payable or receivable by the authority. It is not possible to make reliable forecasts of the financial effect of transfer activity.

f) Administrative and other expenses borne by the scheme

These costs are estimated on the basis of planned workloads with a 3.5% allowance for inflation. Costs include officers' time, the cost of provision of accommodation and IT facilities, bank charges, global custodian fees, training for officers and members of the pension committee and pension board and professional advisers' fees.

g) Investment Income

Investment Income is assumed at 4% on average assets valuation of £1.4 billion and over 3/4th will be subsequently re-invested by the Fund Managers.

h) Change in Market Value of Investments

An investment of £1.523m is assumed to decrease by 10% due to assumed correction of asset price forecast for 2018/19. (As the economists has been saying that we are in uncharted waters. Prices for sovereign, corporate and high-yield bonds and equities are at, or near, record levels thanks to the ultra-low policy interest rates and the massive quantitative-easing programs of the G3 central banks (the US Federal Reserve, the European Central Bank and the Bank of Japan) over the past decade. Currently two of those central banks are winding back, in response to the strengthening economic environment; the Federal Reserve is raising the cash rate and has commenced an automatic program to shrink its balance sheet while the European Central Bank has halved its asset-buying program). The combined return of investment income and capital growth for 17/18 net assets were assumed to be 6.75% per annum, but this to 31st December 2017 has been 8.1%.

i) Fund Managers Fees

Fund managers' fees are calculated at an average rate of 0.25% on average assets valuation of £1.4 billion.

j) Global Custodian Fees

The fee is set at £35,000 as per fees schedule.

k) Tax on Dividends

Net tax on dividends is based on 8% of budgeted investment Income.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 The performance of the Pension Fund's investments affects the required level of contributions due from employers.

- 6.2 LGPS regulations specify that any net sums not immediately required should be invested in accordance with regulations. The investment of Pension Fund cash has been kept separate from Tower Hamlets Council's investments but invested in accordance with the Council's Treasury Management Strategy.
- 6.3 Sound financial management of the Pension Fund, including budget-setting, helps ensure that the Pension Fund is run in an efficient and cost-effective manner. Poor management of the Pension Fund finances would result in increased costs, which would need to be met through higher employer contributions to the Pension Fund.
- 6.4 Any financial commitments arising from this report, including the £35k global custodian fee will be met from the pension fund. Thus there are no financial implications on the Council general fund.

7. LEGAL COMMENTS

- 7.1 Administering authorities are now bound by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which have replaced the 2009 Regulations. These regulations set out an administering authority's statutory duties in ensuring the proper administration and management of its pension fund.

The Council must take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.

- 7.2 One of the functions of the Pensions Committee is to meet the Council's duties in respect of investment matters. It is appropriate having regard to these matters, for the Committee to receive information about budgetary matters. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.
- 7.3 Members of the Pensions Committee are required by the Council's Constitution to consider pension matters and meet the various statutory obligations and the duties of the Council. This Work Plan provides for certain statutory requirements to be met and for members to be well trained and kept up to date and thus fit for purpose.
- 7.4 When making decisions regarding investment of pension funds, 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).

8. ONE TOWER HAMLETS CONSIDERATIONS

- 8.1 The London Borough of Tower Hamlets Pension Fund represents an asset to the Council in terms of its ability for attracting and retaining staff who deliver services to residents. The adoption of a Work Plan should lead to more effective management of the Fund.

8.2 A significant element of the Council's budget is the employer's contribution to the Fund. Therefore, any improvement in the efficiency of the Fund that leads to improvement in investment performance or cost savings will likely reduce contributions from the Council and release funds for other corporate priorities.

9. BEST VALUE (BV) IMPLICATIONS

9.1 A Business plan, work plan and budget should result in a more efficient process of managing the Pension Fund.

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

11. RISK MANAGEMENT IMPLICATIONS

11.1 The adoption of a work plan will minimise risks relating to the management of the Fund and should assist in managing down the risk of non-compliance with the Council's obligations under the Regulation as the administering authority of the London Borough of Tower Hamlets Pension Fund.

12. CRIME AND DISORDER REDUCTION IMPLICATIONS

12.1 There are no any crime and disorder reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1 - Business Plan 2018-2021
- Appendix 2 - Pensions Committee Work Plan
- Appendix 3 - Pension Fund Budget 2018/19

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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Appendix 1

BUSINESS PLAN 2018-2021

In order to meet the objectives of the Pension Fund, the Pensions Board has to review the business plan and the Pensions Committee has to review and agree the business plan for the period 2018-2021. This has to be put into the context of a period of significant uncertainty for the Fund, which reflects not just ongoing volatility in investment markets, but also measures for structural reform which could have a fundamental impact on the overall management of the Fund.

The purpose of the business plan is to:

- a) explain the background and objectives of London Borough of Tower Hamlets for the management of the Tower Hamlets Pension Fund
- b) document the priorities and improvements to be implemented by the pension administration service during the next three years to help achieve those objectives
- c) enable progress and performance to be monitored in relation to those priorities
- d) provide staff, partners and customers with a clear vision for the next three years.

Set out in the table below is the 3 year business plan for the Pension Fund:

	2018/19	2019/20	2020/21	Objective Reference (s)
Governance Objectives				
Pension Fund Accounts	April - July	April - July	April - July	1,2,3,7,13,15,16
Approve Final PF R&A	July	July	July	1,2,3,7,13,15,16
Employer Forum	November - January	November - January	November - January	3,4,7,8,9,15,16
Review Risk Register	March-July	March-July	March-July	1,2,5,6,7,8,9,10,11,12,13
TPR Code of Practice	April - October	March - June	March - June	1,2,3,4,5
Governance Policy Review	December - March	December - March	December - March	1,2,3,4,5
Self-Assessment & Review of Advisers	March-July	March-July	March-July	1,2,3,4,5
Induction Training for New Members	May – July (As Required)	May – July (As Required)	May – July (As Required)	1, 2, 4, 15
Member's Training Programme	Quarterly	Quarterly	Quarterly	1,2,4,15
Training Policy Review	November – January	November – January	November – January	1,3,4
Pensions Board – Annual Reporting	Mar - June	Mar - June	Mar - June	1,2,3,4,6,7,8,9,10,11,12,13,14,15,16
Review Performance, funding and budget	Quarterly	Quarterly	Quarterly	1,2,3,4,6,7,8,9,10,11,12,13,14,15,16

	2018/19	2019/20	2020/21	Objective Reference (s)
AVC Review	September – January		September – January	1,2,3,4,5
Review Reporting Breaches Policy	July	July	July	10,15,16
Review Conflicts of Interest Policy Review	July	July	July	5
Creation & Review Cessation Policy	April - July		April - July	5,6,7,8,9,15,16
Funding Objectives				
Actuarial Valuation 2019		April - March	As Required	5,6,7,8,9,15,16
Review of Funding Strategy Statement		November - March	April - March	5,6,7,8,9,15,16
Investments Objectives				
Review Investment Strategy Statement	March - July	As required	As required	1,3,10,11,12,13,14,15,16
Investment in Multi-Asset Manager	April - July			1,2,4,10,11,12,13,14,15
Investment in Infrastructure, Long Lease or Private Debt	July - December			1,2,4,10,11,12,13,14,15
Review Investment Consultancy Contract			September – March	5,10,11,12,13,14,15
Review Actuarial Services Contract			September – March	5,10,11,12,13,14,15
Strategic Asset Allocation – Regular Review	Ongoing	Ongoing	Ongoing	1,4,6,8,9,10,11,12,13,14
Carbon Footprint Audit	March - June	March - June	March - June	5,6,7,8,9,15,16
Pension Fund Treasury Management Strategy	January	January	January	1,9,10,11,12,13,14,15
Individual Manager Review	Quarterly	Quarterly	Quarterly	1,2,4,10,11,12,13,14,15
Asset/Liability Monitoring	Ongoing	Ongoing	Ongoing	5,10,11,12,13,14,15,16
Collaborative working-London CIV	Ongoing	Ongoing	Ongoing	1,2,4,10,11,12,13,14,15
Pension Administration				
Pension Administration Strategy	January – March	January – March	January – March	1,2,3,7,9,15,16
GMP Reconciliation	April-June			1,2,3,15,16
Employer data Improvements	Ongoing	Ongoing	Ongoing	1,2,3,7,9,15,16

	2018/19	2019/20	2020/21	Objective Reference (s)
Administering Authority Discretions Review	April-July			1,2,3,4,5,9,10,15,16
Admitted Bodies Policy	September		September	1,2,3,4,5,9,10,15,16
Employing Authority Discretions	July		July	1,2,3,4,5,9
Communications				
Annual Benefit Statements	August – September	August – September	August – September	15,16
Auto-Enrolment /Workplace Pensions	Ongoing	Ongoing	Ongoing	1,2,3,15,16
Communications Policy Review	January-March	January-March	January-March	1,2,3,15,16