

Non-Executive Report of the: Pensions Committee 18 September 2018	
Report of: Zena Cooke, Corporate Director, Resources	Classification: Unrestricted
Pension Fund Annual Report For 2017/18	

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

Summary

This report presents the final Pension Fund Annual Report for 2017/18 to Members. The draft version of the accounts was presented to the Committee in July 2018 following the audit by KPMG. The Statement of Accounts has been prepared under International Financial Reporting Standards (IFRS) and is now presented for consideration by the Pensions Committee.

Recommendations:

The Pensions Committee is recommended to:

- Note the contents of this report;
- Approve the Pension Fund Statement of Accounts (Appendix 5 of Annex 1);
- Approve the Pension Fund Annual Report and give delegated authority to s151 to finalise and publish this in order to meet the statutory publication deadline of 1 December 2018 (Annex 1); and
- Approve publication and distribution to interested parties.

1. REASONS FOR THE DECISIONS

- 1.1 The Local Government Pension Scheme Regulations 2013, Regulation 53(2) states that 'An administering authority is responsible for managing and administering the Scheme in relation to any person for which it is the appropriate administering authority under these Regulations'
- 1.2 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 require it to receive and approve an Annual Report and Accounts on the activities of the Fund prior to publication. The Local Government Pension Scheme Regulations 2013, Regulation 57 require the Pension Fund to publish this by 1st December following the financial year end and prescribes a number of items.
- 1.3 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.
- 1.4 KPMG have reviewed the draft Pension Fund Annual report and Pension Committee approval of the report will allow them to complete their audit of the pension fund.

2. ALTERNATIVE OPTION

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

3. DETAILS OF REPORT

- 3.1 The Council as the administering authority under the Local Government Pension Scheme Regulations is required to produce a separate set of accounts for the scheme's financial activities.
- 3.2 The content 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).
- 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 KPMG as the Council's appointed external auditor are required to issue a report (ISA 260) and opinion on the Council's accounts and this includes an opinion on the Pension Fund accounts. This report sets out their opinion and any issues which they believe the Committee should be aware of.
- 3.5 At the time of writing this report, work on the audit of the Pension Fund accounts is substantially complete. Subject to the completion of the auditor's final review and completion procedures, the auditor expects to issue an

unqualified audit opinion on the Pension Fund and their comments are included within the attached draft ISA 260.

3.6 In summary the Annual Report comprises:

- a report on the management and financial performance of the fund during the year;
- an explanation of the investment policy;
- a report on the administrative arrangements for the fund;
- a statement from the actuary on the latest funding level;
- the current version of the governance compliance statement;
- the fund account and net asset statement with supporting notes and disclosures;
- the extent to which the fund has achieved its required performance levels; and
- the current version of the funding strategy statement, the statement of investment principles and communications policy and any other information the authority considers appropriate.

3.7 THE ANNUAL REPORT AND STATEMENT OF ACCOUNTS

3.7.1 The Accounts comprise two main statements with supporting notes. The main statements are:

- Dealings with Members Employers and Others which is essentially the funds revenue account; and
- The Net Assets Statement which can be considered as the funds balance sheet.

3.7.2 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.

3.7.3 Overall, the fund's assets had increased by £112.98m in the financial year. The improvement was due to the performance of the financial markets in which the Fund held its investments and a net surplus of fund income over expenditure.

3.7.4 The net asset statement represents the net worth (£1,481m) of the Fund as at the 31st March 2018. The statement reflects how the transactions outlined in the other statement have impacted on the value of the Fund's assets.

3.7.5 The annual report also includes three key statements (Funding Strategy Statement, Investment Strategy Statement and Governance Policy & Compliance Statement) relating to the management and governance of the scheme and each statement serves a different purpose.

3.7.6 The Funding Strategy Statement (FSS) 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 on 16th March 2017. 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.

3.7.7 The Investment Strategy Statement (ISS) - 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.

3.7.8 This ISS 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.. This document was discussed, revised and approved at the Committee meeting of March 2018.

3.7.9 The Governance Policy and Compliance Statement sets out the council's policy as the administering authority in relation to its governance responsibilities for the Fund. This policy has recently been reviewed for Committee discussion and approval at this meeting.

3.7.10 The Risk Policy sets out the aims and objectives for the management of risk, but also recognises that risk cannot be removed entirely from the management of the Pension Fund, by the very nature of the Fund itself and the environment in which it operates. The risk management process involves the identification of risk, analysing risks, controlling risks where appropriate and the monitoring of risk on an ongoing basis.

3.7.11 The policy also sets out key internal controls identified and whilst this is not an exhaustive list, it forms the basis at a high level of some of the internal controls in place to manage the Fund on a day to day basis. In addition The Pension Regulator (TPR's) Code of Practice guidance on internal controls requires scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The TPR also has powers to issue improvement notices where it is considered that the requirements relating to internal controls are not being adhered to.

3.8 Members are asked to delegate authority to the Corporate Director, Resources, following consultation with the Chair and Deputy Chair of the Pensions Committee, to finalise and sign off the report. Members of the Committee will be sent a full copy of the report before publishing.

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

4.1 The Pension Fund Annual Report and Accounts sets out the financial position of the Pension Fund as at 31st March 2018 and as such acts as the basis for understanding the financial wellbeing of the Pension Fund. It also enables

Members to manage and monitor the Scheme effectively and be able to take decisions understanding the financial implication of those decisions.

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

5. LEGAL COMMENTS

5.1 The Council is an Administering Authority, as defined in Regulation 53 of the Local Government Pension Scheme Regulations 2013 (“the Regulations”). As such, it must maintain at least one fund for the Local Government Pension Scheme.

5.2 In accordance with Regulation 55 of the Regulations, a governance compliance statement must be produced, and published, and kept under review.

5.3 In accordance with Regulation 57 of the Regulations, a document known as the “pension fund annual report” must be produced each year. It must be published no later than 1 December following the Scheme year end.

5.4 In preparing and publishing the pension fund annual report, the authority must have regard to guidance given by the Secretary of State. 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 and any other appropriate matters;
- h) the Funding Strategy Statement;
- i) the Investment Strategy Statement;
- j) statements of policy concerning communications with members and employing authorities; and
- k) any other material which the authority considers appropriate.

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.

6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

7. BEST VALUE (BV) IMPLICATIONS

7.1 The Pension Fund Annual Report and Accounts sets out the financial position of the Pension Fund as at 31st March 2018 and as such acts as the basis for

understanding the financial wellbeing of the Pension Fund. It also enables Members to manage and monitor the Scheme effectively and be able to take decisions understanding the financial implication of those decisions

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 IMPLICATION

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.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Annex 1 - 2017/18 Pension Fund Annual Report

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

List of "Background Papers" used in the preparation of this report

Officer contact details for documents:

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