

<p>Non-Executive Report of the:</p> <p>Pensions Committee</p> <p>20 June 2019</p>		 <p>TOWER HAMLETS</p>
<p>Report of: Neville Murton, Corporate Director, Resources</p>		<p>Classification: Unrestricted</p>
<p>Draft Pension Fund Annual Report and Accounts 2018/19</p>		
<p>Originating Officer(s)</p>	<p>Bola Tobun, Investment and Treasury Manager</p>	
<p>Wards affected</p>	<p>All wards</p>	

Summary

There is a Statutory Requirement to prepare Pension Fund Annual Report and Accounts

This report updates members on the arrangements for the preparation of the Pension Fund Annual Report and Accounts 2018/19 in accordance with regulations and the arrangements for the separate audit engagement, opinion and certificate for the Fund. Audit to be completed before 30th June 2019

External audit resulting in the auditor's opinion and certificate for the Fund.

The Draft Pension Fund Accounts 2018/19 is Appendix 1 of the attached Appendix A to this report. The Pension Fund Accounts are subject to the normal audit of accounts process, which is in progress at the time of writing this report as it forms part of the overall external audit programme for the Council.

Fund assets increased by £82.1m over the year

The net asset statement represents the net worth (£1,556m) of the Fund.

This improvement was as a result of the market performance.

PIRC ranked the Fund 45th in their league table with return on investment of 6.5% for 2018/19

The PIRC average universe for local authority Pension Fund return in 2018/19 was 6.6%.

In 2018/19, the Tower Hamlets Fund had a return on investment of 6.5% and ranked 45th in the performance league.

Funding level at 31st March 2019 increased by 7.9% to 90.7%

At the last formal valuation (31st March 2016) the Fund assets were £1,126m and the liabilities were £1,361m. This represents a deficit of £235m and equates to a funding level of 82.8%. Since the valuation the funding level has increased by 7.9% to 90.7% this is also uplift from 88.2% recorded for 31st March 2018.

Recommendations:

The Committee is recommended to:

- Note the contents of this report and the Annual Report for 2018/19 attached as Appendix A to this report;
- Note the Tower Hamlets Pension Fund position and outcome of the Pensions & Investment Research Consultants Ltd (PIRC) UK Local Authority League table for 2018/19, set in section 3.5 of this report; and
- Note the Tower Hamlets Pension Fund Funding Level as at 31st March 2019, prepared by the Fund actuary as set in section 3.6.

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 negative in that the pension payments exceeds receipt of contributions which stood at £13m net withdrawal for 2018/19 compared to net addition of £31.5m in 2017/18. This was due to 3 years deficit lump sum contribution of some £43m paid in advance by the Council into the Fund in December 2017.
- 3.4.4 Investment income reduced considerably over the year by £2.3m. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) was slightly more by 200k over the year. 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. The total employee contributions increased over the year by £1.6m. Total employer contributions went down significantly compared to last year as the Council prepaid the 3 years lump sum deficit contribution into the Fund in December 2017.
- 3.4.5 In 2018/19 the overall expenditure increased substantially by £3m. The major contributors were the overall benefits paid increased substantially by £2m over the year. The investment management costs went down by £1m we are currently looking into this whilst the administration costs doubled to £1m over the year.
- 3.4.6 Overall, fund membership has increased slightly from 20,659 to 20,949, an increase in membership number of 290. The active members increased by 39 members over the year whilst deferred members remain almost static. Retired membership increased slightly by 29 members.
- 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.
- 3.4.8 Overall, fund assets increased by £75m. The improvement was due to the performance of the financial markets in which the Fund held its investments.
- 3.4.9 The net asset statement represents the net worth (£1,563m) of the Fund as at the 31st March 2019. 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 16th March 2017. As a result the review of this statement would be carried out again between November 2019 and March 2020 along with the outcome of 2019 triennial valuation.
- 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). 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 was last reviewed and approved by the Committee at its meeting of 14th March 2018 and a revised version is due for approval at the Committee meeting of 20th June 2019.
- 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 2018/19, and is in progress at the time of writing this report. This work is due to be concluded before 30th June 2019 and it is part of the Audit programme for the Council. The outcome of this will be reported to this Committee later in the year.

3.4.18 The Council's external auditor has changed for 2018/19 account from KPMG to Deloitte. The external auditor is required to issue an ISA 260 report, an 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 Deloitte and the audit fee is being maintained at £21,000, this would be charged to the Pension Fund.

3.5 PIRC League Table Performance

3.5.1 PIRC measures the performance of the Fund against their Local Authority Universe data. The PIRC Local Authority Universe is an aggregation of Funds (currently 64 Funds) within the LGPS sector that is used for peer group comparisons. The performance results set out in this section are from the league tables.

3.5.2 The PIRC universe average for local authority Pension Fund return for 2018/19 was 6.6% compared to 2017/18 return of 4.5%. 10.5% per annum was recorded as the 3-year average performance return for 2018/19; an improvement from 8.3% per annum posted for 2017/18.

3.5.3 Tower Hamlets Pension Fund was ranked 45th place with a Fund return of 6.5% in the PIRC Local Authority Universe League Table and ranked 7th in 2017/18 with a Fund investment return of 6%. Over the longer period of 3, 5, 10 and 20 year are shown in below table:

	2017/18		2018/19	
Period	Return%	Rank	Return%	Rank
3 Year	8.1	37 th	10.9	21 st
5 Year	8.9	35 th	8.5	51 st
10 Year	7.1	75 th	10.1	73 rd
20 Year	6.1	55 th	5.9	62 nd

3.6 Funding Update

3.6.1 This funding update has been provided to illustrate the estimated development of the funding position from 31 March 2016 to 31 March 2019. At the last formal valuation the Fund assets were £1,126m and the liabilities were £1,361m. This represents a deficit of £235m and equates to a funding level of 82.8%. Since the valuation the funding level has increased by 7.9% to 90.7%, with Fund assets of £1,568m and liabilities of £1,729m, producing a deficit of £160m as at 31st March 2019, this is an estimate, the Committee will received the outcome of the formal triennial valuation at its November 2019 meeting.

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 arrangement for financial management are properly scrutinised. The performance of the fund affects the level of employer's contribution to the fund.

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.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix A – Draft Pension Fund Annual Report and Accounts 2018/19
- Appendix B - PIRC UK Local Authority League table for 2018/19
- Appendix C – Funding Level Update as at 31st March 2019

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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