

COMMITTEE: Pensions Committee	DATE: 17 September 2014	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Acting Corporate Director of Resources		TITLE: 2013/14 Pension Fund Annual Report		
ORIGINATING OFFICER(S): Bola Tobun – Investment & Treasury Manager		Ward(s) affected: N/A		

Lead Member	Cllr Alibor Choudhury - Resources
Community Plan Theme	All
Strategic Priority	One Tower Hamlets

1. SUMMARY

- 1.1 This report presents the draft Annual Pension Fund Report and Statement of Accounts.
- 1.2 The Statement of Accounts have been prepared under International Financial Reporting Standards (IFRS) rules and are now presented for consideration by the Pensions Committee.

2. DECISIONS REQUIRED

- 2.1 Members are recommended to note the:
- Pension Fund Annual Report;
 - Pension Fund Statement of Accounts;
 - Funding Strategy Statement;
 - Statement of Investment Principles;
 - Governance Compliance Statement.

3. REASONS FOR DECISIONS

- 3.1 The Local Government Pension Scheme (Administration) Regulation 2008 requires the Authority as the administering body for the London Borough of Tower Hamlets Pension Fund to publish an annual report by 1 December following the year end. The Pensions Committee will be asked to approve the audited final accounts at its meeting on 19 November 2014.
- 3.2 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.

4. ALTERNATIVE OPTIONS

- 4.1 The draft Pension Fund Annual Report and Statement of Accounts are presented to Members to give them an early sight of the report. Although, this is not a requirement it is good practice to keep Members informed on the activities and performance of the Fund.

5. BACKGROUND

- 5.1 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 and assets and liabilities.
- 5.2 The contents and format of the accounts are determined by statutory requirement and mandatory professional standards as established by the Chartered Institute of Public Finance (CIPFA) in their Service Code of Recommended Practice (SERCOP).
- 5.3 It should be noted that the Accounts are still in draft form and currently being audited by the Councils auditors, KPMG. A set of audited accounts will be presented to Members for approval the 19 November 2014 meeting of the Pensions Committee.
- 5.4 The Department Communities and Local Government (DCLG) have introduced an additional requirement for Councils to publish before the 1st December an annual report which incorporates elements of the financial accounts.

6. THE ANNUAL REPORT AND STATEMENT OF ACCOUNTS

- 6.1 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
 - The Net assets Statement which can be considered as the funds balance sheet.
- 6.2 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 administration of the fund.
 - The transactions relating to its role as an investor.
- 6.3 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 by £8.2m in 2013/14 compared to £3.3m in 2012/13 and £3.7m in 2011/12.
- 6.4 Whilst the Fund net cashflow position in 2013/14 has increased significantly this year, it expected that the Fund will become cashflow negative over the next two years - although the exact timing is difficult to predict.
- 6.5 Overall, fund membership has risen and the increase in active members is significantly more than the rise in other categories of membership. The number of active members have gone up by 1,494 (28.2%), whilst the increases in deferred, and retired membership numbers are 372 (5.9%) and 98 (2.4%) respectively. And surprisingly the dependants membership declined slightly by 4 (-0.4%). The Fund is expected to become cashflow negative over time as fund membership matures.
- 6.5 The investment performance section of the Report details returns on the investment portfolio and the impact of managers' activities and investment markets on the value of investments. The Fund achieved a return on its investment portfolio of 8.5% in 2013/14 outperforming benchmark of 6.8% by

1.7%. 3 year returns slightly ahead of benchmark of 6.9%, but 10 year returns lag benchmark by 0.4% at 7.0%.

- 6.6 Overall, fund assets increased by £86m. The increase was mostly due to gains made from performance of financial markets in which the Fund held its investments and a net gain between fund income and expenditure.
- 6.7 The net asset statement represents the net worth (£1,013m) of the fund as the 31st March 2014. The statement reflects how the transactions outlined in the other statement have impacted on the value of the fund's assets.
- 6.8 The Annual report also includes three key statements (Funding Strategy Statement, Statement of Investment Principles and Governance Compliance Statement) relating to the management and governance of the scheme and each statement serves a different purpose.
- 6.9 The Funding Strategy Statement undergoes a detailed review and update after each triennial valuation – a revised statement is attached to this report for approval.
- 6.10 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 stable employer contributions rates as much as possible; and
 - To take a prudent longer-term view of funding those liabilities.
- 6.11 The Statement of Investment Principles facilitates adherence to best practice in the management of pension schemes as set out by the revised Myners Principles and the Fund is required to state the extent to which it has complied with these principles.
- 6.12 The Governance Compliance Statement sets out the Council's policy as the administering authority in relation to its governance responsibilities for the Fund.
- 6.13 No issues have been identified by the auditor in reviewing the pension fund accounts for 2013/14, however due to delays in providing an opinion on the Councils Statement of Accounts (which include the pension fund accounts), the auditor is not able to include his opinion in the Pension Annual Report at this stage.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 7.1. The comments of the Acting Corporate Director Resources are incorporated into the report.

1. LEGAL COMMENTS

- 7.1 Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008 imposes a duty on the Council as an administering authority to prepare a pension fund annual report.
- 7.2 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 and any other appropriate matters;
- (h) the Funding Strategy Statement;
- (i) the Statement of Investment Principles;
- (j) statements of policy concerning communications with members and employing authorities; and
- (k) any other material which the authority considers appropriate.

9. ONE TOWER HAMLETS CONSIDERATIONS

- 9.1 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.

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

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

12. EFFICIENCY STATEMENT

- 13.1 The monitoring arrangement for the Pension Fund and the work of the Pension Fund Investment Panel should ensure that the Fund optimises the use of its resources in achieving the best returns for members of the Fund.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

*Name and telephone number of holder
And address where open to inspection*