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| <p style="text-align: center;">Non-Executive Report of the: PENSIONS BOARD 28 July 2015</p> |  |
| <p>Report of: Chris Holme, Acting Corporate Director of Resources</p> | <p>Classification: Unrestricted</p> |
| <p style="text-align: center;">Pension Fund Business Plan and Budget for 2015/16</p> | |

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

Summary

This report outlines the Work Plan for the Council's statutory function as the administering authority of the London Borough of Tower Hamlets Pension Fund.

Recommendations:

Members are asked to:

- Note the work plan attached as Appendix 1 to this report.
- Note the revenue budget for 2015/16 attached as Appendix 2 to this report.

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 work plan for the authority 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 Work 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. DETAILS OF REPORT

- 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 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.
- 3.3 The Key Performance Indicators cover the following areas:
 - Investment performance
 - Funding level
 - Death benefit administration
 - Retirement administration
 - Benefit statements
 - New Joiners
 - Transfers in and out
 - Employer and member satisfaction
 - Data quality
 - Contributions monitoring
 - Overall administration cost
 - Audit

3.4 In line with best practice, future Pensions Committee meetings will be provided with a schedule of Pension Fund key performance indicators (KPIs) covering investment and administration practices.

3.5 An annual Work Plan will be presented to Committee for agreement. The Work Plan should be presented to Committee by the last committee meeting of the prior financial year to which the Work Plan applies.

3.6 WORK PLAN

3.6.1 In designing the work plan, the priorities of the Council as the administering authority of the Fund have been considered and incorporated into the Plan. The Work Plan has been developed using the below outline action plan.

| ACTIVITY | PURPOSE |
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| Administration & Governance | |
| Member training on specific and general issues | To provide training on specific issues based on identified need or emerging/ current issues. To provide ongoing training to members to enable them to challenge the advice received and equip them with the tools to enter into constructive dialogue with advisers. |
| Pensions Committee to receive key performance indicators report on a quarterly basis. | To ensure scheme is run in accordance with agreed service standards; and compliance with regulations and to deal with and rectify any errors and complaints in a timely way. |
| Review the current pension administration strategy | To ensure scheme is run in accordance with the rules. |
| Review and refresh key policy documents; the Statement of Investment Principles, Funding Strategy Statement, Governance & Communications Policy Statement as necessary (i.e. where significant changes are made) | Seek member approval and formally publish any updated documents where this is deemed appropriate. |
| Set up pensions specific website or microsite | A pension specific website is scheduled to be set up towards the latter half of 2015, which will include details on pension administration, pension investments. And to provide a platform for on-line training facilities. |
| Minimum of four Pensions Committee meetings to be held during the financial year 2015/16. | To ensure that members are kept up to date on key developments with the London Borough of Tower Hamlets Pension Fund and to ensure that approval is received on key tasks/issues that affect the effective operation of the Fund. |
| Each Fund manager will attend at least one meeting during the year 2015/16 and more if deemed necessary | To oversee fund manager activities and monitor performance to ensure that they are achieving performance targets and investing fund assets within the confines of the risk parameters and approach agreed with the Council. |

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| Ensure high level support is available to monitor and review, monitor and manage the risks taken by the Fund. | High level support is available via the Risk and Investment Management Team (RIMT) (this consists of officers and advisers) which oversees the implementation of the Pensions Committee decisions and as well as conceive and discuss new ideas for consideration by the Committee. |
| Investment & Accounting | |
| Draft Pension Fund Annual Accounts approved by the Acting Corporate Director of Resources in July 2015. | To ensure that the Council meets the regulatory timetable and fulfils its stewardship role to the Fund. |
| Audited Pension Fund Annual Report to be published on or before the statutory deadline of 1 December 2015 | Ensure that the Council fulfils its statutory obligation and to keep members abreast of the Pension Fund activities in a transparent and accessible way. |
| Review of the Funds investment strategy | To ensure that the Fund's investment strategy is optimal. There are no current plans for a major investment strategy review over the financial year, although manager underperformance/ market developments may require a review of Strategy. |
| Review of (Actuarial, Investment Consultant and Independent Adviser and Custodian Services) | This may not lead to full re-tendering for these services, but reviews will be commissioned to ensure that the Fund is still receiving good value for its major services. All options will be considered in the review including joining existing framework contracts. |
| Preparation for 2016, Triennial Valuation of Pension Fund Assets and Liabilities | The Fund is bound by legislation to undertake an actuarial valuation of its assets and liabilities to ensure that appropriate future contribution rates are set and that any Fund deficit is recovered over an appropriate period of time in line with the Fund's Strategy Statement. This report will present to Members the outcome of this exercise. |

3.7 PENSION FUND REVENUE ACCOUNT

- 3.7.1 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 2015 and revenue budget estimates for 2015/16 in respect of income and expenditure elements of the Pension Fund.
- 3.7.2 Members are requested to note the pension fund's Revenue Account position for 2014/15 and approve the proposed budget set out in Appendix 2.

3.8 2014/15 Actual

- 3.8.1 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.
- 3.8.2 Total expenditure (benefits payable) of £48.9m budgeted in 2014/15 increased to an actual amount of £53.6. This is due to an increase in pension payments and transfer values out.
- 3.8.3 Transfer of internal cash may be made to fund managers this year to rebalance the Fund. Some of the cash held in house will be deployed to fund the investment opportunities as they become available. Cash held internally is invested in line with Tower Hamlets Council's treasury management strategy, which is delegated to the Corporate Director of Resources to implement.

3.9 2015/16 Proposed Budget

- 3.9.1 The budget 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. The following paragraphs set out some of the assumptions behind the proposed 2015/16 budget estimates:

3.10 Notes to Appendix 2

a) Contribution Receivable

The budget figure is based on 2014/15 activity levels using the contribution rate as stipulated by the actuary. Plus a 2.5% to reflect the pay award for 2015/16.

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 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.

c) Other Income

The budget figure is based on 2014/15 Internal interest earned on revenue balances.

d) Benefits Payable

The budget figure is based on 2014/15 activity levels plus a 2.5% increase to reflect the 2015/16 pay award.

e) Payments to and on account of leavers

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, audit fees and professional advisers' fees.

g) Investment Income

Investment Income is assumed at 4% on assets of £1.085 billion and over 2/3rd is subsequently re-invested by the Fund Managers.

h) Change in Market Value of Investments

An investment of £1.139m is assumed to increase by 2.75%. The combined return of investment income and capital growth on 15/16 investments is based on assumed 6.75% per annum.

i) Fund Managers Fees

Fund managers' fees are calculated at an average rate of 0.25% on assets of £1.15 billion.

j) Global Custodian Fees

The fee is set at £90,000 as per fees schedule.

k) Tax on Dividends

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

3.11 FINANCIAL IMPLICATIONS

- a) The performance of the Pension Fund's investments affects the required level of contributions due from employers.
- b) The employers' contribution rate for the London Borough of Tower Hamlets is currently set at 15.8%, this rate did not change following the 2010 triennial review however, following the 2013 triennial valuation the total implied employers contribution rate (based on current pensionable pay) for the Council increased from 1 April 2014. As before the deficit funding aspect has been defined as cash value so if establishment numbers fall, a cash lump sum reimbursement will need to be paid to the fund by the Council to ensure the level of deficit funding is maintained. The estimated shortfall cash contribution for 2015/16 is £20.5m, up from £18.5m in 2014/15. The next valuation exercise will occur in 2016 with the results taking effect from 1 April 2017.
- c) 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.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 The comments of the Acting Corporate Director of Resources are incorporated in the report.

5. LEGAL COMMENTS

- 5.1 In discharging their functions under the Local Government Pension (Management and Investment of Funds) Regulations 2009, the Pensions Committee must have regard to:

- The need for diversification of investments of the Fund's money;
 - The suitability of investments which they propose to make
 - 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.
- 5.2 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.
- 5.3 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.
- 5.4 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).

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 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.
- 6.2 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.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 A work plan and budget should result in a more efficient process of managing the Pension 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 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.

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

- NONE

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:

- Bola Tobun - Investment & Treasury Manager x4733
- Mulberry House, 5 Clove Crescent E14 2BG