

Non-Executive Report of the: Pensions Committee 25 November 2015	
Report of: Zena Cooke, Corporate Director of Resources	Classification: Unrestricted
2014/15 Pension Fund Annual Report and Audit Report (ISA 260 Report)	

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

Summary

This report presents the Pension Fund Annual Report and Statement of Accounts for 2014/15 and 2014/15 Pension Fund Audit Report (ISA 260 Report) following the audit by KPMG.

The Statement of Accounts has been prepared under International Financial Reporting Standards (IFRS) rules and is now presented for consideration by the Pensions Committee.

This report introduces

Recommendations:

The Pensions Committee is recommended to:

- Approve the Pension Fund Statement of Accounts;
- Approve the Pension Fund Annual Report (Appendix B):
- Note the draft ISA 260 (Appendix A).

1. REASONS FOR THE DECISIONS

- 1.1 The Local Government Pension Scheme Regulations 2013, Regulation 53(2) state 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' and the internal audit report covered the area of how the Fund was being administered.
- 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 1 December following the financial year end and for the Report to contain a number of standard 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

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 is 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).
- 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 Pensions Committee reviewed the Pension Fund Annual Report and Accounts at its meeting on 23rd July 2015. KPMG started the audit of the account October 2015.
- 3.5 KPMG is required to issue an ISA 260 report and opinion on the council's accounts and this includes an opinion on the Pension Fund. This report sets out their opinions and any issues which they believe the Committee should be aware of.
- 3.6 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. Comments on their findings are included under Section 3.

- 3.7 Since the Annual Report and Accounts were initially presented to the Pensions Committee in July, there have been a small number of amendments which have been included within the updated version. At the time of writing this report, these are mainly presentational. KPMG has not identified any significant issues to bring to the attention of the Pensions Committee.

3.8 THE ANNUAL REPORT AND STATEMENT OF ACCOUNTS

- 3.8.1 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.

- 3.8.2 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.
- The transactions relating to its role as an investor.

- 3.8.3 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 £5.2m in 2014/15 compared to £8.2m in 2013/14 and £3.2m in 2012/13.

- 3.8.4 The Fund net cash flow position in 2014/15 is 36% less than the previous year. Investment income increased over the year by £5.2m (46.8%) mainly due to an increase in dividend income. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) decreased by £1.8m (51.4%). 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. Employee contributions rose by £1.0m (10.0%), the increase being attributable to the new CARE scheme which sees contributions deducted from all additional pay and also to the increase in the banding rate which sees higher rates of pay subject to a contribution rate of up to 12.5%. Employer contributions went up by £3.7m (8.7%) due to an increase in the employer's deficit funding payment of £2m.

- 3.8.5 In 2014/15 the overall Fund expenditure increased by £5.7m (11.4%). The major contributor to the increase was the rise in transfers out of £4.5m (160.7%). There was a modest increase in investment management costs of £0.1m (4.2%) while administration costs fell by £0.3m (27.3%). Benefits payable rose by £1.4m (3.2%).

- 3.8.6 Overall, fund membership has increased. The active members increased marginally by 68 (1%) and deferred and retired membership numbers by 122 (1.8%) and 106 (2.5%) respectively.
- 3.8.7 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 11.8% in 2014/15 outperforming the benchmark return of 11.4% by 0.4%. The Fund posted a 3 year return of 10.7% which is marginally better than the benchmark return of 10.0% but delivered a 10 year return of 7.1% underperforming a benchmark return of 7.4% by 0.3%.
- 3.8.8 Overall, fund assets increased by £125m. 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.
- 3.8.9 The net asset statement represents the net worth (£1,138m) of the Fund as at the 31st March 2015. The statement reflects how the transactions outlined in the other statement have impacted on the value of the Fund's assets.
- 3.5.10 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.
- 3.8.11 The Funding Strategy Statement undergoes a detailed review and was updated after the triennial valuation. The 2013 triennial valuation outcome was reported, discussed and approved at the Pensions Committee meeting of 27th February 2014.
- 3.8.12 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.
- 3.8.13 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.
- 3.8.14 The Governance Compliance Statement sets out the council's policy as the administering authority in relation to its governance responsibilities for the Fund.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 The comments of the Corporate Director of Resources have been incorporated into the report.

5. LEGAL COMMENTS

- 5.1 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.
- 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 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.

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

- 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:

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