


Non-Executive Report of the:  <b>Pensions Board &amp; Pensions Committee</b>  05 & 07 December 2016	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Zena Cooke, Corporate Director of Resources	<b>Classification:</b> Unrestricted
<b>2015/16 Pension Fund Annual Report and Audit Report (ISA 260 Report)</b>	

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

### Summary

This report presents the Pension Fund Annual Report and Statement of Accounts for 2015/16 and 2015/16 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 was presented for consideration at the last meeting of the Pensions Committee. For completeness, this report is included on the December 2016 Pension Committee agenda for noting.

### Recommendations:

The Pensions Board is recommended to note the contents of this report and the following listed reports as already approved by Pensions Committee:

- The draft ISA 260 (Appendix A);
- The Pension Fund Statement of Accounts 2015/16;
- The Pension Fund Annual Report (Appendix B) and
- The draft Audit Opinion for Pension Fund Account 2015/16.

## **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). 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 KPMG is required to issue an ISA 260 Annual Governance Report is attached as Appendix A, reporting their 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.
- 3.5 The Chair and the Chief Financial Officer were required to sign a letter of representation to acknowledge the Council's responsibility for the fair presentation of the information in the financial statements and the Pension Fund Annual Report. A proposed draft of this letter is shown at Appendix C of this report for the Committee's information. The auditor expected to issue an unqualified audit opinion on the Pension Fund in late November and their

comments are included within the attached draft ISA 260. Comments on their findings are included under Section 3.

### **3.6 THE ANNUAL REPORT AND STATEMENT OF ACCOUNTS**

3.6.1 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.

3.6.2 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 the administration of the fund.
- The transactions relating to its role as an investor.

3.6.3 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 £4.37m in 2015/16 compared £5.2m in 2014/15 and 8.2m in 2013/14.

3.6.4 The Fund net cash flow position in 2015/16 is 16% less than the previous year. Investment income decreased over the year by £2.3m (13.5%) largely due to a reduction in dividend income. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) increased by £447k (26%). 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 decrease slightly by £80k. Employer contributions went up by roughly £3m and this mainly due to an increase in the employer's deficit funding payment of £2m.

3.6.5 In 2015/16 the overall Fund expenditure reduced by £2.8m (34%). The major contributor to the reduction was the fall in transfers out of £3.2m (43.7%). There investment management costs increased by £626k (25.6%) over the year and did administration costs by £235k (29.3%). Benefits payable rose by £6.94m (15.32%), this is largely due to lump sum benefit paid in the year (an increase of £5.1m).

3.6.6 Overall, fund membership has increased slightly. The active members increased marginally by 116 (2%) and deferred and retired membership numbers by 336 (5.2%) and 221 (5.3%) respectively.

3.6.7 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 negative return on its investment portfolio of -1.3% in 2015/16 which underperformed the benchmark return of 1.1% by -2.4%. The Fund posted a 3 year return of 6.2%

which is marginally worse than the benchmark return of 6.3% but delivered a 10 year return of 4.7% underperforming a benchmark return of 5.3% by 0.6%.

3.6.8 Overall, fund assets reduced by £12m. The reduction was due to the performance of the financial markets in which the Fund held its investments and a net loss between fund income and expenditure.

3.6.9 The net asset statement represents the net worth (£1,126m) of the Fund as at the 31<sup>st</sup> March 2016. The statement reflects how the transactions outlined in the other statement have impacted on the value of the Fund's assets.

3.6.10 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.

3.6.11 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 27<sup>th</sup> February 2014. The 2016 triennial valuation initial results has been discussed at the September meeting, as we are still waiting for the final valuation and contribution results, the contribution rate approval for the next three years will be sought at the next Committee meeting.

3.6.12 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.

3.6.13 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.

3.6.14 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.

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### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- NONE

#### **Appendices**

- Appendix A – LBTH ISA260 201516 DRAFT AC VERSION
- Appendix B – 2015/16 LBTH Pension Fund Annual Report
- Appendix C - LBTH PF Audit Opinion 1516

#### **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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