

Non-Executive Report of the: Pensions Board 19 th September 2019	 TOWER HAMLETS
Report of: Neville Murton, Corporate Director, Resources	Classification: Unrestricted
Draft Pension Fund Annual Report and Accounts	

Originating Officer(s)	Miriam Adams, Pensions & Investments Manager
Wards affected	All wards

Summary

This report updates the Board on the arrangements for the preparation of the Pension Fund Annual Report and Accounts 2018/19 attached as Appendix 1 to this report. There is a statutory requirement to prepare Pension Fund Annual Report and Accounts.

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

Recommendations

The Pensions Board is recommended to:

- Note the content of this draft report and the Draft Annual Report for 2018/19 attached as Appendix A to this report.

1. REASONS FOR THE DECISION

- 1.1 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 OPTION

- 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 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.

3.2 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.

3.3 **The Annual Report and Statement of Accounts**

3.3.1 The Statement of 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.

3.3.2 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.

3.3.3 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.

3.3.4 Investment income reduced considerably over the year by £2.1m. 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. 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.

3.3.5 Overall expenditure increased substantially by £3m. The major contributors were the overall benefits paid increased substantially by £2m over the year.

3.3.6 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. Membership increase slightly with auto-enrolment scheduled in June 2019.

- 3.3.7 Overall, fund assets increased by £72m. The improvement was due to the performance of the financial markets in which the Fund held its investments.
- 3.3.8 The net asset statement represents the net worth (£1,562m) 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.
- 3.3.9 The annual report also includes a number of key statements and policy documents all of which are undergoing review (Funding Strategy Statement, Investment Strategy Statement that replaced Statement of Investment Principles, Governance Compliance Statement, Communications Strategy, Conflict of Interest Policy, Administration Strategy Statement and Report of Breaches Policy) relating to the management and governance of the scheme and each statement serves a different purpose.
- 3.3.10 The Funding Strategy Statement undergoes a detailed review and was updated after the triennial valuation. The 2019 Funding Strategy Statement is currently under review. 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.
- 3.3.11 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.
- 3.3.12 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.
- 3.3.13 The ISS 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 November Committee.
- 3.3.14 The Governance Compliance Statement sets out the Council's policy as the administering authority in relation to its governance responsibilities for the Fund.
- 3.3.15 The Audit progress 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.
- 3.3.16 The External Auditor provides an independent assessment of the Council's Pension Fund financial statements, systems, procedures and performance.

The outcome of this audit will be reported to the Pensions Committee later in the year.

- 3.3.17 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.
- 3.3.18 The Pension Fund audit is being undertaken by Deloitte and the audit fee is being maintained at £16,000, this would be charged to the Pension Fund.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 The Council as Administering Authority has responsibility of ensuring that the Pension Fund is administered effectively and efficiently and that arrangements 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 Any costs associated with meeting the policy and related legal changes are immaterial in the context of the Pension Fund and any such costs are recharged to the Pension Fund.
- 6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 The monitoring arrangements 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 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 – Draft Pension Fund Annual Report and Accounts 2018/19

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

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