


Non-Executive Report of the: Audit Committee 8 December 2015	 TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	Classification: Unrestricted
2014/15 Local Government Pension Fund Annual Report	

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

Summary

This report presents the audit report to the Annual Pension Fund Report Pension Fund Statement of Accounts for 2014/15.

The Statement of Accounts has been prepared under International Financial Reporting Standards (IFRS) rules and was approved by the 25th November 2015 Pensions Committee. The report was published by 1st December 2015 and is available on the Council website in the “Council & Democracy” section.

KPMG have completed their audit of the Pension Fund and provided an unqualified opinion. Their report is enclosed with the report.

Recommendations:

The Pension Committee is recommended to:

- Note the Pension Fund Annual Report;
- Note the approved Pension Fund Statement of Accounts;
- Note the auditor’s ISA260 report.

1. REASONS FOR THE DECISIONS

- 1.1. 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 approve and publish an annual report by 1 December following the year end. The report is approved by the Pension Committee.
- 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 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 approved the Pension Fund Annual Report and Accounts at its meeting on 25th November 2015. The draft Pension Fund accounts were presented to Audit Committee in July 2015. KPMG started the audit of the account in October 2015.
- 3.5 KPMG issued an ISA260 Report and opinion on the Council's Pension Fund Accounts in November 2015. This report is within appendix of this report.
- 3.6 KPMG provided an unqualified opinion on the Pension Accounts. There are no matters of concern that they need to bring to the attention of the Committee. It is expected that the Council's full set of Accounts for 2014/15 will be tabled at the March 2016 Audit Committee.
- 3.7 The Department Communities and Local Government (DCLG) introduced the requirement for Councils to publish before the 1st December an annual report which incorporates elements of the financial accounts.

4. THE ANNUAL REPORT AND STATEMENT OF ACCOUNTS

- 4.1 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.
- 4.2 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.
- 4.3 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.
- 4.4 Whilst 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 (career average) 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.
- 4.5 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%).
- 4.6 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.
- 4.7 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 benchmark return of 11.4% by 0.4%. The Fund posted 3 year return of 10.7% which is marginally better than the benchmark return of 10.0% and delivered a 10 year return of 7.1% lagged benchmark return of 7.4% by 0.4%.

- 4.8 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.
- 4.9 The net asset statement represents the net worth (£1,138m) of the fund as 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.
- 4.10 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.
- 4.11 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.
- 4.12 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.
- 4.13 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.
- 4.14 The Governance Compliance Statement sets out the Council's policy as the administering authority in relation to its governance responsibilities for the Fund.

5. COMMENTS OF THE CHIEF FINANCE OFFICER

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

6. LEGAL COMMENTS

- 6.1 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.
- 6.2 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.

7. ONE TOWER HAMLETS CONSIDERATIONS

7.1 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.

8. BEST VALUE (BV) IMPLICATIONS

8.1 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.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

9.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

10. RISK MANAGEMENT IMPLICATIONS

10.1 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

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

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Pension Fund Annual Report 2014/15 (available via link http://www.towerhamlets.gov.uk/ignl/council_and_democracy/council_budgets_and_spending/annual_accounts.aspx)
- KPMG Report To Those Charged With Governance (ISA260) for Pension Fund Annual Report 2014/15

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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