

REPORT FOR: Pension Fund Investment Panel

Date of Meeting: 19th October 2010

Subject: Pension Fund Annual Accounts and the Report of the Auditor

Responsible Officer: Myfanwy Barrett, Corporate Director Finance

Exempt: No

Enclosures: Appendix 1- Pension Fund Annual Report
Appendix 2- Report of the Auditor

Section 1 – Summary and Recommendations

The Pension Scheme Annual Report has been approved by GARM and signed. The paper summarises the main issues raised in the Auditor's Report and the proposed actions.

Recommendation:

1. Note the proposed actions in response to the matters raised by the Auditor.

Section 2 – Report

1. The Pension Scheme Accounts to 31st March 2010 were considered by GARM on 28th September 2010 and approved. They have subsequently been signed both by the Corporate Director of Finance and the Auditor. The Auditor concluded that there are no uncorrected misstatements or any disclosure deficiencies in the Accounts.
2. Four issues were identified by the Auditor as requiring attention. These are summarised below together with planned action.

Inclusion of Investment Ranges in the SIP

3. At present the Statement of Investment Principles makes no allowance for investment allocations to vary from the agreed strategy. Neither does it discuss a rebalancing policy.
4. At the special meeting on 21st September 2010, the Panel agreed control ranges for asset classes and a rebalancing policy. These will be added to the SIP and a revised version submitted to the Panel, preferably as part of the Strategic Review but at the latest prior to 31st March 2011.

Separate Pension Scheme Bank Account

5. Cash balances for the pension scheme are managed through the Council's bank account. Regulations require a separate bank account to be operational by 31st March 2011. Work is underway to meet this deadline and to consider how surplus cash can be invested in the name of the Pension Fund.

Monitoring Operational Controls at Investment Managers

6. Investment managers and custodians have access to the assets of the Pension Fund and it is essential to ensure that they have robust controls to protect our assets against loss through error and fraud. While reviews will have been performed prior to new manager appointment it is essential that these are updated regularly and that procedures are in place to identify possible weaknesses in internal controls. Increased transparency in this area is essential.
7. It is proposed that a plan to monitor and provide assurance on the operational controls operated by Investment Managers and Custodians is presented to the next Panel meeting.

Tax Efficiency

8. The Auditor's report identified improved tax efficiency as a means of improving investment returns. While pension schemes are generally exempt from tax in the UK on investment income and gains, this is not necessarily the case overseas and custodians have a key role in managing withholding tax and submitting tax returns and claims. The Pension Scheme is wholly invested in pooled funds, where the investment

manager and its custodian are responsible for the tax efficiency of the fund. In addition, there are a range of options for managing VAT within the Pension Fund that can lead to different tax impacts.

9. Given the scope of this issue, it is not possible to make any general statements about the efficiency of the arrangements in place. Officers will engage with Investment Managers and Custodians to ensure that optimum tax arrangements are in place and report back to the Panel in 2011.

Financial Implications

10. Financial matters are integral to the report

Risk Management Implications

11. Risk included on Directorate risk register? No
12. Separate risk register in place? No
13. Risk issues are discussed within the Report of the Auditor (appendix 2).

Corporate Priorities

14. Corporate Priorities are not applicable to Pension Fund as it does not have a direct impact on Council's resources.

Section 3 - Statutory Officer Clearance

Name: Jennifer Hydari	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 7 October 2010		

Section 4 - Contact Details and Background Papers

Contact: George Bruce (Treasury and Pension Fund Manager) Tel: 020-8424-1170 / Email: george.bruce@harrow.gov.uk

Background Papers: Nil

If appropriate, does the report include the following considerations?

1.	Consultation	N/A
2.	Corporate Priorities	N/A