

REPORT FOR: Pension Fund Committee

Date of Meeting: 18th September 2013

Subject: INFORMATION REPORT – Annual Pension Scheme Accounts & Auditor’s Report

Responsible Officer: Simon George, Director of Finance and Assurance

Exempt: No

Enclosures: 1 - Pension Fund Annual Report
2 - Expense Summary
3 - Auditor’s Report

Section 1 – Summary

The draft pension fund accounts are attached. The audit is substantially complete and the draft report from the Auditor is attached.

FOR INFORMATION

Section 2 – Report

Annual Accounts

1. The draft pension scheme accounts to 31st March 2013 are attached (appendix 1).
2. The contents of the Accounts are governed by regulations in particular the Code of Practice on Local Authority accounting in the UK 2011/12. The format follows that used in prior years. An additional section concerning the risks faced by the fund and the management of these risks has been added (8.16).
3. The value of the fund increased by £63 million in the year reflecting strong equity and bond markets. The fund continues to 'mature' in that benefit payments exceeded contributions for the first time. This trend can be expected to continue as the numbers of pensioners grows and active membership either stabilises or falls. Cash flow remains positive when investment income is taken into consideration. The impact of falling membership, longevity and pension increases will steadily increase future cash outflows, which in the longer term may have to be factored into the investment strategy. The Actuary will include longer term cash modelling in the tri-annual report.
4. The annual accounts and Auditor's Report will be considered at the GARMC meeting on 24th September.

Auditors Report

5. The Auditor's report from Deloitte has not been received; the draft report is attached.

Schedule of Expenses

6. A schedule of expenses incurred by the pension fund in the year is also attached (appendix 3). Aggregate expenses are estimated at £3.53 million, with fund manager fees (£2.57 million) being the largest component. Both have decreased by £100,000, with savings from the reduced Fidelity fee (0.25% from 0.5%) and the terminated Mellon mandate being offset by the impact of higher asset values. Fund manager fees are mainly charged direct to the pooled fund, and Harrow's share of such fees take into account any rebates
7. The investments in private equity and property are through fund of funds and incur two layers of fees. For these asset classes, the underlying manager fees have been estimated.
8. No provision is shown for private equity performance related fees. These are almost impossible to estimate although in the light of performance to date are not thought to be significant.

9. The aggregate costs represent around 0.68% of the Scheme value.
10. Within the annual accounts, pooled fund manager fees are shown within the change in market value of investments. For this reason, the value of expenses shown in the annual Accounts is considerably lower at £488,000.
11. The DCLG have recently released comparative cost information for Local Authorities based on disclosures in fund accounts. The data has been questioned, see paragraph 13 above, on the limitations of using financial accounts disclosure. According to the DCLG, Harrow has an average cost per member of £42, which compares with £164 for average outer London and £112 for all England and Wales.
12. This apparent saving is due to the treatment of pooled fund management costs, which create a negative fund management cost. Looking only at the administration element, Harrow costs are £51 per member, in line with outer London (£50) but more than the whole of England and Wales (£28).
13. If the cost data in appendix 3 was used, Harrow's average cost per member in 2011-12 is £234, being 9th highest out of 89 authorities. But as explained above, limitations in the information sources make comparisons extremely doubtful. It is likely that increased transparency in future will enable better interpretation of cost comparisons.

Section 3 – Further Information

N/A

Section 4 – Financial Implications

14. The level of costs incurred will have a significant impact on the net returns earned by the fund.

Section 5 - Risk Management Implications

15. Risk included on Directorate risk register? No
16. Separate risk register in place? No.
17. The audit is one element of the risk management processes and the review of internal controls operated by investment managers also forms a significant risk mitigation process.

Section 6 - Equalities implications

18. Was an Equality Impact Assessment carried out? Yes
19. There are no direct equalities implications relating to the pension fund

Section 7 – Corporate Priorities

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

Name: Simon George	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 10 September 2013		
Name: Matthew Adams	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 28 August 2013		

Section 8 - Contact Details and Background Papers

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

Background Papers: None