

REPORT FOR: Pension Board

Date of Meeting: 2 November 2016

Subject: **Information Report** - London Borough of Harrow Pension Fund: Annual Report and Financial Statements for the year ended 31 March 2016

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards Affected: All

Enclosures: Annual Audit Letter 2015/16 (KPMG)
Management Expenses

Section 1 – Summary

Summary

This report presents the Pension Fund Annual Report and Financial Statements for the year ended 31 March 2016 together with the Annual Audit Letter 2015/16 of the auditors KPMG and answers to queries raised by the Board at their previous meeting.

For information

Section 2 – Report

1. At their meeting on 28 June 2016 the Board received the Pension Fund draft Annual Report and Financial Statements for the year ended 31 March 2016.

2. They were advised that the audit of the Accounts by KPMG LLP would commence in July. The results of the audit were considered as part of the Council's overall Accounts by Governance, Audit, Risk Management and Standards Committee on 8 September 2016. They will be recommended for agreement by the Pension Fund Committee on 22 November.
3. The Board were additionally advised that the audited accounts together with the Auditor's report would be presented to the Board at its next meeting.
4. The accounts can be accessed at:

<http://www.harrow.gov.uk/info/200110/council-budgets-and-spending/698/statement-of-accounts/2>

5. The audit of the Pension Fund Accounts was conducted at the same time as that of the rest of the Council's Accounts. In their "External Audit Report 2015/16 – London Borough of Harrow and Harrow Pension Fund" and subsequent letter (copy attached) KPMG make relatively few references to the Pension Fund with the key points as follows:

- We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Council's Statement of Accounts and the Pension Fund Annual Report by 30 September
- The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.
- Our audit of the Fund's financial statements for the year ended 31 March 2016 has not identified any misstatements that have been corrected in the final version of the accounts which we believe should be communicated to you.
- We are pleased to report that there are no uncorrected audit differences
- Our audit work included a detailed consideration of the Actuary's valuation and we performed substantive testing over the completeness and accuracy of data provided to the Actuary as the basis for their valuation. We are satisfied with the reasonableness of the actuarial valuation and its reflection in the year end accounts.

6. The Auditors made only one recommendation in relation to the Fund as follows:

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 required that all pension schemes have their own back (sic) account effective 1 April 2011. Specifically the regulations state the following: "On and after 1st April 2011, an administering authority must hold in a separate account kept by it with a deposit-taker in accordance with this regulation — (a) all monies held by the authority on that date; and (b) all monies received by it on or after that date for the purpose of its pension fund."

Although a separate bank account has been set up for the Fund, it is not being used for all pension fund transactions. We understand a number of historic income and expenditure transactions are still processed through the Council's bank account. As a result, the Fund is not fully compliant with the requirements of the legislation.

It should be noted that, since 1 April 2015, the Pensions Regulator now has an oversight role in relation to scheme administration and governance. As such, the Fund may be subject to increased levels of external scrutiny in future. We recommend the Fund amends all historic processes to ensure all pension fund specific transactions are processed through the Fund bank account. We recommend the bank account is put into full use in order that the Pension Fund is fully compliant with all regulations.

Officers were not able to accept this recommendation and commented as follows:

In accordance with the legislation the separate bank account was opened from 1 April 2011 and, since then, an increasing number of transactions have been processed directly through the account. These include the pensioners' payroll, transfers in and out of the Fund, lump sum and death benefits payments, the receipt of contributions from admitted and scheduled bodies and income from the property investment manager. The account is reconciled monthly.

Each month, Pension Fund related expenditure (particularly employee / employer contributions) and income transactions processed through the Council's bank account are identified. A monthly cash transfer is made from the Council into the Pension Fund account and, at year end, the appropriate debtor is shown in both the Pension Fund and the Council's accounts.

From the time the account was established every effort has been made to maximise its use consistent with the Council's existing systems and the costs and risks associated with changes. This will continue to be the case.

However, the Council uses a commercial software package (SAP) and substantial support would be needed from them to make any system changes necessary. For all transactions to go directly through the Pension Fund account, changes would be necessary for the following processes: accounts payable / purchase orders; accounts receivable; VAT; payroll tax deductions; manual cheque payments; receipt of foreign currency payments.

The Council is of the view that to make the changes necessary for the Pension Fund bank account to directly process all transactions would entail certain costs and uncertain risks which cannot be justified at this time.

7. At their meeting on 28 June 2016 the Board raised specific queries detailed with comments below.

7.1 Query - The Board expressed concern in terms of the time it took for the changeover in Fund managers and suggested that the Authority should have a process whereby it could react more quickly.

7.1 Comment - At the meeting of the Pension Fund Committee on 6 September 2016 the Chair asked officers to expand on the concern raised by the Board and others attending the meeting raised similar concerns. A report on the issues will be presented to the next meeting of the Committee on 22 November but the Committee will be reminded that, when necessary, a “special” meeting can already be called at short notice. This facility has been used twice in the last in the last two years.

7.2 Query - Referring to the 34% of the Fund invested in SSGA MPF All World Equity Index Sub-Fund, a member of the Board stated that this was a sizeable amount in one Fund. The officer advised that this was the ‘backstop’ for the equity strategy.

7.2 Comment - Having considered its Funding Strategy Statement, return aspirations and risk appetite the Committee has agreed that 62% of the Fund should be invested in Global Equities with an acceptable range of 58-68%. To control the risk within this allocation, half the investments are made with “active” fund managers with the remainder (34% in the Annual accounts) in the “passive” SSGA MPF All World Equity Index Sub-Fund where returns will be exactly in line with the movement of Global equities. The Committee is satisfied that this investment remains in line with its current Strategy.

7.3 Query - The officer undertook to provide details of the figures omitted in relation to the actuarial present value of promised retirement benefits and also details of the oversight and management costs (Note 10).

7.3 Comment -

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: <ul style="list-style-type: none"> • a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £88m • a 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £21m • a one-year increase in assumed life expectancy would increase the liability by approximately £28m

7.3 Comment - Attached is an analysis of administrative costs, investment and management expenses and oversight and governance costs as summarised in Note 10 to the Accounts.

7.4 Query - In response to a question as to the number of scheduled or admitted bodies which owed money to the Fund at the end of the year the officer commented that there was at least one and that he would provide Board members with a full list. The Pension Regulator had said that there should be a note about this in the accounts and annual report.

7.4 Query – Please provide a breakdown of the entries in Note 17 in respect of two of the debtors categories

7.4 Comment –

	£'000	£'000
<u>Other local authorities</u>		
LB Harrow		1,752
<u>Scheduled/Admitted bodies</u>		
Alexandra School	12	
Park High School	31	
Salvatorian College	16	
St Bernadette's School	6	
St Dominic's College	24	
Stanmore College	42	
North London Collegiate School	44	
Carillion Services	15	
Chartwells	4	
Sopria Steria	9	
Others	<u>5</u>	
		208

All the sums outstanding from the scheduled/admitted bodies were routine contributions which were received by the statutory deadline of 19 April.

Financial Implications

8. Whilst this report discusses all aspects of the financial standing of the Pension Fund there are no financial implications arising directly from it.

Legal Comments

9. Regulation 57 of the Local Government Pension Scheme Regulations 2013 requires that an administering authority must produce an annual report containing certain specified matters. The report must be published before 1 December of the scheme year end.

Risk Management Implications

10. All risks are included within the Pension Fund Risk Register.

Equalities implications

11. There are no direct equalities implications arising from this report.

Council Priorities

12. The financial health of the Pension Fund directly affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 20 October 2016		

Ward Councillors notified:	Not applicable as the report is relevant to all wards.
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Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

Background Papers – None