

REPORT FOR: Pension Fund Committee

Date of Meeting: 22 November 2016

Subject: 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: London Borough of Harrow Pension Fund:
Annual Report and Financial Statements
for the year ended 31 March 2016
Annual Audit Letter 2015/16 (KPMG)

Section 1 – Summary and Recommendation

Summary

This report seeks the agreement of the Committee to the Pension Fund Annual Report and Financial Statements for the year ended 31 March 2016.

Recommendation

The Committee are recommended to agree the Annual Report and Financial Statements for the year ended 31 March 2016.

Section 2 – Report

1. At their meeting on 21 June 2016 the Committee 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.
3. The Committee's consideration on 21 June was minuted as follows:

Members received a report of the Director of Finance setting out the draft Pension Fund Annual Report and Financial Statements for the year ended 31 March 2016.

An officer outlined the following key points:

- *net assets of the Fund had decreased and its performance was low in the local authority annual league table of investment returns. Harrow was ranked 87 out of 90;*
- *the number of pensioners had increased, including the number of deferred pensioners whilst active members remained stable;*
- *management fees, including fees charged by investment managers, were £3.5m and a further report would be submitted to the next meeting;*
- *the major asset classes had performed poorly and the Fund's investments reflected this disappointing performance producing an investment return of -1.9%;*
- *the number of employer organisations within the Harrow Pension Fund, including the Council, would have a significant influence on the Fund;*
- *despite a reduction in net assets of fund available to fund benefits at the period end from 2014/15 to 2015/16, this was not considered to be a huge loss and would be an issue for Hymans Robertson LLP (Council's Actuary) to address as part of their valuation exercise.*

A Member commented that the deferred membership figures were a worrying trend and asked if this was typical of local authorities. In response, Gemma Sefton (Hymans Robertson LLP) drew attention to the changes in membership and that, over time, active membership had fallen due to redundancies but had now stabilised.

Another Member asked how the increase in cash outflows due to the impact of falling membership, longevity and pension increases would be factored into the Investment Strategy. Colin Cartwright (Aon Hewitt) explained that the CIV would explore alternatives and possibly move to income generating investments. The intention was to achieve long term growth and, over time, the Investment Strategy may need adjusting and consideration would be given as part of the valuation exercise.

Richard Romain (Independent Adviser) queried the Committee's Terms of Reference set out on page 105 of the report and an officer undertook to check these. He also referred to the section on Risk Management on page 110 of the report and suggested a statement on risk, particularly decision-making risk and reference to meetings being open to members of the public.

John Royle (Unison) asked about the number of officers who received severance packages of £100k.

Colin Robertson (Independent Adviser) referred to asset risk and its importance to liabilities. He suggested that performance over a period of 3/5 years be included under Risk Management and that the distributions from Pantheon be reviewed.

RESOLVED: *That the report and the comments be noted.*

4. The matters arising from the specific queries raised by Members and Advisers were progressed as follows;

- Alderman Romain was correct in querying the Terms of Reference and they have been corrected
- An additional tool by which "Governance and Regulatory Risk" is managed has been included as follows:
Decisions are taken by the Pension Fund Committee in the light of advice from the Investment Adviser and officers
- During 2015-16 one officer left the Council with a severance package in excess of £100,000 but since this occurred on 31 March 2016 the costs will be included in the 2016-17 Accounts.
- Performance over three and five years is included in the Annual Report
- Distributions from Pantheon are received in cash and shown within Table 11 as investment income.

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 in its entirety 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 2 November 2016 the Pension Board expressed their concern over this matter which is covered in the report on their meeting elsewhere on the agenda.
8. Work has started on making improvements to achieve fuller compliance with the Regulations including:
 - Seeking to allocate all investment income direct to the Pension Fund account
 - Reviewing other not compliant income and expenditure to seek improvements
 - More timely transfer of contributions and other income into the Pension Fund account
9. The Committee will be advised of progress at their next meeting
10. The Committee are recommended to agree Annual Report and Financial Statements for the year ended 31 March 2016 as attached.

Financial Implications

11. 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

12. 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

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

Equalities implications

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

Council Priorities

15. 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"/>	Director of Finance
Date: 10 November 2016		
Name: Alison Burns	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 11 November 2016		

Section 4 - Contact Details

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

Background Papers – None