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**REPORT FOR: Pension Fund  
Committee**

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<b>Date of Meeting:</b>	19 September 2023
<b>Subject:</b>	Draft Pension Fund Annual report for 2022-23
<b>Responsible Officer:</b>	Sharon Daniels – Acting Director of Finance and Assurance
<b>Exempt:</b>	No
<b>Wards affected:</b>	List Ward(s) affected by decision. <b>None</b>
<b>Enclosures:</b>	Appendix – 1 Draft Pension Fund Annual report for 2022-23

## Section 1 – Summary and Recommendations

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This report presents the draft Pension Fund Annual Report for the year ended 31 March 2023.

### **Recommendations:**

The Committee is **recommended** to approve the draft Pension Fund Annual Report for 2022-23 for publication and to authorise the Acting Director of Finance and Assurance to make any changes arising from the audit of accounts before publication.

## Section 2 – Report

1. The Accounts and Audit (England) Regulations 2015, require Local Authorities to prepare Statement of Accounts in accordance with proper practices. Previous timetable deadlines have meant that the draft Statement of Accounts must be published by 31st May with the audited version being published by 31st July each year.
2. The audit is again being carried out by Mazars. Their “Audit Strategy Memorandum”, which sets out their plan for carrying out the audit of the Pension Fund Accounts is yet to be submitted.
3. The audited Pension Fund Annual Report is required to be published by 1 December 2023 – this requirement has not changed. The draft annual report (which contains the 2022-23 Pension Fund Accounts) is enclosed as **Appendix 1**.
4. The 2021/22 audit of accounts is still in progress, and the outcome will be reported to the Committee’s next meeting on 21 November 2023.
5. To assist in the Committee’s consideration of this matter they are advised of the following key points:

### **Fund Revenue Account**

6. During the year 2022-23, the net assets of the Fund reduced from £1,018m to £954.8m. This reflected the continued volatility of investment markets in 2023.
7. The Accounts comprise two main statements with supporting notes. The main statements are:
  - i) Dealings with Members Employers and Others which is essentially the fund’s revenue account; and
  - ii) The Net Assets Statement which can be considered as the fund’s balance sheet.
8. 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:

- i) The financial transactions relating to the administration of the fund; and
- ii) The transactions relating to its role as an investor.

9. Overall, the Fund's assets had decreased by £63m in the financial year. The value depreciation was due to the underperformance of the financial markets in which the Fund held its investments and a net withdrawals of fund expenditure over income.
10. The net asset statement represents the net worth (£954.8m) of the Fund as at the 31st March 2023. The statement reflects how the transactions outlined in the other statement have impacted on the value of the Fund's assets.
11. 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 total contributions increased over the year by £2m. The section indicates that the Fund is cash negative in that the payment of benefits exceeds the receipt of contributions, presenting a net withdrawal of £2.64m for 2022/23 compared to net withdrawals of £3.95m in 2021/22.
12. Investment income increased by some £1.3m over the year as expected this is in line with the Fund assets appreciation. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) was lesser by £2.4m over the year. 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.
13. In 2022/23 the overall benefits paid, increased by some £750k over the year and the management expenses went down by £781k. The Fund continues to mature in that benefit payments exceed contributions. This trend towards maturity can be expected to continue as the number of pensioners grows and active membership either stabilises or falls.
14. Cashflow (even after taking account of investment income) is now slightly negative, although the investment strategy retains sufficient liquidity to address this in the short to medium term. The impact of stable membership, longevity and pension increases are likely to increase future cash outflows gradually. In the longer term, it is likely that this will have to be factored into the investment strategy.
15. Overall, fund membership has increased slightly from 19,003 to 19,348, an increase in membership number of 345. The active members increased by 244 members over the year, deferred members increased by 183 and the retired membership decreased by 110 members.
16. The investment performance section of the report details returns on the investment portfolio, the impact of managers' activities and investment markets on the value of investments.
17. As the pension fund accounts remain part of the financial statements of the Council as a whole, the Governance, Audit, Risk Management and Standards Committee (GARMS) retain ultimate responsibility for receiving,

considering and agreeing audit plans as well as receiving any reports arising from the audit. However, the Audit Plan for the Pension Fund and any reports arising from the audit will be reported to this Committee.

18. The External Auditor provides an independent assessment of the Council's Pension Fund financial statements, systems, procedures and performance. The external auditor is required to issue an ISA 260 report, an opinion on the Council's accounts and this will include an opinion on the Pension Fund accounts. The ISA 260 report sets out their opinion and any issues which they believe the Committee should be aware of.
19. The audit of the Council's accounts is yet to be completed and an ISA 260 report will be issued by the auditor once completed, at the time of writing this report ISA 260 has not been issued for the Pension Fund accounts.
20. The Pension Fund audit is being undertaken by Mazars and the audit fee is being maintained at £17,000, this would be charged to the Pension Fund.
21. The annual report also includes three key statements:
  - i) Funding Strategy Statement,
  - ii) Investment Strategy Statement and
  - iii) Governance Compliance Statement - relating to the management and governance of the scheme and each statement serves a different purpose.
22. The purpose of the Funding Strategy Statement (FSS) is threefold:
  - i) To establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward;
  - ii) To support the regulatory framework to maintain as nearly constant employer contributions rates as possible; and
  - iii) To take a prudent longer-term view of funding those liabilities.
23. The Investment Strategy Statement (ISS). The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.
24. This ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused.
25. The Governance Compliance Statement sets out the Council's policy as the administering authority in relation to its governance responsibilities for the Fund.

## PIRC League Table Performance

26. PIRC measures the performance of the Fund against their Local Authority Universe data. The PIRC Local Authority Universe is an aggregation of Funds (currently 45 Funds) within the LGPS sector that is used for peer group comparisons. The performance results set out in this section are from the league tables.
27. Fund Performance over the period of 1, 3 and 5 years are shown in below table:

	1 year	3 years	5 years
Harrow Pension Fund % p.a.	(5.4)	7.7	3.7
Benchmark % p.a.	(5.0)	7.9	5.3
PIRC* Universe Average % p.a.	(1.7)	9.5	5.9
Ranking	84	84	98

28. The fund's underperformance against its benchmark return in all periods largely results from the poor performance of some of its investment managers. The Fund has taken steps to address this during 2021 and 2022, replacing two of its equity managers in that time.
29. The Fund remains below the Universe average over all time periods. Over the medium term the key factor in this has been the Benchmark that has been set, although over five years, whilst this remains below the Universe average, it is the manager underperformance that has been the main contributor to the disappointing relative results.

## Legal Implications

30. There are no direct legal implications arising from this report.
31. The Pension Fund Committee has the following powers and duties:
- to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the fund), save for those matters delegated to other Committees of the Council or to an Officer;
  - the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;
  - to administer all matters concerning the Council's pension investments in accordance with the law and Council policy;

- iv. to establish a strategy for the disposition of the pension investment portfolio; and
- v. to appoint and determine the investment managers' delegation of powers of management of the fund.

## **Financial Implications**

- 32. Whilst the financial health of the Pension Fund directly affects the level of employer contribution which, in turn, affects the resources available for the Council's priorities there are no impacts arising directly from this report.

## **Risk Management Implications**

- 33. Risks included on corporate or directorate risk register? **No**  
Separate risk register in place? **Yes**
- 34. The Pension Fund's Risk Register is reviewed regularly by both this Committee and by the Pension Board.
- 35. There are no specific risk management implications arising from this report. The level of risk to which its investments are exposed is a key component in developing the Fund's investment strategy.

## **Equalities implications / Public Sector Equality Duty**

- 36. Was an Equality Impact Assessment carried out? **No**  
There are no direct equalities implications arising from this report.

## **Council Priorities**

- 37. The performance of the Pension Fund directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities.

## **Section 3 - Statutory Officer Clearance**

**Statutory Officer: Sharon Daniels**

Signed by the Chief Financial Officer

**Date: 7<sup>th</sup> September 2023**

**Statutory Officer: Sharon Clarke**

Signed on behalf of the Monitoring Officer

**Date: 7<sup>th</sup> September 2023**

**Chief Officer: Sharon Daniels**

Signed on behalf of the Chief Executive

**Date: 7<sup>th</sup> September 2023**

## **Mandatory Checks**

**Ward Councillors notified: Not Applicable**

## **Section 4 - Contact Details and Background Papers**

**Contact:** Bola Tobun – Treasury and Pensions Manager

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**Background Papers:** None