

Meeting of the
PENSIONS COMMITTEE

Thursday, 11 June 2009 at 7.30 p.m.

A G E N D A

VENUE

COMMITTEE ROOM C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE

Members:	Deputies (if any):
Chair: Councillor Rajib Ahmed	
Vice – Chair:	
Councillor Helal Abbas	Councillor Shahed Ali, (Designated Deputy representing Councillors Rajib Ahmed, Helal Abbas, Marc Francis, Waiseul Islam and Denise Jones)
Councillor Marc Francis	
Councillor Waiseul Islam	
Councillor Denise Jones	
Councillor Fozol Miah	Councillor Tim Archer, (Designated Deputy representing Councillor David Snowdon)
Councillor Tim O'Flaherty	
Councillor David Snowdon	
1 Vacant Post	Councillor Alibor Choudhury, (Designated Deputy representing Councillors Rajib Ahmed, Helal Abbas, Marc Francis, Waiseul Islam and Denise Jones)
1 Vacant Post - Non-Voting Member (Trade Union)	
1 Vacant Post - Non-Voting Member (Admitted Body)	Councillor Shiria Khatun, (Designated Deputy representing Councillors Rajib Ahmed, Helal Abbas, Marc Francis, Waiseul Islam and Denise Jones)
	Councillor Harun Miah, (Designated Deputy representing Councillor Fozol Miah)
	Councillor M. Mamun Rashid, (Designated Deputy representing Councillor Fozol Miah)

(Note: The quorum for this body is not less than one third of the Committee i.e. 3 Members).

If you require any further information relating to this meeting, would like to request a large print, Braille or audio version of this document, or would like to discuss access arrangements or any other special requirements, please contact: Daniel Hudson, Democratic Services
Tel: 020 7364 4881, E:mail: daniel.hudson@towerhamlets.gov.uk

LONDON BOROUGH OF TOWER HAMLETS

PENSIONS COMMITTEE

Thursday, 11 June 2009

7.30 p.m.

1. ELECTION OF VICE-CHAIR FOR THE MUNICIPAL YEAR 2009/2010

To receive nominations for election of Vice-Chair for the remainder of the Municipal Year 2009/2010.

2. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

3. DECLARATIONS OF INTEREST

To note any declarations of interest made by Members, including those restricting Members from voting on the questions detailed in Section 106 of the Local Government Finance Act, 1992. See attached note from the Chief Executive.

**PAGE
NUMBER**

**WARD(S)
AFFECTED**

1 - 2

4. UNRESTRICTED MINUTES

To confirm the unrestricted minutes of the ordinary meeting of the Pensions Committee held on 23rd April 2009.

3 - 8

5. DEPUTATIONS & PETITIONS

To receive any deputations or petitions

6. UNRESTRICTED REPORTS FOR CONSIDERATION

6 .1 Pension Committee Terms of Reference, Membership and Quorum (PC/001/910)

9 - 12

6 .2 Composition of the Pension Fund Investment Panel (PC/002/910)

13 - 18

6 .3 Draft Pension Fund Financial Accounts 2008/09 (PC/003/910)

19 - 28

**7. ANY OTHER UNRESTRICTED BUSINESS
CONSIDERED TO BE URGENT**

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Agenda Item 3

DECLARATIONS OF INTERESTS - NOTE FROM THE CHIEF EXECUTIVE

This note is guidance only. Members should consult the Council's Code of Conduct for further details. Note: Only Members can decide if they have an interest therefore they must make their own decision. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending at a meeting.

Declaration of interests for Members

Where Members have a personal interest in any business of the authority as described in paragraph 4 of the Council's Code of Conduct (contained in part 5 of the Council's Constitution) then s/he must disclose this personal interest as in accordance with paragraph 5 of the Code. Members must disclose the existence and nature of the interest at the start of the meeting and certainly no later than the commencement of the item or where the interest becomes apparent.

You have a **personal interest** in any business of your authority where it relates to or is likely to affect:

- (a) An interest that you must **register**
- (b) An interest that is not on the register, but where the well-being or financial position of you, members of your family, or people with whom you have a close association, is likely to be affected by the business of your authority more than it would affect the majority of inhabitants of the ward affected by the decision.

Where a personal interest is declared a Member may stay and take part in the debate and decision on that item.

What constitutes a prejudicial interest? - Please refer to paragraph 6 of the adopted Code of Conduct.

Your personal interest will also be a prejudicial interest in a matter if (a), (b) and either (c) or (d) below apply:-

- (a) A member of the public, who knows the relevant facts, would reasonably think that your personal interests are so significant that it is likely to prejudice your judgment of the public interests; AND
- (b) The matter does not fall within one of the exempt categories of decision listed in paragraph 6.2 of the Code; AND EITHER
- (c) The matter affects your financial position or the financial interest of a body with which you are associated; or
- (d) The matter relates to the determination of a licensing or regulatory application

The key points to remember if you have a prejudicial interest in a matter being discussed at a meeting:-

- i. You must declare that you have a prejudicial interest, and the nature of that interest, as soon as that interest becomes apparent to you; and
- ii. You must leave the room for the duration of consideration and decision on the item and not seek to influence the debate or decision unless (iv) below applies; and

- iii. You must not seek to improperly influence a decision in which you have a prejudicial interest.
- iv. If Members of the public are allowed to speak or make representations at the meeting, give evidence or answer questions about the matter, by statutory right or otherwise (e.g. planning or licensing committees), you can declare your prejudicial interest but make representations. However, you must immediately leave the room once you have finished your representations and answered questions (if any). You cannot remain in the meeting or in the public gallery during the debate or decision on the matter.

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6.30 P.M. ON THURSDAY, 23 APRIL 2009

**COMMITTEE ROOM M72, 7TH FLOOR, TOWN HALL, MULBERRY PLACE, 5
CLOVE CRESCENT, LONDON, E14 2BG**

Members Present:

Councillor Joshua Peck (Chair)	(Deputy Leader of the Council)
Councillor Helal Abbas (Vice-Chair)	
Councillor Marc Francis	(Lead Member, Housing and Development)
Councillor Denise Jones	

Other Councillors Present:

Officers Present:

Alan Finch	– (Service Head, Corporate Finance, Resources)
Raymond Haines	– (Chair of Pensions Fund Investment Panel)
Jim Ricketts	– (Capital and Investments Manager, Resources)
Zoe Folley	– (Committee Officer, Democratic Services, Chief Executive's)

1. ADJOURNMENT

The Committee noted that the Chair, Councillor Peck had been delayed.

Accordingly it was considered appropriate that the meeting be adjourned for a period of 15 minutes.

Meeting adjourned at 6:30pm
Meeting reconvened at 6: 45p.m.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor F. Miah, S. Khatun, and D. Snowdon.

Apologies for lateness were received from Councillor J. Peck (Chair)

Noted.

COUNCILLOR H. ABBAS IN THE CHAIR**3. DECLARATIONS OF INTEREST**

No declarations of interest were made.

4. UNRESTRICTED MINUTES

The Chair **Moved** and it was –

Resolved

That, subject to the following amendment, the unrestricted minutes of the ordinary meeting of the Pensions Committee held on 30th October 2008 be approved and signed by the Chair, as a correct record of the proceedings.

Agenda item 8.3 (Partial Restructuring of the Pensions Fund) Resolution 4 –

‘Chair of the Investment Panel’ being replaced by ‘Chair of the Pensions Committee’.

Action by:**ASSISTANT CHIEF EXECUTIVE (L. Ali)**

Committee Officer, Democratic Services, Chief Executive’s (Z. Folley)

Matters Arising

At the last meeting it was agreed that the Pensions Fund Investment Panel be held directly prior to the Pensions Committee. It was confirmed that the sequencing of the meetings was to commence from the new municipal year (2009/10) with 11th June 2009 being the first meeting of both.

5. DEPUTATIONS & PETITIONS

None received.

6. UNRESTRICTED REPORTS FOR CONSIDERATION**6.1 Report of Investment Panel for Quarter Ending 31st December 2008 (PC/005/089)**

Mr R Haines (Chair of the Pensions Investment Fund Panel) presented the report.

During which he:

- (a) Reported on performance during the quarter ending 31st December 2009. In the quarter, the Fund achieved a return of -3.6% which was marginally ahead of the benchmark return. The longer term returns continue to lag behind the benchmark. However, the Fund could take a long term perspective on investments issues because the Pension

Fund had a positive cash flow and it was not envisaged that it would be necessary to realise investments to pay pensions until sometime in the future;

- (b) Indicated that current market conditions necessitated the fund having scope to effect short term adjustments. Proposed that the Corporate Director of Resources be authorised to vary the equity element of the Portfolio within the range 55% to 75% and to vary the proportions of investments within the subdivisions of asset classes;
- (c) Mr Finch (Service, Head, Corporate Finance) reported that the proposals would be implemented gradually in consultation with Hymans Robertson (the Authority's Investment advisors). They would be brought back to further meeting of the Investment Panel and the Pensions Committee for review and adjustment. The decision could be readjusted, if necessary, in response to changes in the investment environment;

In response to the proposals, the Committee raised the following points:

- (d) Questioned whether, if implemented, the Fund would witness greater levels of volatility within the Portfolio? Mr Haines acknowledged that some further work would be carried out in relation to this;
- (e) In relation to the collapse of Icelandic Banks, Mr Ricketts (Corporate Accounting Manager, Resources) clarified that it was mainly an issue for investment of cash flows rather than Pension Fund investment. Pension Fund exposure to Icelandic Banks was not material;
- (f) The Chair of the Investment Panel indicated that because the Fund's Portfolio comprised of real assets such as property and well established companies, there would always be a demand for their goods and services and consequently it was unlikely that they would fail. The losses in value were essentially attributable to short term volatility which would be recovered when market conditions improved;
- (g) Reported that the finding of the WM report of Local Authority Pensions Funds, dated 31st March 2008, would be submitted to the August 2009 meeting of the Investment Panel. This placed the performance of the Fund ahead of the average local Authority position for Pension Fund Performance;
- (h) A Member asked about private sector pension schemes. Members noted the difficulties in comparing private pension schemes with local government schemes as each sectors risk profiles varied greatly. However, it was **Agreed** that statistics comparing the performance of the fund with that for private sector pension funds, over the last quarter, would be brought to the next meeting of the Committee in June 2009.

ACTION: A Finch/ J Ricketts.

- (i) Reference was made to an article written by GMO. In which they highlight the opportunities which exist in the current market. **Agreed** that this article be circulated to Members of the Committee.

ACTION: A Finch/ J Ricketts.

- (j) In relation to the adjustment agreed at the last meeting of the Committee, (that the index linked assets be decreased and the proceeds be invested in equities), Mr Haines confirmed that this adjustment had not been pursued. This was because the market position had deteriorated and it was no longer viable to effect the change;
- (k) In relation to Aural, (regarding the recovery of the Lehman deposits) the Chair, Councillor Peck, requested that he be notified of any similar future developments/any significant changes relating to Fund activity.

The Chair then **Moved** the recommendations and it was:

Resolved

1. That the contents of the report (PC/005/089) be noted;
2. That the Corporate Director of Resources be authorised to reposition the portfolio within the ranges set out in paragraph 7.2 of the report (PC/005/089) subject to the advice of the Chair of the Investment Panel and consultation with the Chair of the Pensions Committee.

Action by:

CORPORATE DIRECTOR RESOURCES (C. NAYLOR)

Service Head Corporate Finance, Corporate Finance, Resources (A. Finch)
Capital and Investments Manager Corporate Accounting, Resources
(J. Ricketts)

7. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

Nil Items.

COUNCILLOR J PECK IN THE CHAIR

8. EXCLUSION OF PRESS AND PUBLIC

Resolved:

That in accordance with the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contained information defined as exempt or confidential in Part 1 of Schedule 12A to the Local Government, Act 1972.

9. EXEMPT / CONFIDENTIAL MINUTES

Minutes of the Pensions Committee held on 30th October 2008 approved.

The meeting ended at 7.35 p.m.

Chair, Councillor Joshua Peck
Pensions Committee

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Agenda Item 61

Committee	Date	Classification	Report No.	Agenda Item No.
Pensions Committee	11 th June 2009	Unrestricted	PC/001 910	
Report of: Service Head, Democratic Services		Title : Pensions Committee Terms of Reference, Membership and Quorum		
Originating Officer(s) : John Williams		Ward(s) affected: N/A		

1. Summary

- 1.1 This report sets out the Terms of Reference, Membership and Quorum of the Pensions Committee for the Municipal Year 2009/2010 for Members' information.

2. Recommendation

- 2.1 That the Pensions Committee note its Terms of Reference, Membership and Quorum as set out in Appendix A to this report.

3. Background

- 3.1. At the Annual Council Meeting on 20th May 2009, Members were appointed to the various Committees and Panels established for the new municipal year as set out in the Constitution.
- 3.2 The terms of reference for the Pensions Committee together with the appointed Membership and Quorum thereof are set out in Appendix A.

4. Membership

- 4.1 Council on 22 April 2009 agreed that the Membership of the Committee be expanded from 7 to 9 Members in line with the recommendations of the Constitutional Working Party adopted by Council in April to ensure the proportionality arrangements are upheld.
- 4.2 Council also agreed that one Admitted Body and one Trade Union representative be invited to join the Committee on a non voting basis in line with the recommendations of the Constitutional Working Party . Officers will verbally update Members on the process for appointing to these positions at the meeting.

5. Programme of Meetings

- 5.1 The Council has agreed a programme of meetings for the municipal year. Further meetings of the Pensions Committee are scheduled as follows (start time 7.30 p.m.):

- Thursday 13th August 2009
- Thursday 19th November 2009;
- Wednesday 17th February 2010

4. Comments of the Chief Financial Officer

There are no specific comments arising from the recommendations in the report.

5. Concurrent report of the Assistant Chief Executive (Legal)

The Committee is recommended to note the terms of reference for the current municipal year.

6. Equal Opportunities Implications

There are no specific equalities considerations arising from the recommendation in the report.

7. Anti Poverty Implications

There are no specific anti poverty implications arising from the recommendations in the report.

8. Risk Management Implications

There are no specific risk management implications arising from the recommendations in the report.

9 Sustainable Action for a Greener Environment

There are no specific risk management implications arising from the recommendations in the report.

**LOCAL GOVERNMENT ACT, 1972 SECTION 100D (AS AMENDED)
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT**

Brief description of "background paper"	If not supplied Name and telephone
Council's Constitution	Daniel Hudson 4881
Council AGM 20 May 2009 – Report and Decision - Agenda item 11 "Appointment to Committees and Panels of the Council" and Council 22 nd April 2009 – Report and Decision - Agenda item 10.1 "Programme of Meetings 2009/10" "Review of Constitution Council 22 nd April 2009 – Report and Decision - Agenda Item 12. "Review of Constitution	

Appendix A

PENSIONS COMMITTEE TERMS OF REFERENCE

Terms of Reference:

- To consider pension matters and meet the obligations and the duties of the Council under the Superannuation Act 1972, and the various statutory requirements in respect of investment matters.

Membership:

Members	Substitutes
9 Members of the Council	Up to three substitutes maybe appointed for each Member

At the Annual General Meeting of the Council held on 20th May 2009 the following appointments were made to the Pensions Committee.

Members	Substitutes
Cllr Rajib Ahmed (Chair) Cllr Helal Abbas Cllr Marc Francis Cllr Waiseul Islam Cllr Denise Jones)Cllr Shiria Khatun)Cllr Alibor Choudhury)Cllr Shahed Ali
Cllr David Snowdon ONE VACANCY) Cllr Tim Archer
Cllr Fozol Miah) Cllr Shahed Ali)Cllr Harun Miah)Cllr Mamun Rashid)
Cllr Tim O'Flaherty	
Non Voting Members	
Trade Union Representative Admitted Body	

The quorum of the Pensions Committee is three Members.

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Agenda Item 62

COMMITTEE: Pensions Committee	DATE: 11TH June 2008	CLASSIFICATION: Unrestricted	REPORT NO PC/002/089	AGENDA NO.
REPORT OF: Corporate Director of Resources ORIGINATING OFFICER(S): Investment Panel	TITLE: Composition of the Pension Fund Investment Panel Ward(s) affected: N/A			

1. SUMMARY

- 1.1. This report informs Members of the current arrangements for the provision of Investment advice to this Committee and recommends that these arrangements continue.

2. RECOMMENDATIONS

- 2.1 Members are recommended to :

2.1.1 To establish an Investment Panel.

2.1.2 That membership of the Investment Panel comprise:-

- All Members of the Pensions Committee or their designated deputies and including the 2 non-voting Members.
- A Investment Professional as Chair
- An Independent Financial Advisor
- The Corporate Director of Resources or nominee
- 2 Trade Union Representatives and 1 Admitted Body

2.1.3 Provide that up to two Trade Union representatives (or their designated deputies) as nominated by the Staffside Secretary attend the Investment Panel as observers.

2.1.4 To establish terms of reference for the Investment Panel as set out in Appendix 1.

LOCAL GOVERNMENT ACT, 1972 SECTION 100D (AS AMENDED) LIST OF BACKGROUND PAPERS USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

Brief description
"background papers"

Brief description of "background papers"

3. BACKGROUND

- 3.1 The Pension Fund Regulations require the Council to establish arrangements for monitoring the investment activities of the professional fund managers and ensuring that proper advice is available on investment issues.
- 3.2 This role is currently undertaken by the Investment Panel the composition and terms of reference of which were originally established by the Pensions and Accounts Committee on the 28th July 2004.
- 3.3 The terms of reference satisfy the Regulations, which require a formal statement of the responsibilities of the different parties involved in the investment process.

4. THE REGULATIONS

- 4.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 require Councils to invest pension fund cash, which is not immediately required to pay pensions.
- 4.2 The Regulations require that Councils when undertaking such investment take proper advice at reasonable intervals and consider the need for diversification of investments.
- 4.3 The Regulations enable Councils to appoint one or more investment managers but in these circumstances are required: -
 - To take proper advice
 - To consider at least every three months the investments undertaken by the manager.
 - To periodically review the managers appointment
- 4.4 To satisfy the requirement to obtain proper advice the Council has engaged an investment professional to act as chair of the investment panel and a firm of investment consultants to advise on the technical issues.
- 4.5 In addition the Council employs an independent performance measurement service to provide an analysis of individual manager's performance on a quarterly basis.
- 4.6 The Regulations have been supplemented by guidance on best practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in response to the Myners report, an independent review of pension investment, which reported in 2001.
- 4.7 The CIPFA best practice guidance sets out the responsibilities of the different parties involved in the investment process and requires that a periodic review be made of these arrangements and of the performance of the individual parties.

5. CURRENT ARRANGEMENTS

- 5.1 Currently the Council is advised on investment issues by a Investment Panel which meets on a quarterly basis and comprises the following members :-

- An independent Chair (Raymond Haines)
- All Members of the Pensions Committee or their designated deputies.
- An independent advisor (Hymans Robertson & Co.)
- The Corporate Director of Resources
- Two observers from the Trade Unions.

The DCLG have established best practice for governance within the Local Government Pension Scheme which has included the participation of scheme members and other employers in investment issues. To comply with this best practice the Council has broadened the membership of the Investment Panel to include a representative of the admitted bodies.

- 5.2 The terms of reference of the Investment panel were established by the Pensions and Accounts Committee on the 28th July 2004 and satisfy the requirements of the Regulations.
- 5.3 It should be noted that the Investment Panel is purely advisory and has no executive powers. It advises this Committee on investment issues and this Committee decides on the basis of this advice what action is appropriate.
- 5.4 The terms of reference of the Investment Panel are as set out in Appendix 1.

6. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 6.1. The comments of the Corporate Director of Resources have been incorporated into the report.

7. RISK MANAGEMENT IMPLICATIONS

- 7.1 There is inevitably a relatively high degree of risk associated with investment in financial markets.
- 7.2 The Regulations attempt to mitigate this risk by ensuring that arrangements are in place to monitor the activities of investment managers and proper advice is taken.

8. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

- 8.1 The legal considerations are set out in Sections 3 and 4 of the report.

9. ANTI-POVERTY IMPLICATIONS

- 9.1 There is no specific anti poverty implications.

10. EQUAL OPPORTUNITIES IMPLICATIONS

- 10.1 There are no equality implications.

11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

11.1 There are no Sustainable Action for A Greener Environment implications.

APPENDIX 1: INVESTMENT PANEL TERMS OF REFERENCE

The Investment Panel is responsible for monitoring all aspects relating to the investment of the assets of the Scheme. Its specific responsibilities are as follows: -

- The Investment Panel will formally review the Scheme's asset allocation at least every three year's taking account of any changes in the profile of Scheme liabilities and will assess any guidance regarding tolerance of risk. It will recommend changes in asset allocation to the Pensions Committee.
- The Investment Panel will consider and monitor the Quarterly Reports produced by their Investment Managers and independently produced performance measurement reports. The contents and formats of the reports will be specified by the Investment Panel.
- The Investment Panel will formally review annually each manager's mandate, and its adherence to its expected investment process and style. The Investment Panel will ensure that the explicit written mandate of each of the investment managers is consistent with the Scheme's overall objectives and is appropriately defined in terms of performance target, risk parameters and timescale.
- The Investment Panel will consider the need for any changes to the Scheme's investment manager arrangements (e.g. replacement, addition, termination) at least annually and make recommendations to the Pension Committee if necessary.
- In the event of a proposed change of managers, the Investment Panel will evaluate the credentials of potential managers and make recommendations to the Pensions Committee
- The Investment Panel will consider the Scheme's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism and recommend revisions to the Pensions Committee.
- The Investment Panel will review the Scheme's AVC arrangements annually. If it considers a change is appropriate, it will make recommendations to the Pensions Committee.
- The Investment Panel will assess the investment advice from their investment consultant and investment services obtained from other providers (e.g. custodian) at least annually.
- The Investment Panel will consider and conclude the negotiation of formal agreements with managers, custodians and other investment service providers on behalf of the Pensions Committee.
- The Investment Panel is able to take such professional advice, as it considers necessary in order to fulfil its responsibilities.
- The Investment Panel will keep Minutes and other appropriate records of its proceedings, and circulate these minutes to the Pensions Committee.
- The Investment Panel may also carry out any additional tasks delegated to it by the Pensions Committee.

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Agenda Item 63

COMMITTEE: Pensions Committee	DATE: 11th June 2009	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director of Resources ORIGINATING OFFICER(S): Alan Finch: Service Head: Corporate Finance		TITLE: Draft Pension Fund Financial Accounts 2008/09 Ward(s) affected: N/A		

1. SUMMARY

- 1.1 This report sets out the draft Pension Fund accounts for the financial year ending 31st March 2009.
- 1.2 Members are asked to note the accounts prior to their incorporation into the Councils overall statement of accounts for approval by Audit Committee and subsequent submission to the external auditors.

2. RECOMMENDATIONS

- 2.1 Members are recommended to note the contents of this report.

3. BACKGROUND

- 3.1 The Council as an administering authority under the Local Government Pension Scheme Regulations is required to produce a separate set of accounts for the schemes financial activities and assets and liabilities.
- 3.2 The contents and format of the accounts are determined by statutory requirements and mandatory professional standards as established by the Chartered Institute of Public Finance (CIPFA) in their Statement of Recommended Practice (SORP).
- 3.3 The Pension Fund Accounts will be subject to a separate audit by the Council's external auditors the Audit Commission which must be completed by the 30th September.
- 3.4 Communities and Local Government (CLG) have introduced an additional requirement for Councils to publish before the 1st December 2009 an annual report which incorporates elements of the financial accounts. This document will be the subject of a further report to this Committee when the audit is substantially complete.

4 THE ACCOUNTS

- 4.1 The accounts comprise two main statements with supporting notes. The main statements are:
 - Dealings with Members Employers and Others which is essentially the funds revenue account
 - The Net assets Statement which can be considered as the funds balance sheet.
- 4.2 The "Dealings with Members Employers and Other" 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:
 - The financial transactions relating to administration of the fund.
 - The transactions relating to its role as an investor.
- 4.3 The administration section principally relates to the receipt of contributions from employers and active members and the payment of pensions. The section indicates that the fund is cash positive in that the receipt of contributions exceeds the pension payments by £13.739M (41%).
- 4.4 The investment section details the income received from the investment portfolio and the impact of managers activities and investment markets on the value of investments.
- 4.5 The section indicates that the value of investments has fallen by £154.109M (22.9%) as a result of adverse conditions in investment markets. The performance of the portfolio and the investment will be the subject of a future report to this Committee.
- 4.6 The net asset statement represents the net worth of the fund as the 31st March 2009. The statement reflects how the transactions outlined in the other statement have impacted on the value of the funds assets.

5. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 5.1. The comments of the Corporate Director Resources have been incorporated into the report.

6. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

- 6.1 The Accounts and Audit Regulations 2003 specify the process by which the authority's accounts are initially approved and then examined by the external auditor. This process and the dates by which the various stages have to be achieved are set out in Regulations and are binding on the authority

7. ONE TOWER HAMLETS CONSIDERATIONS

- 7.1 The Pension Fund Accounts demonstrate the financial stewardship of the scheme members and employers assets. A financial viable and stable pension fund is a valuable recruitment and retention incentive.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 There are no Sustainable Action for A Greener Environment implications.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 Accounts provide an effective mechanism to safeguard the Council's assets and assess the risks associated with its activities.

10. APPENDICES

- 10.1 Statement of Accounts

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

Working papers and technical accounting manuals.

***Name and telephone number of holder
And address where open to inspection***

*Jim Ricketts Ext. 4733
Mulberry Place, 4th Floor.*

PENSION FUND ACCOUNTS

	Note	2009 £'000	2008 £'000
FUND ACCOUNT AS AT 31ST MARCH			
Dealings with members, employers and others directly involved in the scheme			
Income			
Contributions receivable from			
Employers	3	37,755	38,015
Employees or members	3	9,164	7,784
Transfer values receivable		4,862	4,426
Total income		51,781	50,225
Expenditure			
Benefits payable			
Pensions	4	26,685	25,088
Lump sum payments/grants	4	6,495	6,383
Payments to and on account of leavers			
Refunds of contributions		6	10
Transfer values payable		6,679	4,803
Administration		326	946
Contributions equivalent premium		30	3
Total expenditure		40,221	37,233
NET ADDITIONS FROM DEALINGS WITH MEMBERS		11,560	12,992
RETURN ON INVESTMENTS			
		2008/2009	2007/2008
		£'000	£'000
Investment income	10	23,535	17,780
Change in market value: Realised		(81,917)	65,861
Change in market value: Unrealised		(72,192)	(116,253)
Investment management expenses		(1,875)	(2,001)
NET RETURN ON INVESTMENTS		(132,449)	(34,613)
Net decrease in the the fund during the year	11	(120,889)	(21,621)
Opening net assets of the scheme	11	683,222	704,843
CLOSING NET ASSETS OF THE SCHEME		562,333	683,222
NET ASSETS STATEMENT AS AT 31ST MARCH			
		2009	2008
		£'000	£'000
Investments Assets			
Fixed interest securities - Public Sector		54,006	39,262
Fixed interest securities - Private Sector		39,363	52,340
Fixed interest securities - Overseas		(1,659)	12,366
Index Linked Securities		48,922	57,501
Equities - UK		108,288	168,745
Equities - Overseas		220,378	263,343
Managed and Unitised Funds			
Property		53,668	78,188
Other		23,888	34
		546,854	671,779
Other Net Assets			
Debtors less Creditors		11,951	2,978
Cash		3,528	8,465
TOTAL NET ASSETS		562,333	683,222

NOTES TO THE PENSION FUND ACCOUNT

1. INTRODUCTION

The Pension Fund is a funded, defined benefits scheme which provides for the payment of benefits to former employees of the London Borough of Tower Hamlets. These benefits include not only retirement pensions, but also widows' pensions, death grants and lump sum payments in certain circumstances. The Fund is financed by contributions from employees, from the employer and from interest and dividends on the Fund's investments.

The objective of the Pension Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the Fund. They show the results of the stewardship of management, that is the accountability of management for the resources entrusted to it and the disposition of its assets at the period end. The only items that are required to be excluded by regulations are liabilities to pay pensions and other benefits in the future which are reported on separately in the actuary's statement.

2. ACCOUNTING POLICIES

(a) Accounts

The accounts summarise the transactions and net assets of the Pension Fund and comply in all material respects with the Statement of Recommended Practice (Financial Reports of Pensions Schemes), but the disclosure requirements are limited to those shown below.

(b) Basis of preparation

Except where otherwise stated, the accounts have been prepared on an accruals basis, that is income and expenditure are recognised as earned or incurred, not as received or paid.

The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2009.

(c) Investments

Investments are shown in the Net Assets Statement at their market value, which has been determined as follows:

- (i) Listed securities are shown by reference to bid price at the close of business on 31 March 2009
- (ii) Unit trust and managed fund investments are stated at the mid point of the latest prices quoted by their respective managers prior to 31 March 2009.
- (iii) Where appropriate, investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling on the 31 March 2009.
- (iv) Freehold property and leasehold property are included on the basis of their open market value.

3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. The employers' contributions are made at a rate determined by the Fund's actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rate used during the financial year ending 31 March 2009 was 14.5%. It should be noted that the Triennial Revaluation of the fund concluded in 2007 has increased the rate to 15.8% and this rate will apply from the 1st April 2008. Contributions shown in the revenue statement may be categorised as follows:

	2008/2009	2007/2008
	Total £'000	Total £'000
Employees		
Council employees normal contributions	8,611	7,542
Admitted bodies employees normal contributions	553	242
Employee contributions	9,164	7,784
Employers		
Council normal employer's contributions	20,247	18,198
Admitted bodies normal employer's contributions	1,704	490
Council special employer's contributions	21,951	18,688
Employers' contributions	37,755	38,015
Total contributions	46,919	45,799

4. BENEFITS, REFUNDS OF CONTRIBUTIONS AND TRANSFER VALUES

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year. Transfers out/in are those sums paid to, or received from, other pension schemes and related to the period of previous pensionable employment. Transfer values have been brought into the accounts on a cash basis.

	2008/2009	2007/2008
	Total £'000	Total £'000
Pensions		
Council	26,685	24,660
Admitted bodies		428
	26,685	25,088
Lump sums		
Council	6,495	6,383
Admitted bodies		
	6,495	6,383
TOTAL BENEFITS	33,180	31,471

5. DEBTORS AND CREDITORS

All transactions are accounted for on an accruals basis. The following material amounts were due to, or payable from, the Pension Fund as at 31st March 2009. All amounts related to the administering authority

	2008/2009	2007/2008
	£'000	£'000
Amounts receivable		
Investment sales	8,350	1,122
Dividends receivable	1,407	2,212
Tax recoverable	371	236
Interest receivable	705	523
Admitted Bodies' Contributions	114	309
	10,947	4,402
Amounts payable		
Investment purchases	(1,816)	895
Lump sums payable	282	(10)
Administration expenses	530	539
	(1,004)	1,424
Amounts receivable less amounts payable	11,951	2,978

6. CASH

The cash balance can be further analysed as follows:

	2008/2009	2007/2008
	£000	£000
GMO	2,406	2,915
INVESTEC		33
Aberdeen: Fixed Interest Portfolio	1,996	958
Aberdeen: UK Equities	1,462	238
Schroders: Multi Asset Portfolio	13	(1)
Schroders: Property Portfolio	319	2,097
Martin Currie	666	1,165
Merrill Lynch	30	1
London Borough of Tower Hamlets	(3,364)	1,059
TOTAL CASH	3,528	8,465

7. TAXATION

UK Income Tax

The fund is an exempt approved fund under the Finance Act 1970 and is therefore not liable to UK income tax on interest, dividends and property income, nor to capital gains tax.

Value Added Tax

By virtue of the Council being the administrating authority, VAT input tax is recoverable on all fund activities.

Overseas Tax

Taxation agreements exist between Britain and certain EU and other European countries whereby a proportion of the tax deducted locally from investment earnings may be reclaimed. The proportion reclaimable and the timescale involved varies from country to country.

8. MEMBERSHIP OF THE FUND

The following table sets out the membership of the Pension Fund at 31st March

	2009	2008
London Borough of Tower Hamlets		
Active Members	4,865	5,382
Pensioners	3,561	3,590
Deferred Pensioners	4,664	4,328
	13,090	13,300
Admitted Bodies		
Active Members	530	148
Pensioners	78	54
Deferred Pensioners	183	180
	791	382

The following bodies have been admitted into the Fund:

- Tower Hamlets Community Housing
- Redbridge Community Housing Limited
- East End Homes
- Greenwich Leisure Limited
- Swan Housing
- Bethnal Green and Victoria Park Housing Association
- Toynbee Housing Association
- Tower Hamlets Homes
- Bees

9. INVESTMENT MANAGEMENT

The structure in the year was as set out below.

<u>Manager</u>	<u>Mandate</u>
GMO	Global Equity
Martin Currie	UK Equity
Schroders property	Property
Investec	Residual Venture Capital Fund
Baillie Gifford	Overseas Equities
Aberdeen Bonds	Fixed Interest, UK Equities and Private Equity*
Auriel	Currency manager
Record	Currency manager

The market value of the fund comprises the following.

	2008/2009		2007/2008	
	£ million	%	£ million	%
GMO	138.2	24.4	173.5	25.4
Martin Currie	65.9	11.6	88.5	13.0
Schroders property	61.8	10.9	80.4	11.8
Aberdeen Bonds	153.2	27.1	162.9	23.8
Aberdeen Equities	45.6	8.1	67.1	9.8
Baillie Gifford	85.3	15.1	109.8	16.1
Auriel	9.8	1.7		
Record	6.4	1.1		

The relatively high level of trading activity in the previous year reflects the transition from a balanced to a specialist management structure. The purchases and sales are set out below:

	2008/2009	2007/2008
	£'000	£'000
Purchases	256,833	497,948
Sales	(310,484)	(393,494)
NET SALES	(53,651)	104,454

There were no stock lending arrangements operational in the year.

10. INVESTMENT INCOME

There was no stock lending arrangements operational in the financial year. Dividends and interest shown in return on investments are broken down as follows:

	2008/2009	2007/2008
	£'000	£'000
Rent from properties	2,415	1,919
Interest from fixed interest securities	3,051	2,490
UK equities	5,500	7,285
Foreign equities	12,966	6,271
Interest on cash deposits	(512)	(321)
Foreign tax	115	132
Underwriting commission		4
TOTAL	23,535	17,780

11 UNLISTED SECURITIES

The value of listed and unlisted securities is broken down as follows:

	2008/2009 £000	2007/2008 £000
Unlisted	32	66
Listed	550,350	680,178
Working Capital	11,951	2,978
	562,333	683,222

13. ACTUARIAL POSITION

The Local Government Pension Scheme Regulations require a triennial revaluation of the Fund to assess the adequacy of the Fund's investments and contributions in relation to its overall and future obligations. The contribution rate required for benefits accruing in the future is assessed by considering the benefits that accrue over the course of the three years to the next valuation. The employer's contribution rate is determined by the actuary as part of the revaluation exercise.

The 2007 statutory triennial revaluation of the Pension Fund completed by the actuary (Hymans Robertson) estimated the deficit on the Fund to be approximately £205 million and the funding level to be 78%. This compares to a deficit at the previous revaluation in 2004 of £192 million and a corresponding funding level of 73%.

The Actuary has determined that the deficit can be recovered over a period of 20 years and the agreed contribution rate to recover the deficit for the term of the revaluation is as set out below:

	£ Million
2008/2009	12.50
2009/2010	12.50
2010/2011	12.50

In addition the contributions were increased by RPI plus 1.5% with effect from 1st April 2009.

The method of calculating the employer's contribution rate derives the cost of the benefits building up over the year following the valuation date. This method is known as the "Projected Unit Method". It is a method considered appropriate by the actuary for a Fund open to new members. As a Fund remains open to new members, its age profile is not currently rising significantly.

If the age profile began to rise significantly, the projected unit method would calculate an increase in current service cost as scheme members approached retirement. In completing the valuation, the actuary has adopted a market value method to derive the financial assumptions by considering various average yields and average market values in the 12 months leading to the valuation date. This represents a change from previously adopted traditional techniques where the assumptions adopted have reflected expectations of long term averages.

The assumptions used in the calculation and applied during the intervalation period are summarised as follows:

	2008	2004
Investment Returns (Equities)	5.9%	6.7%
Pay Increases	4.7%	4.4%
Price Inflation	3.2%	2.9%

The next statutory revaluation is due in 2010 with the results to be implemented in April 2011.

13 REGULATIONS

The Social Services Act 1986, the Financial Services Act, the Pensions Act and the Local Government Pension Scheme Regulations 1995 and 1997 have imposed a number of changes on local authority Pension Funds. In particular:

- Contributors now have the right to make additional voluntary contributions to enhance their pension. The Council made such a scheme available to staff through Norwich Union.
- Permanent full time employees can opt out of the Local Government Scheme and make their own pension fund arrangements.
- Since 1995, all employees (except teachers) are eligible to join the scheme.
- The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2002 - SI 2002 No.1852 - requires administering authorities to update and publish a Statement of Investment Principles and Myners Compliance Statement. These documents are available on the Council's website.
- The Council is also required to prepare and publish a Communications Strategy, Governance Statement and Funding Strategy Statement all of which are available on the Council's website.

14. RELATED PARTY TRANSACTIONS

Information in respect of material transactions with related parties is disclosed elsewhere within the Pension Fund accounts.

During the year no trustees or Council chief officers with direct responsibility for pension fund issues, have undertaken any declarable transactions with the Pension Fund, other than the following:-

- Administrative services were undertaken by the Council on behalf of the Pension Fund.
- The Pension Fund had a temporary loan of £3.364 million from the Council as at the 31st March 2009 which will be repaid in the next financial year.

15. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2009.

16. POST BALANCE SHEET EVENTS

There are no significant post balance sheet events to report.