

Meeting of the

PENSIONS COMMITTEE

Thursday, 13 August 2009 at 8.30 p.m.

A G E N D A

VENUE

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

Members:

Chair: Councillor Rajib Ahmed
Vice – Chair: Councillor Marc Francis

Councillor Helal Abbas
Councillor Waiseul Islam
Councillor Denise Jones
Councillor Fozol Miah
Councillor Tim O'Flaherty
Councillor David Snowdon
Councillor Dr. Emma Jones
1 Vacant Post - Non-Voting Member
(Trade Union)

Deputies (if any):

Councillor Shahed Ali, (Designated Deputy representing Councillors Rajib Ahmed, Helal Abbas, Marc Francis, Waiseul Islam and Denise Jones)
Councillor Tim Archer, (Designated Deputy representing Councillor David Snowdon and Councillor Dr. Emma Jones)
Councillor Alibor Choudhury, (Designated Deputy representing Councillors Rajib Ahmed, Helal Abbas, Marc Francis, Waiseul Islam and Denise Jones)
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 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, 13 August 2009

8.30 p.m.

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST (Pages 1 - 2)

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.

3. UNRESTRICTED MINUTES (Pages 3 - 6)

To confirm as a correct record of the proceedings the unrestricted minutes of the meeting of the held on 11th June 2009.

4. DEPUTATIONS & PETITIONS

To receive any depositions or petitions

5. UNRESTRICTED REPORTS FOR CONSIDERATION

5.1 Local Government Pension Scheme Annual Report (Pages 7 - 56)

5.2 Investment Panel (Pages 57 - 62)

5.3 Early Retirements 2008-09 Outturn (Pages 63 - 68)

6. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

Agenda Item 2

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 7.30P.M. ON THURSDAY, 11TH JUNE 2009

COMMITTEE ROOM C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, 5
CLOVE CRESCENT, LONDON, E14 2BG

Members Present:

Councillor Rajib Ahmed - (Chair)
Councillor Helal Abbas
Councillor Marc Francis
Councillor Denise Jones
Councillor Emma Jones
Councillor Waiseul Islam
Councillor David Snowdon

Other Councillors Present:

None.

Officers Present:

Alan Finch - Service Head Corporate Finance (Resources)
Jim Ricketts - Capital and Investment Manager (Resources)
Daniel Hudson - Democratic Services

John Gray - Trade Union Representative

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

RESOLVED that Councillor M. Francis be appointed the Vice Chair of the Pensions Committee for the Municipal Year 2009/10.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received on behalf of Councillor T. O'Flaherty.

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 meeting of the Pension Committee held on Thursday 23rd April 2009 be approved and signed by the Chair as a correct record of the proceedings:

Page 1, Members Present

It be noted that Councillor Joshua Peck was the Lead Member Resources and not the Deputy Leader of the Councillor.

5. DEPUTATIONS & PETITIONS

None received.

6. UNRESTRICTED REPORTS FOR CONSIDERATION

6.1 Pension Committee Terms of Reference, Membership and Quorum (PC/001/910)

The Service Head Corporate Finance introduced the report.

The Committee briefly discussed the report and having due regard to the current variable economic conditions it was suggested that if required additional meetings and/or briefings for the Pension Committee be held to allow Members to be fully appraised as to any significant changes to the investment portfolio. It was agreed that training would be arranged for members of the Committee.

It was therefore **RESOLVED** that the Terms of Reference, Members and Quorum as set out in Appendix A of the report be approved.

6.2 Composition of the Pension Fund Investment Panel (PC/002/910)

Having due regard to the commitments of Members it was **RESOLVED** that

- (i) The Investment Panel be established;
- (ii) 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
- (iii) Provide that up to two Trade Union representatives (or their designated deputies) as nominated by the Staffside Secretary attend the Investment Panel as observers;
- (iv) That the terms of reference for the Investment Panel as set out in Appendix 1 of the report be approved; and
- (v) That meetings of the Investment Panel commence at 6.30p.m. with meetings of the Pension Committee to start at 8.30p.m.

6.3 Draft Pension Fund Financial Accounts 2008/09 (PC/003/910)

The Service Head Corporate Finance comprehensively introduced the report.

Members expressed disquiet at the financial performance over the past 12-18 months and debate the performance of the Fund Managers.

In reply to points raised by Members the Capital and Investment Manager (Resources) agreed to circulate financial data which would allow Members to compare fund performance especially in light of the risk parameters of the fund portfolios.

Having due regard to investment opportunities it was noted that at future meetings of the Investment Panel debate could be opened in respect of options for inward investment in the Borough to support and nurture local enterprise.

It was therefore **RESOLVED** that the report be noted.

7. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

None was raised.

The meeting ended at 8.36p.m.

Chair, Councillor Rajib Ahmed
Pensions Committee

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Agenda Item 51

COMMITTEE: Pensions Committee	DATE: 13th August 2009	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director of Resources ORIGINATING OFFICER(S): Alan Finch, Service Head, Corporate Finance		TITLE: Local Government Pension Scheme Annual Report Ward(s) affected: N/A		

1. SUMMARY

- 1.1 This report seeks the Committee's agreement to the draft Pension Fund Annual Report and to any subsequent amendments being agreed with the Chair and reported to the Committee on 19 November.

2. RECOMMENDATIONS

- 2.1 Members are recommended
- 2.1.1 To agree the attached draft Pension Fund Annual Report.
- 2.1.2 To agree that any subsequent amendments be agreed with the Chair and reported to the Committee on 19 November.

3. BACKGROUND

- 3.1 Under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008 SI 2008 No 239 all administering authorities must publish an annual report to be made available to scheme members and pensioners
- 3.2 The content of the Report is specified in some detail in the Regulation and in the Department for Communities and Local Government draft guidance. The report provides information on the performance and governance of the Fund in the 2008/09 financial year.
- 3.3 Attached is the draft report, which complies with the Regulations, which the Committee is asked to agree in draft.
- 3.4. The report forms part of the annual audit of the Pensions Fund, which is still in progress. However the next meeting of Pensions Committee is after the statutory deadline for finalising the accounts of 30th September. No substantial changes are anticipated, but if any changes to the draft report attached are required as a result of the audit, it is recommended that these should be agreed with your Chair and reported back to the next meeting for information.

4. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

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

- 5.1 Members are advised that as stated in the body of the Report Regulation 34 Local Government Pension Scheme (Administration) Regulations 2008 imposes a duty on an administering authority beginning on 1st April 2008 to prepare in relation to each year a document which is to be termed 'the pension fund annual report'.

The report should deal with the following matters:

- (a) Management and financial performance during the year of the pension;
- (b) Explain the investment policy for the fund and review performance;
- (c) Report on arrangements made during the year for administration of the fund;
- (d) A statement by an actuary who carried out the most recent valuation of the fund and the level of funding disclosed by that valuation;
- (e) A Governance Compliance Statement;

- (f) A Fund Account and Net Asset Statement;
- (g) An Annual Report dealing with levels of performance and any other appropriate matters;
- (h) Funding Strategy Statement;
- (i) Statement of Investment Principles;
- (j) statements of policy concerning communications with members and employing authorities and
- (k) any other material which the authority considers appropriate.'

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 The employer's contribution is a significant element of the Council's budget and consequently the performance of the Fund affects the funds available for other corporate priorities.
- 6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

7. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

8. RISK MANAGEMENT IMPLICATIONS

- 8.1 The management of the Pension Fund inevitably involves a degree of risk and the methods used to mitigate it are covered fully in the attached draft Report.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

Brief description of "background papers"

Directorate Submissions

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

*Ian Talbot Ext. 4733
Mulberry Place, 4th Floor.*

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Message from Chris Naylor: Corporate Director Resources

This report details the financial position of the Pension Fund and the performance of the professional managers appointed to administer its investment portfolio.

The Fund has been subject to the current volatility in financial markets. This has resulted in a reduction in fund value of approximately 19% for the year which broadly corresponds to the experience of other pension funds. The performance was enhanced by the exposure to bonds which achieved positive returns which offset the falls in world stockmarkets of up to 30%. This demonstrates the prudence of a diversified portfolio.

It should however be recognised that the Council is a long term investor both because a high proportion of pension benefits do not become payable until far into the future and the Council has a relatively secure long term income stream unlike pension providers in the private sector.

All pension funds are subject to considerable financial challenges in the future relating to increasing life expectancy and falling investment returns which will inevitably impact on funding and employers' contribution levels. At the same time Council budgets will be subject to pressures resulting from the economic downturn.

Current legislation, however, provides that the level of Scheme members' basic pension entitlement and contributions are not affected by the financial position of the Fund. It is the responsibility of the Council to ensure that pension entitlements are fully funded and that the impact on Council Tax is minimised.

Chris Naylor

Governance of the Fund's Investments

The Pensions Committee consider all investment aspects of the Pension Fund.

The Pension Fund Regulations require the Council to obtain proper advice on the Fund's investment strategy. To obtain this advice the Pensions Committee has constituted an Investment Panel including professional investment advisors. The Panel meets quarterly to determine the general investment strategy, monitor the performance of the fund and individual managers and to consider technical reports on investment issues.

The current members of the Investment Panel are: -

Members of the Pensions Committee	Councillor Rajib Ahmed Councillor Helal Abbas Councillor Marc Francis Councillor Waiseul Islam Councillor Denise Jones Councillor Fozol Miah Councillor Tim O'Flaherty Councillor David Snowdon	
Council Officer	Alan Finch	Service Head – Corporate Finance
Professional Advisors	Raymond Haines (Chair of Investment Panel)	Head of Structured Risk Management LV Asset Management
	David O'Hara	Investment Advisor: Hymans Robertson & Co.
Trade Union Representatives	UNISON and GMB	

In addition, the following organisations assisted in the administration of the Fund's investments during 2008/09: -

Hymans Robertson & Co The WM Company	Actuarial Services Investment Performance Measurement
Audit Commission State Street	External Audit
Schroders Investment Management, Aberdeen Asset Management, GMO, Baillie Gifford , Martin Currie Investment Management,Auriel Capital Management and Record Currency Management Limited .	Custody Services Investment Management

Investment Performance of the Fund

The Council’s Statement of Investment Principles sets the Fund’s investment objective as “to follow an investment strategy which will achieve an appropriate balance between maximising the long-term return on investments and minimising short-term volatility and risk”.

In 2008/09 the Fund achieved a return on its investment portfolio of -18.9% which was marginally below the benchmark return of -18.7%. The negative returns reflect the continuing turbulence in world financial markets resulting from the liquidity crisis.



This performance ranked the Fund 36th out of the 100 Councils participating in the WM Company survey.

The performance demonstrates that the changes to the investment management structure are starting to impact on performance because the spread between Fund performance and the benchmark return has narrowed in the shorter periods. This is also reflected in the improved ranking which compares the performance of this Fund against that of other Councils.

The relatively poor performance over the other periods is attributable to disruption from the restructuring of the Fund to address long term underperformance.

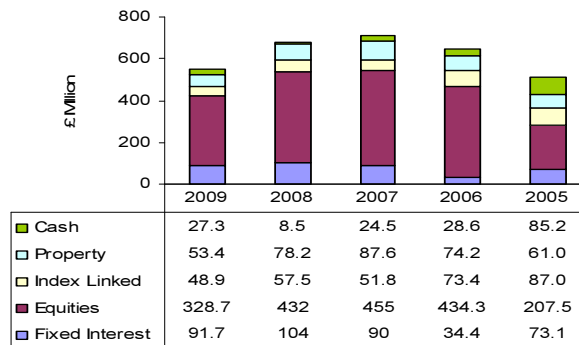
Fund Management Activity

The year was essentially a period of consolidation in which the manager appointments and asset allocation changes resulting from the restructuring initiated in 2004/05 were allowed to develop. However the Investment Panel did initiate a review of the fixed interest mandate because of concerns over manager performance.

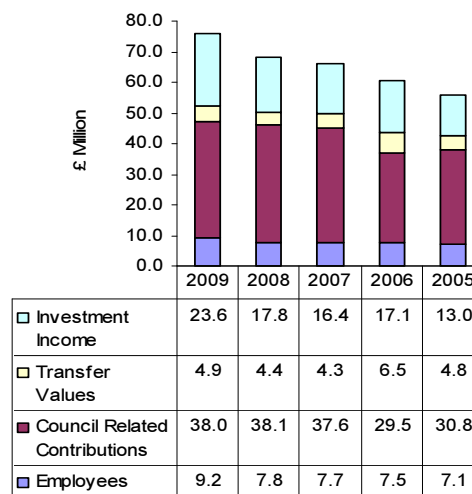
All investment activity is regulated by the Council’s Statement of Investment Principles which together with the Myners Compliance Statement is set out in Appendix2.

Financial Accounts

During the financial year 2008/09 the value of the Fund fell by £130m. The change in the value of the fund is principally attributable to the performance of the financial markets in which the Council holds its investments.

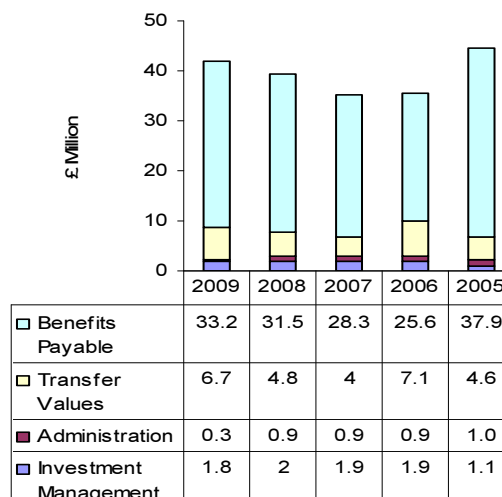


The income of the Fund has increased by £7.6 million (11%) over the year with the increase principally resulting from investment income. Over the five year period the main reason for the increase has been additional investment income of £10.6 million (81%) followed by the Council's contribution which has increased by £7.2 million (24%). The increase in the employer's contribution corresponds to that specified by the actuary as part of the deficit recovery strategy.



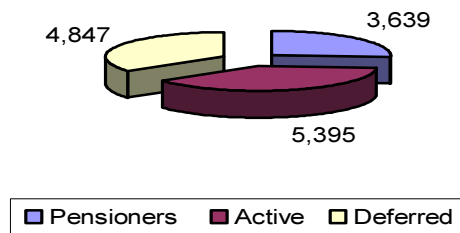
The increase in the employee's contributions partly reflects the new graduated contributions payable under the revised pension regulations issued by the Government.

Over the year costs have increased by £2.8 million (7%). The increase is principally attributable to an increase in the benefits payable by £1.7 million (5%) and transfer values of £1.9 million (40%). Transfer values are the amounts paid over when Fund members transfer their benefits from one fund to another.



Pension Fund Accounts and Report 2008/09

The Fund currently has a membership of 13,881 comprising the elements as set out in the graph.



Active members are those currently contributing to the Fund. Deferred members are those who have contributed in the past but who have not yet become entitled to their benefits.

The full accounts are as set out in Appendix 1. The accounts were audited by the Councils external auditors the Audit Commission.

The Council is required to publish a number of statements relating to the operation of the fund. The statements and the associated reports are as set out in the following appendices.

Appendix 2 Statement of Investment Principles

Appendix 3 Funding Strategy Statement

Appendix 4 Communications Strategy

Appendix 5 Governance Strategy

For further information on the Local Government Pension Scheme and your entitlement, please contact Anant Dodia at anant.dodia@towerhamlets.gov.uk or by telephoning 0207 364 4248.

Pension Fund Accounts and Report 2008/09

Appendix 1

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		54,005	39,262
Fixed interest securities - Private Sector		39,363	52,340
Fixed interest securities - Overseas		9,078	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
		557,590	671,779
Other Net Assets			
Debtors less Creditors		1,215	2,978
Cash		3,528	8,465
TOTAL NET ASSETS		562,333	683,222

Pension Fund Accounts and Report 2008/09

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 and those of bodies admitted to the Fund. 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
	21,951	18,688
Council special employer's contributions	15,804	19,327
Employers' contributions	37,755	38,015
Total contributions	46,919	45,799

Pension Fund Accounts and Report 2008/09

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	8,920	895
Lump sums payable	282	(10)
Administration expenses	530	539
	9,732	1,424
Amounts receivable less amounts payable	1,215	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

Pension Fund Accounts and Report 2008/09

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 administering 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

During the financial year the Council established a Arms Length Management Organisation- Tower Hamlets Homes to manage its dwelling stock. This process involved the transfer of 397 scheme members and the admission of Tower Hamlets Homes into the scheme as a scheduled employer

Pension Fund Accounts and Report 2008/09

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

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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 the 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 intervaluation 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.

Appendix 2

Statement of Investment Principles

This is the Statement of Investment Principles adopted by the London Borough of Tower Hamlets Pension Fund (“the Scheme”) as required by the Local Authority Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. It is subject to periodic review by the Pensions and Accounts Committee which acts on delegated authority of the London Borough of Tower Hamlets. The Pensions and Accounts Committee receives recommendations and advice from the Investment Panel which oversees the investment management of the Scheme on a day to day basis.

In preparing this Statement, the Pensions and Accounts Committee has taken written advice from the Investment Practice of Hymans Robertson Consultants and Actuaries.

The Myners Code of Investment Principles

The Government commissioned a report in 2000 entitled “Review of Institutional Investment in the UK”. The Review, which was undertaken by Paul Myners was published in March 2001 and is referred to as The Myners Review. The Pensions and Accounts Committee of the London Borough of Tower Hamlets believes the Myners Report constitutes an important guide to best practice in the management of pension schemes. In addition, Local Authorities are required to state the extent to which the administering authority comply with the ten principles set out in a document published by the Chartered Institute of Public Finance and Accountancy entitled “CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme Investment in the United Kingdom”.

The Investment Panel has produced, and maintains, a record of compliance (Myners Code Adherence Document) with these principles on behalf of the Pensions and Accounts Committee.

Fund Objective

The primary objective of the Scheme is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis.

The Council aims to fund the Scheme in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Scheme's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

Investment Strategy

The Investment Panel has translated these objectives into a suitable strategic asset allocation benchmark for the Scheme. All day to day investment decisions have been delegated to the Scheme's authorised investment managers. The strategic benchmark has been translated into benchmarks for the Scheme's investment managers which are consistent with the Scheme's overall strategy. The Scheme benchmark is consistent with the Investment Panel's views on the appropriate balance between maximising the long-term return on investments and minimising short-term volatility and risk.

The investment strategy takes due account of the maturity profile of the Scheme (in terms of the relative proportions of liabilities in respect of pensioners and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used on an ongoing basis).

The Investment Panel monitors strategy relative to its agreed asset allocation benchmark. It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Scheme.

To achieve its objectives the Pensions and Accounts Committee has agreed the following with the Investment Panel:

Choosing Investments: The Investment Panel is responsible for the appointment of investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Investment Panel, after seeking appropriate investment advice, has given the managers specific directions as to the asset allocation, but investment choice has been delegated to the managers, subject to their specific benchmarks and asset guidelines.

Kinds of investment to be held: The Scheme may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and pooled funds. The Scheme may also make use of derivatives and contracts for difference for the purpose of efficient portfolio management. The Investment Panel considers all of these classes of investment to be suitable in the circumstances of the Scheme.

Balance between different kinds of investments: The Scheme's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market the managers will maintain diversified portfolios of investments through direct holdings or pooled vehicles.

Risk: The Investment Panel provides a practical constraint on Scheme investments deviating greatly from its intended approach by adopting a specific asset allocation benchmark and by setting manager-specific benchmark guidelines. The Investment Panel monitors the managers' adherence to benchmarks and guidelines. In appointing more than one investment manager, the Investment Panel has considered the risk of underperformance of any single investment manager.

Expected return on investments: Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the Scheme.

Realisation of investments: The majority of investments held within the Scheme may be realised quickly if required.

Social, Environmental and Ethical Considerations: The Council has a fiduciary responsibility to obtain the best level of investment return consistent with the defined risk parameters as embodied in the strategic benchmark. However, the Council recognises that Social, Ethical and Environmental issues are factors to be taken into consideration in assessing investments. The investment managers have confirmed they pay due attention to these factors in the selection, retention and realisation of investments. The Investment Panel will monitor the managers' statements and activities in this regard.

Exercise of Voting Rights: The Investment Panel has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the managers have produced written guidelines of their processes and practices in this regard. The managers are encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

Additional Voluntary Contributions (AVCs): The Investment Panel gives members the opportunity to invest in a range of vehicles at the members' discretion.

Appendix 3

FUNDING STRATEGY STATEMENT

1. Introduction

This is the Funding Strategy Statement (FSS) of the London Borough of Tower Hamlets Pension Fund (“the Fund”), which is administered by the London Borough of Tower Hamlets (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson & Co, and after consultation with the Fund’s employers and investment adviser and is effective from 31st March 2005.

1.1 Regulatory Framework

1.1.1 Members’ accrued benefits are guaranteed by statute. Members’ contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers pay for their own liabilities.

1.1.2 The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Regulations 1997 (Regulations 76A and 77 are particularly relevant);
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary’s triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

1.1.3 This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions, provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

1.2 Reviews of FSS

1.2.1 The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31st March 2011. More frequently, Annex A is updated to reflect any changes to employers.

- 1.1.2 The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Jim Ricketts in the first instance at jim.ricketts@towerhamlets.gov.uk or on 020 7364 4733.

2. Purpose

2.1 Purpose of FSS

- 2.1.1 The former Office of the Deputy Prime Minister (ODPM) has stated that the purpose of the FSS is:

- “to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and
- to take a **prudent longer-term view** of funding those liabilities”.

These objectives are desirable individually, but may be mutually conflicting.

- 2.1.2 This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

2.2 Purpose of the Fund

- 2.2.1 The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfer payments and investment income;
- pays scheme benefits, transfer values and administration costs.

- 2.2.2 One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

- 2.2.3 The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex B.

2.3 Aims of the Funding Policy

- 2.3.1 The objectives of the Fund's funding policy include the following:

- to ensure the long-term solvency of the Fund;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk.

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

3.1.1 Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “future service rate” plus
- b) an adjustment for the funding position (or “solvency”) of accrued benefits relative to the Fund’s solvency target, “past service adjustment”. If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

3.1.2 The Fund’s actuary is required by the regulations to report the Common Contribution Rate, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period [of 20 year/equivalent to the remaining working lifetime of all the employers’ scheme members].

3.1.3 The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

3.1.4 In effect, the Common Contribution Rate is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.

3.1.5 For some employers it may be agreed to pool contributions, see Section 3.7.6.

3.1.6 Annex A contains a breakdown of each employer’s contributions following the 2004 valuation for the financial years 2005/06, 2006/07 and 2007/08. It includes a reconciliation of each employer’s rate with the Common Contribution Rate. It also identifies which employers’ rate with the Common Contribution Rate. It also identifies which employers’ rate with the Common Contribution Rate. It also identifies which employers’ contributions have been pooled with others.

3.1.7 Any costs of non ill-health early retirements must be paid as lump sum payments at the time of the employer’s decision in addition to the contributions described above (or by instalments shortly after the decision).

3.1.8 Employers’ contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss

with the Administering Authority before making one-off capital payments.

3.2 Solvency and Target Funding Levels

- 3.2.1 The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.
- 3.2.2 "Solvency" for ongoing employers is defined to be the ratio of the market value of assets on the value placed on accrued benefits on the Fund Actuary's ongoing funding basis. This quantity is known as a funding level.
- 3.2.3 The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority.
- 3.2.4 The Fund operates the same target funding level of all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. Please refer to paragraph 3.8 for the treatment of departing employers.

3.3 Ongoing Funding Basis

- 3.3.1 The demographic assumptions are intended to be best estimates of future experience in the Fund. They vary by type of member reflecting the different profile of employers.
- 3.3.2 The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.
- 3.3.3 It is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.
- 3.3.4 Given the very long-term nature of the liabilities, a long-term view of prospective returns from equities is taken. For the 2004 valuation, it is assumed that the Fund's equity investments will deliver an average additional return of 2% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation.

The same financial assumptions are adopted for all ongoing employers.

3.4 Future Service Contribution Rates

- 3.4.1 The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only

Admission Bodes that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.2 Employers that admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically, these rates will be derived using the Projected Unit Method of valuation with a one-year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

3.4.3 Both future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Adjustments for Individual Employers

3.5.1 Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's asset share.

The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

- past contributions relative to the cost of accruals of benefits;
 - different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
 - the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
 - any different deficit/surplus spreading periods or phasing of contribution changes;
 - the difference between actual and assumed rises in pensionable pay;
 - the difference between actual and assumed increases to pensions in payment and deferred pensions;
- over the period between each triennial valuation.

3.5.2 Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation, including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of more or fewer withdrawals than assumed;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

3.5.3 These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

3.6 Asset Share Calculations for Individual Employers

3.6.1 The Administering Authority does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of the whole fund between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of Employer Contributions

3.7.1 Deficit Recovery Periods

3.7.1.1 The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

3.7.1.2 The Administering Authority normally targets the recovery of any deficit over a period not exceeding [the remaining working lifetime of each employer's active members]. However, these are subject to the maximum lengths set out in the table below:

Type of Employer	Maximum Length of Deficit Recovery Period
Best Value Admission Bodies	The period from the start of the revised contributions to the end of the employer's contract.
All other types of employer	A period equivalent to the expected future working lifetime of the remaining scheme members.

3.7.1.3 This maximum period is used in calculating each employer's minimum contributions. Employers may opt to pay higher regular contributions than these minimum rates.

3.7.2 Surplus Spreading Periods

3.7.2.1 Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their **minimum** contributions.

3.7.2.2 However, to help meet the stability requirement, employers may prefer not to take such reductions.

3.7.3 Phasing in of Contribution Rises

3.7.3.1 Best Value Admission Bodies are not eligible for phasing in of contribution rises. Other employers may opt to phase in contribution rises as follows:

- for employers contributing at or above its future service rate in 2004/2005, phasing in the rise in employer contributions over a period of three years;
- for employers contributing at less than its future service rate in 2004/2005, phasing in the rise in contribution rises over a period of two years.

3.7.4 Phasing in of Contribution Reductions

3.7.4.1 Any contribution reductions will be phased in over six years for all employers except Best Value Admission Bodies who can take the reduction with immediate effect.

3.7.5 The effect of Opting for Longer Spreading or Phasing-in

3.7.5.1 Employers which are permitted and elect to use a longer deficit spreading period than was used at the 2001 valuation or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.

3.7.5.2 However, any adjustment is expressed for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

3.7.6 Pooled Contributions

3.7.6.1 Smaller Employers –

The Administering Authority allows smaller employers [of similar types] to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service. The maximum number of active members to participate in a pool is set at 50 employees.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not permitted to participate in a pool. Best Value Admission Bodies are also ineligible for pooling.

Employers who are eligible for pooling at the 2004 valuation have been asked to give their written consent to participate in the pool.

As at the 2004 valuation separate pools were operated for Town and Parish Councils and for smaller Admission Bodies

3.7.6.2 Other Contribution Pools –

Schools are also pooled with their funding Council. Some Admission Bodies with guarantors are pooled with their Council.

3.8 Admission Bodies Ceasing

3.8.1 Admission Agreements for Best Value contractors are assumed to expire at the end of the contract.

3.8.2 Admission Agreements for other employers are generally assumed to be open-ended and to continue until the last pensioner dies. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point.

- 3.8.3 If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.
- 3.8.4 The assumptions adopted to value the departing employers' liabilities for this valuation will depend upon the circumstances. For example:
- (1) For Best Value Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.
 - (2) For non Best Value Admission Bodies that elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in the future. This could give rise to significant payments being required.
 - (3) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (1) and (2) any shortfall would be levied on the departing Admission Body as a capital payment.

3.9 Early Retirement Costs

3.9.1 Non Ill-Health Retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire.

The additional costs of premature retirement are calculated by reference to these ages.

4. Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice.

4.1 Investment Strategy

- 4.1.1 The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.
- 4.1.2 The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2004, the proportion held in equities and property was 50% of the total Fund assets.
- 4.1.3 The investment strategy of lowest risk – but not necessarily the most cost-effective in the long-term – would be 100% investment in index-linked government bonds.
- 4.1.4 The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns, than from index-linked bonds. The Administering Authority's strategy recognises the secure nature of most employers' covenants.
- 4.1.5 The same investment strategy is currently followed for all employers. The Administering Authority does not have the facility to operate different investment strategies for different employers.

5. Key Risks and Controls

5.1 Types of Risks

- 5.1.1 The Administering Authority has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:-
- financial
 - demographic;
 - regulatory; and
 - governance

5.2 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	<p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between formal valuations at whole fund level, provided on a annual basis.</p>

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	Inappropriate investment strategy long-term	<p>Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.</p> <p>Consider measuring performance and setting managers' targets relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.</p>
	Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	<p>Inter-valuation as above.</p>
	Active investment manager under-performance relative to benchmark	<p>Short-term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
	Pay and price inflation significantly more than anticipated	<p>Seek feedback from employers on scope to absorb short-term contribution rises.</p>
	Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	<p>Seek feedback from employers on scope to absorb short-term contribution rises.</p> <p>Mitigate impact through deficit spreading and phasing in of contribution rises.</p>

5.3 Demographic Risks

Risk		Summary of Control Mechanisms
5.3.1	Pensioners living longer	<p>Set mortality assumptions with some allowance for future increase in life expectancy.</p> <p>Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.</p> <p>Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.</p>
5.3.2	Deteriorating patterns of early retirements	<p>Employers are charged the extra capital cost of non ill-health retirements following each individual decision.</p> <p>Employer ill-health retirement experience is monitored.</p>

5.4 Regulatory

Risk		Summary of Control Mechanisms
5.4.1	Changes to regulations e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees	The Administering Authority is alert to the potential creation of additional liabilities and administration difficulties for employers and itself.
5.4.2	Changes to national pension requirements and/or Inland Revenue rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2005	<p>It considers all consultation papers issued by the ODPM and comments where appropriate.</p> <p>The Administering Authority will consult employers where it considers that it is appropriate.</p>

5.5 Governance

Risk		Summary of Control Mechanisms
5 .5 .1	Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements)	The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.
5 .5 .2	Administering Authority not advised of an employer closing to new entrants	The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuations. Deficit contributions are expressed as monetary amounts (see Annex A).
5 .5 .3	Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt	In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with Best Value contractors to inform it of forthcoming changes. It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements.
5 .5 .4	An employer ceasing to exist with insufficient funding or adequacy of a bond	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: <ul style="list-style-type: none"> • Seeking a funding guarantee from another scheme employer, or external body, wherever possible. • Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.

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		<ul style="list-style-type: none">• Vetting prospective employers before admission.• When permitted under the regulations requiring a band to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.
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Appendix 4

Communications Strategy Statement

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Introduction

This is the Communications Policy Statement of London Borough of Tower Hamlets Pension Fund.

The Fund liaises with 9 employers and approximately 14,000 scheme members in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

Any enquiries in relation to this Communication Policy Statement should be sent to:

London Borough of Tower Hamlets
Town Hall
Chief Executive's Directorate
Human Resources
Payroll & Pensions Services
Mulberry Place
5 Clove Crescent
London E14 2BG

Telephone: 020 7364 4251

Facsimile: 020 7364 4593

Email: pensions@towerhamlets.gov.uk

Regulatory Framework

This policy statement is required by the provisions of Regulation 106B of the Local Government Pension Scheme Regulations 1997. The provision requires us to:

"...prepare, maintain and publish a written statement setting out their policy concerning communications with:

- (a) members.
- (b) representatives of members.
- (c) prospective members.
- (d) employing authorities."

In addition it specifies that the statement must include information relating to:

- "(a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;
- (b) the format, frequency and method of distributing such information or publicity; and
- (c) the promotion of the Scheme to prospective members and their employing authorities."

As a provider of an occupational pension scheme, we are already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act 2004. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more

generalised disclosure requirements were introduced, supported by a Code of Practice. The type of information that pension schemes are required to disclose remain very much the same as before, although the prescriptive timescales were replaced with a more generic requirement to provide information within a “reasonable period”. The Code of Practice¹ issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Management section of this document, alongside those proposed by the Pension Regulator in the Code of Practice.

Responsibilities and Resources

Within the Pension Section, the responsibility for communication material is performed by our Pension Manager with the assistance of two Principal Pensions Officers

Although, the team write all communications within the section, all design work is carried out by the Council’s Creative & Technical team. The Pensions team are also responsible for arranging all forums, workshops and meetings covered within this statement.

All printing is carried out by an external supplier, which is usually decided upon by the Council’s Creative & Technical team.

Communication with key audience groups

Our audience

We communicate with a number of stakeholders. For the purposes of this communication policy statement, we are considering our communications with the following audience groups:

- active members;
- deferred members;
- pensioner members;
- prospective members;
- employing authorities (scheme employers and admission bodies);
- senior managers;
- union representatives;
- elected members/ Pensions Committee;
- Pension Section staff;

In addition there are a number of other stakeholders with whom we communicate on a regular basis, such as Her Majesty’s Revenue and

¹ Code of Practice – Reasonable periods for the purposes of the Occupational Pension Schemes (Disclosure of Information) Regulations 2006 issued September 2005

Customs, Government departments, solicitors, the Pensions Advisory Service, and other pension providers. We also consider as part of this policy how we communicate with these interested parties.

How we communicate

General communication

We will continue to use paper based communication as our main means of communicating, for example, by sending letters to our scheme members. However, we will complement this by use of electronic means such as our intranet. We will accept communications electronically, for example by e-mail and, where we do so, we will respond electronically where possible

Our Pensions Section staff are responsible for specific tasks. Any phone calls or visitors are then passed to the relevant person within the section. Direct line phone numbers are advertised to allow easier access to the correct person

Branding

As the Pension Fund is administered by London Borough of Tower Hamlets, all literature and communications will conform with the branding of the Council.

Accessibility

We recognise that individuals may have specific needs in relation to the format of our information or the language in which it is provided. Demand for alternative formats/languages is not high enough to allow us to prepare alternative format/language material automatically. However, on all communication from the Pension Fund office we will include a statement offering the communication in large print, Braille, on cassette or in another language on request.

Policy on Communication with Active, Deferred and Pensioner Members

Our objectives with regard to communication with members are:

- for the LGPS to be used as a tool in the attraction and retention of employees.
- for better education on the benefits of the LGPS.
- to provide more opportunities for face to face communication.
- as a result of improved communication, for queries and complaints to be reduced.
- for our employers to be employers of choice.
- to increase take up of the LGPS employees.
- to reassure stakeholders.

Our objectives will be met by providing the following communications, which are over and above individual communications with members (for example,

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the notifications of scheme benefits or responses to individual queries). The communications are explained in more detail beneath the table:

Scheme booklet	Paper based and on intranet	At joining and major scheme changes	Post to home address/via employers	Active
Newsletters	Paper based and on intranet	Annually and after any scheme changes	Via employers for Actives. Post to home address for deferred & pensioners	Separately for active, deferred and pensioners
Pension Fund Report and Accounts	Paper based and on intranet	Annually	On request	All
Pension Fund Accounts – Summary	Paper based	Annually	Via employers for actives. Post to home address for deferred and pensioners	All
Estimated Benefit Statements	Paper based/via intranet	Annually	Post to home address/via employers for active members. To home address for deferred members.	Active and Deferred.
Factsheets	Paper based and on intranet	On request	On request	Active, deferred & pensioners
Intranet	Electronic	Continually available	Advertised on all communications	All
Roadshows/Works hops	Face to face	Annually	Advertised in newsletters, via posters and pensioners payslips	All
Face to face education sessions	Face to face	On request	On request	All
Joiner packs	Paper based	On joining	Post to home addresses	Active members
Pay advice slip/P60	Paper based	Conditional	Post to home address	Pensioners

Explanation of communications

Scheme booklet - A booklet providing a relatively detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits.

Newsletters - An annual/biannual newsletter which provides updates in relation to changes to the LGPS as well as other related news, such as national changes to pensions, forthcoming roadshows, a summary of the accounts for the year, contact details, etc.

Pension Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers. This is a somewhat detailed and lengthy document and, therefore, it will not be routinely distributed except on request. A summary document, as detailed below, will be distributed.

Pension Fund Report and Accounts Summary – provides a handy summary of the position of the Pension Fund during the financial year, income and expenditure as well as other related details.

Estimated Benefit Statements – For active members these include the current value of benefits as well as the projected benefits as at their earliest retirement date and at age 65. The associated death benefits are also shown as well as details of any individuals the member has nominated to receive the lump sum death grant. State benefits are also included. In relation to deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well as the associated death benefits.

Factsheets – These are leaflets that provide some detail in relation to specific topics, such as topping up pension rights, transfer values in and out of the scheme, death benefits and, for pensioners, annual pension's increases.

Intranet – The intranet will provide scheme specific information, forms that can be printed or downloaded, access to documents (such as newsletters and report and accounts), frequently asked questions and answers, links to related sites and contact information.

Roadshows/Workshops – Every year a number of staff will visit the schools/offices around the Borough, providing the opportunity to have a face to face conversation about your pension rights

Face to face education sessions – These are education sessions that are available on request for small groups of members. For example, where an employer is going through a restructuring, it may be beneficial for the employees to understand the impact any pay reduction may have on their pension rights.

Joiner packs – These complement the joiner booklet and enclose information on AVCs and the paperwork needed to join the scheme.

Pay advice slip/P60 – The Pay advice slips are sent when the address, pension or tax code changes. The P60 information is communicated using this medium on an annual basis.

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Policy on promotion of the scheme to Prospective Members and their Employing Authorities

Our objectives with regard to communication with prospective members are:

- to improve take up of the LGPS.
- for the LGPS to be used as a tool in the attraction of employees.
- for our employers to be employers of choice.
- for public relations purposes.

As we, in the Pension Fund office, do not have direct access to prospective members, we will work in partnership with the employing authorities in the Fund to meet these objectives. We will do this by providing the following communications:

Overview of the LGPS leaflet	Paper based	On commencing employment	Via employers	New employees
Educational sessions	As part of induction workshops	On commencing employment	Face to face	New employees
Promotional newsletters/flyers	Paper based	Annually	Via employers	Existing employees
Posters	Paper based	Ongoing	Via employers	New and existing employees

Explanation of communications

Overview of the LGPS leaflet - A short leaflet that summarises the costs of joining the LGPS and the benefits of doing so.

Educational sessions – A talk providing an overview of the benefits of joining the LGPS.

Promotional newsletters/flyers – These will be designed to help those who are not in the LGPS to understand the benefits of participating in the scheme and provide guidance on how to join the scheme.

Posters – These will be designed to help those who are not in the LGPS understand the benefits of participating in the scheme and provide guidance on how to join the scheme.

Policy on communication with Employing Authorities

Our objectives with regard to communication with employers are:

- to improve relationships.
- to assist them in understanding costs/funding issues.
- to work together to maintain accurate data.
- to ensure smooth transfers of staff.

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- to ensure they understand the benefits of being an LGPS employer.
- to assist them in making the most of the discretionary areas within the LGPS.

Our objectives will be met by providing the following communications:

Employers' Guide	Paper based and intranet	At joining and updated as necessary	Post or via email	Main contact for all employers
Newsletters	Electronic (e-mail) and intranet	Annually or more frequent if necessary	E-mail	All contacts for all employers
Employers focus groups	Face to face	At least quarterly/half yearly	Invitations by e-mail	Either main contacts or specific groups (e.g. HR or payroll) depending on topics
Pension Fund Report and Accounts	Paper based and employer website	Annually	Post	Main contact for all employers
Meeting with adviser	Face to face	On request	Invite sent by post or email	Senior management involved in funding and HR issues.

Explanation of communications

Employers' Guide - A detailed guide that provides guidance on the employer responsibilities including the forms and other necessary communications with the Pension Section and scheme members.

Newsletters – A technical briefing newsletter that will include recent changes to the scheme, the way the Pension Section is run and other relevant information so as to keep employers fully up to date.

Employers' focus groups – Generally workgroup style sessions set up to debate current issues within the LGPS.

Pension Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.

Adviser meeting – Gives employers the opportunity to discuss their involvement in the scheme with advisers.

[Policy on communication with senior managers](#)

Our objectives with regard to communication with senior managers are:

- to ensure they are fully aware of developments within the LGPS
- to ensure that they understand costs/funding issues

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- to promote the benefits of the scheme as a recruitment/retention too.

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All
Committee papers	Paper based and electronic	In advance of committee	Email or hard copy	All

Explanation of communications

Briefing papers – a briefing that highlights key issues or developments relating to the LGPS and the Fund, which can be used by senior managers when attending meetings

Committee paper – a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members

Policy on communication with union representatives

Our objectives with regard to communication with union representatives are:

- to foster close working relationships in communicating the benefits of the scheme to their members
- to ensure they are aware of the Pension Fund's policy in relation to any decisions that need to be taken concerning the scheme
- to engage in discussions over the future of the scheme
- to provide opportunities to education union representatives on the provisions of the scheme

Our objectives will be met by providing the following communications:

Method of communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All
Face to face education sessions	Face to face	On request	On request	All
Pensions Committee	Meeting	Quarterly	Via invitation when appropriate	All

Explanation of communications

Briefing papers – a briefing that highlights key issues and developments relating to the LGPS and the Fund.

Face to face education sessions – these are education sessions that are available on request for union representatives and activists, for example to

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improve their understanding of the basic principles of the scheme, or to explain possible changes to policies.

Pension Committee – a formal meeting of elected members, attended by senior managers, at which local decisions in relation to the scheme (policies, etc) are taken.

Policy on communication with elected members/the Pensions Committee

Our objectives with regard to communication with elected members/the Pensions Committee are:

- to ensure they are aware of their responsibilities in relation to the scheme
- to seek their approval to the development or amendment of discretionary policies, where required
- to seek their approval to formal responses to government consultation in relation to the scheme.

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Training sessions	Face to face	When new Pension Committee and as and when required	Face to face or via the Employers Organisation for local government	All members of the Pension Committee as well as other elected members
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All members of the Pension Committee
Pensions Committee	Meeting	Quarterly	Members elected onto Pension Committee	All members of the Pension Committee

Explanation of communications

Training Sessions – providing a broad overview of the main provisions of the LGPS, and elected member’s responsibilities within it.

Briefing papers – a briefing that highlights key issues and developments to the LGPS and the Fund.

Pensions Committee - a formal meeting of elected members, attended by senior managers, at which local decisions in relation to the scheme (policies, etc) are taken.

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Policy on communication with pension section staff

Our objectives with regard to communication with pension section staff are:

- ensure they are aware of changes and proposed changes to the scheme
- to provide on the job training to new staff
- to develop improvements to services, and changes to processes as required
- to agree and monitor service standards

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Face to face training sessions	Face to face	As required	By arrangement	All
Staff meetings	Face to face	As required, but no less frequently than monthly	By arrangement	All
Attendance at seminars	Externally provided	As and when advertised	By email, paper based	All
Software User Group meetings	Face to face	Quarterly	By email, paper based.	Principal Administrators
Regional Officer Group meetings	Face to face	Quarterly	By email, paper based.	Pension Manager/ Principal Administrators

Explanation of communications

Face to face training sessions – which enable new staff to understand the basics of the scheme, or provide more in depth training to existing staff, either as part of their career development or to explain changes to the provisions of the scheme

Staff meetings – to discuss any matters concerning the local administration of the scheme, including for example improvements to services or timescales

Attendance at seminars – to provide more tailored training on specific issues

Software User Group meeting – to discuss any issues concerning the computer software used to administer the scheme, including future upgrades and improvements

Regional Officer Group meetings - discussion group of principal officers from other administering authorities.

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Policy on communication with tax payers

Our objectives with regard to communication with tax payers are:

- to provide access to key information in relation to the management of the scheme
- to outline the management of the scheme

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Pension Fund Report and Accounts	Paper based and on website	Annually	Post	All, on request
Pension Fund Committee Papers	Paper based and on website	As and when available	Post	All, on request

Explanation of communications

Pension Fund Report and Accounts – details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.

Pension Fund Committee Papers - a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

Policy on communication with other stakeholders/interested parties

Our objectives with regard to communication with other stakeholder/interested parties are:

- to meet our obligations under various legislative requirements
- to ensure the proper administration of the scheme
- to deal with the resolution of pension disputes
- to administer the Fund's AVC scheme

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Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Pension Fund valuation reports <ul style="list-style-type: none"> • R&A certificates • Revised R&A certificates • Cessation valuations 	Electronic	Every three years	Via email	Government departments/Her Majesty's Revenue and Customs (HMRC)/all scheme employers
Details of new employers entered into the Fund	Hard copy	As new employers are entered into the Fund	Post	Government departments/HMRC
Formal resolution of pension disputes	Hard copy or electronic	As and when a dispute requires resolution	Via email or post	Scheme member or their representatives, the Pensions Advisory Service/the Pensions Ombudsman
Completion of questionnaires	Electronic or hard copy	As and when required	Via email or post	Government departments/HMRC/the Pensions Regulator

Explanation of communications

Pension Fund Valuation Reports – a report issued every three years setting out the estimated assets and liabilities of the Fund as a whole, as well as setting out individual employer contribution rates for a three year period commencing one year from the valuation date

Details of new employers – a legal requirement to notify both organisations of the name and type of employer entered into the Fund (i.e. following the admission of third party service providers into the scheme)

Resolution of pension disputes – a formal notification of pension dispute resolution, together with any additional correspondence relating to the dispute

Completion of questionnaires – various questionnaires that my received, requesting specific information in relation to the structure of the LGPS or the make up of the Fund

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Performance Measurement

So as to measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

Timeliness

We will measure against the following target delivery timescales:

Scheme booklet	New joiners to the LGPS	Within two months of joining	Within two weeks of joining the LGPS
Estimated Benefit Statements as at 31 March	Active members	On request	31 July each year
Telephone calls	All	Not applicable	95% of phone calls to be answered within 30 seconds
Issue of retirement benefits	Active and deferred members retiring	Within two months of retirement	95% of retirement benefits to be issued within 10 working days of retirement
Issue of deferred benefits	Leavers	Within two months of withdrawal	Within one month of notification
Transfers in	Joiners/active members	Within two months of request	Within one month of request
Issue of forms i.e. expression of wish	Active/Deferred members	N/A	Within five working days
Changes to scheme rules	Active/deferred and pensioner members, as required	Within two months of the change coming into effect	Within one month of change coming into effect
Annual Pension Fund Report and Accounts	All	Within two months of request	Within ten working days

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Quality

Active and deferred members	Paper based survey with annual benefit statements	All services	
All member types	Annual paper based survey on completion of specific tasks	Service received during that task	One task to be chosen each quarter from: retirements new starts and transfers in transfers out deferred leavers
All member types	Focus group meeting on half yearly basis	All services and identify improvement areas/new services	Representative group of all member types. To include union representatives.
Employers	Focus Groups	Their issues	Regular feedback sessions.

Results

Details of the performance figures are reported to the Head of Pay, Pension, & e-HR on a quarterly basis. Feedback is received from the Service Head and from various focus /discussion groups.

Review Process

We will review our communication policy to ensure it meets audience needs and regulatory requirements at least annually. A current version of the policy statement will always be available on our intranet and paper copies will be available on request.

Appendix 5

London Borough of Tower Hamlets Pension Fund
Governance Policy Statement

1. Background

- 1.1 The Local Government Pension Scheme (Amendment)(No.2) Regulations 2005 require all Councils which administer a pension fund to publish a Governance Policy Statement by the 1st April 2006 and review and revise it if there is a material change in their policies.
- 1.2 The statement provides a framework for the leadership, direction and control of the pension service to ensure they achieve the agreed aims and objectives and in doing so serve the best interest of Council Taxpayers and the scheme members.
- 1.3 The Regulations provide that the Governance Policy Statement must set out if they delegate any part of their function to a Committee, sub committee or officer and if they do provide details of: -
 - The frequency of that Committee or subcommittees meetings
 - The terms of reference, structure and operational procedures of that committee or subcommittee and
 - The representation of admitted bodies on that Committee or subcommittee.

2. Executive Responsibility

- 2.1 The Council of the London Borough of Tower Hamlets is the administering authority under the Local Government Pension Scheme (LGPS) and has executive responsibility for the Fund.
- 2.2 The Council delegates its responsibility for administering the Fund to the Pension and Accounts Committee. The terms of this delegation are as set out in the Council Constitution and provide that the Committee is responsible for consideration of all pension matters and discharging the obligations and duties of the Council under the Superannuation Act 1972 and various statutory matters relating to investment issues.
- 2.3 These terms of reference encompass: -
 - Determination of investment policy objectives
 - Appointment of investment managers
 - Monitoring investment performance and
 - Making representations to Government on any proposed changes to the LGPS.
- 2.3 The Pensions and Accounts Committee which comprises five Members of the Council meets on a quarterly basis with special meetings arranged as necessary.
- 2.4 The Committee is subject to the Council's Financial Regulations and is advised on investment issues by an Investment Panel, which includes professional advisors.

- 2.5 The meetings of the Pensions and Accounts Committee are open to the Public and the procedures of that Committee is as set out in the Council Constitution.
 - 2.6 Currently no provision exists in the Committee's terms of reference for participation by admitted bodies on the Committee. The number of admitted bodies is increasing as a result of the transfer of Council functions and it is proposed to review the position on admitted body representation.
3. Officer Delegation
- 3.1 The following functions have been formally delegated to officers by the Pensions and Accounts Committee: -
 - The Director of Resources has delegated authority to admit external bodies to the Fund. (Ap11th August 2004)
 - Specified officers are authorised to receive pension payments in trust. (20th December 2004)
 - 3.2 The Pensions and Accounts Committee delegate's specific functions on the appointment of managers on a case by case basis after consideration of reports by that Committee.
 - 3.3 Committee retained responsibility for all policy decisions relating to the investment portfolio. Responsibility for the day to day operation of the management arrangements and administration of the portfolio is delegated to the Director of Resources.
4. Review of the Governance Policy Statement
- 4.1 The policy statement will be reviewed annually and revisited and re-published following any material changes in the above arrangements.

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Agenda Item 52

COMMITTEE: Pensions Committee	DATE: 13th August 2009	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director of Resources	TITLE: Report of Investment Panel for Quarter Ending 31st March 2009.			
ORIGINATING OFFICER(S): Ian Talbot – Interim Chief Financial Strategy Officer	Ward(s) affected: N/A			

1. SUMMARY

- 1.1 This report informs Members of the activities of the Investment Panel and the performance of the Fund and its investment managers for the period ending 31st March 2009. Since the Panel met the Council has received final year end figures from WM Performance Services, the Council's investment performance measurement advisers. The figures below are those provided by WM which in some cases are different but do not vary significantly from those considered by the Panel.
- 1.2 In the quarter to the end of March 2009 the Fund achieved a return of -8.4% which was below the benchmark return of -8.0%. The twelve months return of -18.9% was marginally below the benchmark return of -18.7%. For longer periods performance continued to lag behind the benchmark with the three years return of -6.0% underperforming the benchmark return of -5.3% and the five years return of 2.6% underperforming the benchmark return of 3.2%.
- 1.3 The performance of individual managers was variable. Three managers achieved returns above the benchmark whilst the remaining five were below. The variability of returns does however partially reflect the management structure of the fund where complementary investment styles reduce the volatility of returns.
- 1.4 The distribution of the Fund amongst the different asset classes is broadly in line with the benchmark although there is continuing underweighting in equities attributable to declines in world financial markets as a result of the sub prime loan issue. Consequently there is an overweighting in bonds.
- 1.5 The volatility of investment markets has emphasised the need to have the scope to adjust asset allocations in the short term to react to changes. The actuary has recommended a range of asset allocations within which the Corporate Director of Resources has delegated authority subject to the advice of the Chair of the Investment Panel and the approval of the Chair of the Pensions Committee to adjust asset allocations. The exercise of this authority would be reported to subsequent meetings of the Committee.

2. RECOMMENDATIONS

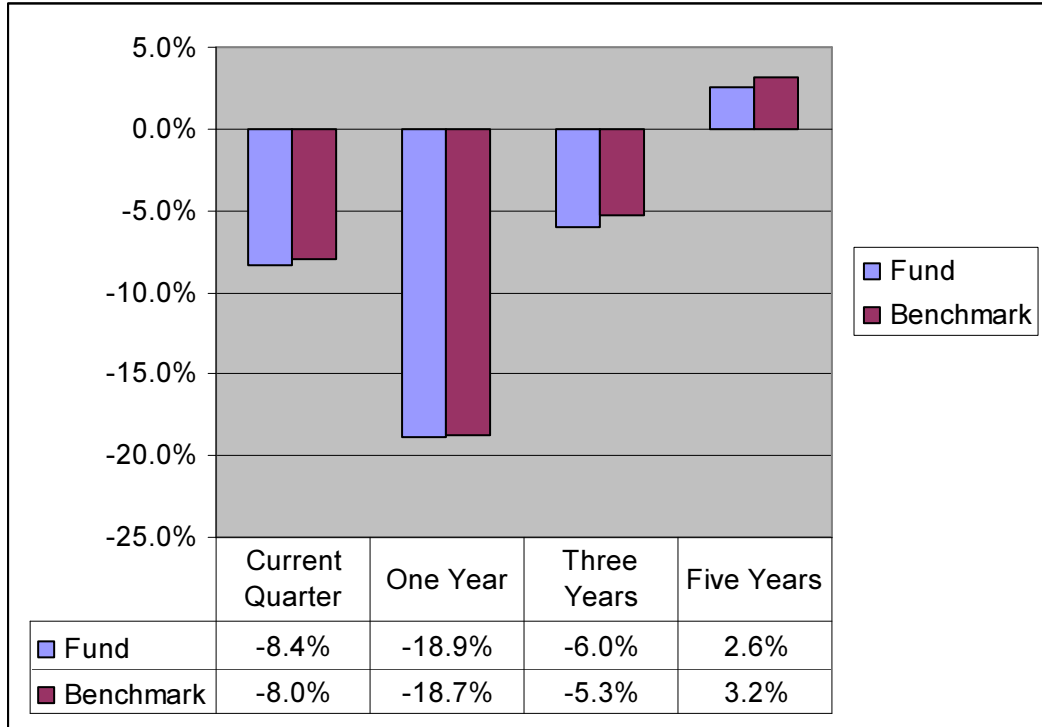
- 2.1 Members are recommended
 - 2.1.1 To note the contents of this report.

3. **BACKGROUND**

- 3.1 The Pension Fund Regulations require that the Council establish arrangements for monitoring the investments of the Fund and the activities of the investment managers and ensure that proper advice is obtained on investment issues.
- 3.2 This Committee has established the Investment Panel, which meets quarterly for this purpose. The Panel's membership comprises all Members of the Pensions Committee, an Investment Professional as Chair, an Independent Financial Adviser, and the Corporate Director of Resources represented by the Service Head Corporate Finance, two trade union representatives and one representative of the admitted bodies. The Investment Panel is an advisory body which makes recommendations to the Pensions Committee which is the decision making body.
- 3.3 This report informs Members of the activities of the Investment Panel and performance of the Fund and its investment managers for the period ending 31st March 2009.

4 **INVESTMENT PERFORMANCE**

- 4.1 The Fund achieved a return of -8.4% in the quarter compared to the benchmark return of -8.0%.
- 4.2 The performance of the fund over the longer term is as set out in table 1.



- 4.3 The performance of the Fund should however be considered in the context of a major restructuring in the last two years which was undertaken to address the long term performance issues.

- 4.4 The restructuring has involved the appointment of five managers and a re-distribution of the assets to increase the exposure to equities.
- 4.5 The long term impact of the restructuring has yet to be fully reflected in performance and it is considered that this can only be assessed when the revised structure has been fully operational for a minimum of two years, and realistically three years
- 4.6 The negative returns in the one to three year figures illustrate the volatility and cyclical nature of financial markets and are within the range of expectations used by the Fund actuary in assessing the funding position. The Fund can take a long term perspective on investment issues principally because a high proportion of its pensions liabilities are up to sixty years in the future. Consequently it can effectively ride out short term volatility in markets.

5. MANAGERS

- 5.1 The Fund currently employs eight specialist managers with mandates corresponding to the principal asset classes. The managers are as set out below:

Table 2: Management Structure

Manager	Mandate	Value £M	Target % of Fund	Date Appointed
GMO	Global Equity	137,464	25.0%	29 April 2005
Baillie Gifford	Global Equity	85.338	16.0%	5 July 2007
Martin Currie	UK Equity	65.935	12.0%	17 January 2006
Aberdeen (Equities)	UK Equity	45.634	10.5%	6 July 2007
Aberdeen (Bonds)	Bonds	153.159	21.0%	28 February 2006 30 September
Schroder	Property	62.599	12.0%	2004
Record	Currency	6.387	1.5%	2 September 2008
Auriel	Currency	9.820	2.0%	2 September 2008
		<u>566.336</u>		

The fund value held by the managers of £566.3 million has fallen by £52.1 million (8.5%) over the quarter.

- 5.2 The performance of the individual managers relative to the appropriate benchmarks is as set out in table 3.

Table 3: Manager Investment Performance relative to Benchmark

Manager	Current Quarter	One Year	Three Years	Five Years
GMO	-1.90%	0.70%	-0.30%	
Baillie Gifford	3.30%	-2.30%		
Martin Currie	0.80%	5.60%	-2.80%	
Aberdeen (Equities)	-1.40%	-3.80%	-	
Aberdeen (Bonds)	-0.80%	-2.50%	-1.00%	-0.40%
Schroder	0.20%	4.20%	3.80%	
Record	-5.90%	-23.20%		
Auriel	-11.00%	-31.10%		

- 5.3 **GMO** underperformed the benchmark by 1.9% in the quarter with the underperformance being principally attributable to the currency selections made and the exposure to US high quality stocks.
- 5.4 **Baillie Gifford** put in a strong performance 3.3% above the benchmark due to the significant outperformance of several of their holdings including Petrobras, Amazon, China National Building Materials and Whole Foods.
- 5.5 **Martin Currie** outperformed the benchmark by 0.8% over the quarter by adhering to the strategy of concentrating on quality stocks and in particular blue chip companies. Performance since appointment however still lags the long term benchmark return.
- 5.6 **Aberdeen (UK Equities)** had a disappointing final quarter attributable to various shortcomings in sector, size and stock selection. Performance for the year and the longer term is significantly below benchmark.
- 5.7 **Aberdeen (Bonds)** performance in the quarter was 0.8% below benchmark which reduced performance in the year to 2.5% below. The poor performance was mainly attributable to the overweight position to parts of the financial sector.
- 5.8 **Schroders** property outperformed the benchmark slightly over the quarter principally because of the exposure to continental markets and currency movements. This segment of the asset portfolio is however subject to considerable uncertainty in the medium term.
- 5.9 **Record** is receiving a phased contribution from the Council with an eventual portfolio size of £10M. The mandate has an aggressive performance target of 21% and consequently it is anticipated that performance will be volatile. The current risk adverse investment environment is not conducive to the Record investment approach.
- 5.10 **Aurial** have an investment portfolio of £14 million. Aurial performance for the quarter was behind the benchmark principally due to their holding long US dollar and short Sterling positions at various times in the quarter.

6 ASSET ALLOCATION

- 6.1 The allocation of investments between the different asset classes was determined in conjunction with the Councils professional advisors in 2004. The asset allocation is determined by a number of factors including:-
 - 6.1.1 The risk profile. Generally there is a trade-off between the returns obtainable on investments and the level of risk. Equities have higher potential returns but this is achieved with higher volatility. However, as the Fund remains open to new members and able to tolerate this it can seek long term benefits of the increased returns.
 - 6.1.2 The age profile of the Fund. The younger the members of the Fund are the longer the period before pensions become payable and investments have to be realised for this purpose. This enables the Fund to invest in more volatile asset classes because it has the capacity to ride out adverse movements in the investment cycle.
 - 6.1.3 The deficit recovery term. All Council funds are in deficit because of falling investment returns and increasing life expectancy. The

actuary determines the period over which the deficit is to be recovered and considers the need to stabilise the employer's contribution rate. The actuary has set a eighteen year deficit recovery term for this Council which enables a longer term investment perspective to be taken.

- 6.2 The benchmark asset distribution and the position at the 31st March 2009 is as set out below:

Table 4: Asset Allocation

	Benchmark 31 Mar 2009 %	Fund Position %	Variance as at 31 Mar 2009 %	Variance as at 31 Dec 2008 %
UK Equities	26.5%	21.7%	-4.8%	-2.7%
Global Equities	37.0%	36.7%	-0.3%	-1.1%
Total Equities	63.5%	58.4%	-5.1%	-3.8%
Property	12.0%	9.7%	-2.3%	-2.5%
UK Bonds	12.5%	16.6%	4.1%	2.7%
Overseas Bonds	0.0%	1.6%	1.6%	1.5%
UK Index Linked	8.5%	8.7%	0.2%	0.4%
Cash	0.0%	2.0%	2.0%	2.8%
Currency	3.5%	3.0%	-0.5%	-1.1%
	<u>100.0%</u>	<u>100.0%</u>		

- 6.3 Individual managers have discretion within defined limits to vary the asset distribution.
- 6.4 In addition the distribution will vary according to the relative returns of the different asset classes. Equity markets have seen heavy declines as a result of sub prime loan issues. This has distorted the distribution in the short term. It is considered that the position will correct in the long term and consequently no rebalancing is required at the current time.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

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

- 8.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 require Councils, which administer Pension Funds to invest contributions until such time as they are required to pay pensions.
- 8.2 The Regulations require that when undertaking such investment Councils are required to ensure that such investments are diversified to minimise risk and to obtain and consider proper advice.
- 8.3 The report details how the Council fulfils its obligations in this regard.

9. ONE TOWER HAMLETS CONSIDERATIONS

- 9.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for other corporate priorities.
- 9.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

11. RISK MANAGEMENT IMPLICATIONS

- 11.1 Any form of investment inevitably involves a degree of risk.
- 11.2 To minimise risk the Investment Panel attempts to achieve a diversified portfolio. This diversification relates to both asset classes and management styles.

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

Brief description of "background papers"

Directorate Submissions

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

*Ian Talbot Ext. 4733
Mulberry Place, 4th Floor.*

Agenda Item 53

Committee Pensions Committee	Date 13th August 2009	Classification Unrestricted	Report No.	Agenda Item
Report of: Corporate Director Resources Originating Officer: Ian Talbot: Interim Chief Financial Strategy Officer		Title Early Retirements: 2008/2009 Outturn Ward(s) Affected N/A		

1. SUMMARY

- 1.1 This report informs Members of the number of premature retirements in 2008/09 authorised under delegated authority.
- 1.2 The report indicates that the number of premature retirements has decreased from 63 in 2007/08 to 41 in 2008/09. The relatively high figure in 2007/08 is attributable to two major restructurings during the year.

2. RECOMMENDATION

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

LOCAL GOVERNMENT ACT, 2000 (SECTION 97)

LIST OF "BACKGROUND PAPERS" USED IN THE DRAFTING OF THIS REPORT

Brief description of "background papers"

Tick if copy
supplied for
register

If not supplied, name and telephone
number of holder

Retirement Statistics

Ian Talbot 0207 364 4733

3. BACKGROUND

- 3.1 The Audit Commission in their report “Retiring Nature” recommended that Members be informed of the number of retirements authorised by officers under delegated authority.
- 3.2 This authority adopted the recommendations of the Audit Commission on 12th February 1998 (EP052/798).
- 3.3 The Committee stipulated that annual reports on the operation of the premature retirement scheme be prepared which set out the number of premature retirements authorised by Officers under delegated authority.

4. PREMATURE RETIREMENT

- 4.1 During 2007/08 there were a number of revisions to the Pension Fund Regulations relating to premature retirement. These increased the earliest retirement age from 50 to 55 and abolished the “85 Rule” which effectively increased the normal retirement age from 60 to 65. However there are a number of transitional provisions for existing members of the fund which results in a limited impact on the Fund in the short term.
- 4.2 In addition the Council discontinued the practice of awarding added years in 2006/07 as a result of the Employment and Equality Age Regulations (2006) which required that the compensation package for employees of corresponding ages be broadly comparable. This report covers the second full year when added years were not payable.

5. OUTTURN 2008/09

- 5.1 The Authority granted 41 employees premature retirement in 2008/09.
- 5.2 The statistics relating to the retirements, together with the comparable figures for the previous financial year are as set out below: -

Table 1: 2008/09 Retirements

	2008/09	2007/08
Number of retirements	41	63
Average age at retirement (years)	54 years 8 months	55 years 6 months
Average years to normal age of retirement	4 years 3 months	3 years 11 months
Average length of service (years)	20 years 10 months	21 years 5 months
Average remuneration	£37,033	£34,231

- 5.3 The table indicates that: -
 - The number of premature retirements has decreased from 63 to 41. This is attributable to restructurings in the Housing Service and the consolidation of facilities management operations associated with the Accommodation Strategy which took place in 2007-08

- The average age at retirement has decreased by approximately 1 year.
- The average remuneration at retirement was £37,033, 8.2% more than 2007/08.
- The average length of service has reduced by approximately 7 months.

6. ANALYSIS OF RETIREMENTS

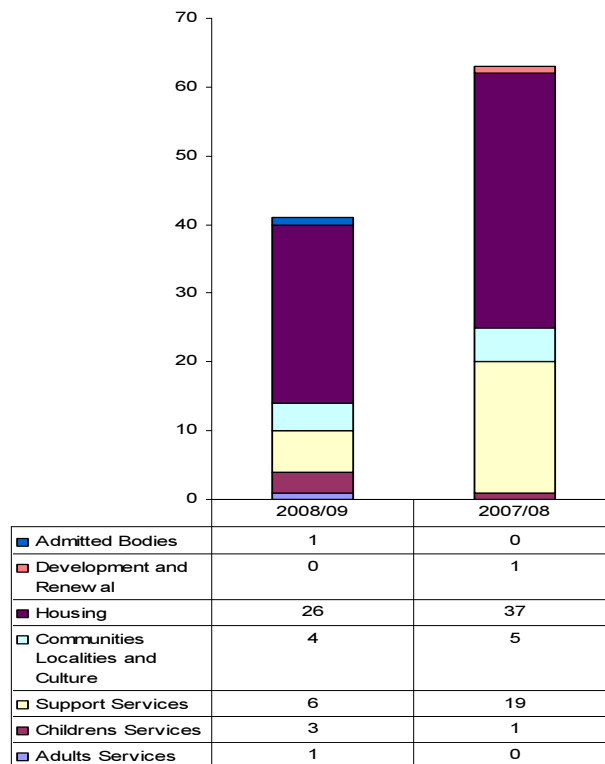
6.1 The authority adopted the recommendations of the Audit Commission report “Retiring Nature” that services be charged the costs of premature retirements.

6.2 Table 2 sets out the retirements during 2008/09 on a Directorate basis.

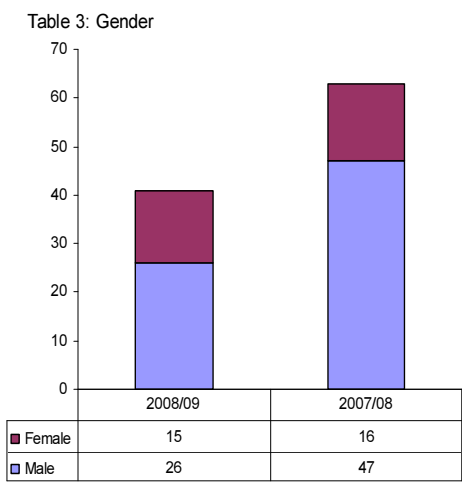
6.3 The decrease in the Housing Directorate is a result of the restructuring of Housing Management services which took place during 2007/08.

6.4 The decrease in the Support Services element relates to the consolidation of facilities management operations associated with the Accommodation Strategy which took place during 2007/08.

Table 2: Retirements on a Directorate Basis



6.5 Table 3 details the retirements during 2008/09 on the basis of gender.



7. THE COST OF EARLY RETIREMENTS

7.1 The calculated cost of individual retirements is allocated to the relevant Directorates in accordance with the requirements of “Retiring Nature”.

7.2 The costs resulting from premature retirement are as set in Table 4. The costs are calculated with factors provided by the Actuary and represent the projected costs for the term premature retirement to normal age of retirement.

7.3 The decrease in costs is principally attributable to the decrease in the number of retirements. This reflects the restructuring of the Council’s management arrangements which occurred in 2007/08.

Table 4: Costs.

	2008/09		2007/08	
	Cost £000	Average £000	Cost £000	Average £000
Unfunded Pension	2,065	50	3,151	50
Added Years	-	-	-	-
	2,065	50	3,151	50

7.4 The costs of early retirement are charged to the Council’s accounts in the year in which the retirement takes effect. In the case of Housing Management staff costs are met from the Housing Revenue Account (HRA).

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

8.1. As the provisions required for the granting of early retirements under the Local Government Pension Scheme Regulations 1997 have been correctly applied, the report raises no legal implications.

9. COMMENTS OF THE CHIEF FINANCE OFFICER

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

10. RISK MANAGEMENT IMPLICATIONS

- 10.1 The Council uses redundancy and in certain circumstances the associated premature retirement to enable savings targets to be achieved.
- 10.2 The accounting mechanism which charges individual Directorates for the costs of premature retirements enables the full costs of retirements to be identified when the decision is made.

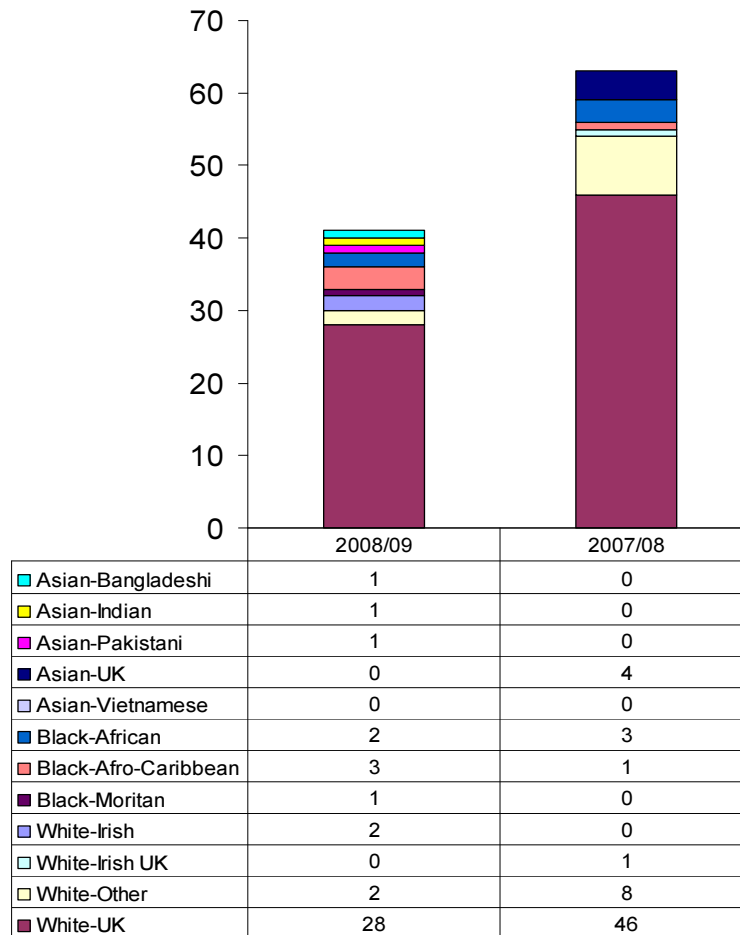
11. ANTI-POVERTY IMPLICATIONS

- 11.1. There are no anti-poverty implications.

12. EQUAL OPPORTUNITIES IMPLICATIONS

- 12.1 The retirements analysed by ethnicity are as set in Table 5.

Table 5: Ethnic Composition of Retirements



13. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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