

Meeting of the

# PENSIONS COMMITTEE

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Thursday, 5 August 2010 at 7.30 p.m.

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## A G E N D A

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### VENUE

C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE

Members:	Deputies (if any):
<b>Chair: Councillor Anwar Khan</b>	
<b>Vice – Chair: Councillor Rabina Khan</b>	
<b>1 Vacant Post - Non-Voting Member (Trade Union)</b>	Councillor Tim Archer, (Designated Deputy representing Councillor Craig Aston)
<b>1 Vacant Post - Non-Voting Member (Admitted Body)</b>	Councillor David Snowdon, (Designated Deputy representing Councillor Craig Aston)
<b>Councillor Craig Aston</b>	Councillor Lutfa Begum, (Designated Deputy representing Councillors Anwar Khan, Rabina Khan, Alibor Choudhury, Shafiqul Haque, Rania Khan and Mohammed Abdul Mukit, MBE)
<b>Councillor Alibor Choudhury</b>	Councillor Zenith Rahman, (Designated Deputy representing Councillors Anwar Khan, Rabina Khan, Alibor Choudhury, Shafiqul Haque, Rania Khan and Mohammed Abdul Mukit, MBE)
<b>Councillor Shafiqul Haque</b>	
<b>Councillor Rania Khan</b>	
<b>Councillor Mohammed Abdul Mukit MBE</b>	

**[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](mailto:daniel.hudson@towerhamlets.gov.uk)



**LONDON BOROUGH OF TOWER HAMLETS**

**PENSIONS COMMITTEE**

**Thursday, 5 August 2010**

**7.30 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 held on 10<sup>th</sup> June 2010.

**4. DEPUTATIONS & PETITIONS**

To receive any depositions or petitions

**5. UNRESTRICTED REPORTS FOR CONSIDERATION**

**5.1 LBTH Pension Fund Annual Report (Pages 7 - 58)**

**5.2 Investment Panel Report (Pages 59 - 64)**

**5.3 Early Retirement Outturn Report (Pages 65 - 70)**

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

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# 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 7.30 P.M. ON THURSDAY, 10 JUNE 2010**

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

**Members Present:**

Councillor Anwar Khan (Chair)

Councillor Craig Aston

Councillor Rabina Khan

(Scrutiny Lead Member, Prosperous Communities)

Councillor Mohammed Abdul Mukit MBE

**Other Councillors Present:**

Nil

**Officers Present:**

Alan Finch – (Service Head, Corporate Finance, Resources)

Alan Ingram – (Democratic Services)

**1. ELECTION OF VICE-CHAIR FOR THE MUNICIPAL YEAR 2010/2011**

The Chair nominated Councillor Rabina Khan to serve as Vice-Chair of the Committee for the remainder of the Municipal Year.

There being no further nominations, it was –

**RESOLVED**

That Councillor Rabina Khan be elected Vice-Chair of the Pensions Committee for the remainder of the Municipal Year 2010/11.

**2. APOLOGIES FOR ABSENCE**

Apologies for absence were received on behalf of Councillor Alibor Chodhury. The Committee also noted the absence of Councillors Shafiqul Haque and Rania Khan.

**3. DECLARATIONS OF INTEREST**

No declarations of interest were made.

**4. UNRESTRICTED MINUTES**

The Chair **MOVED** and it was

**RESOLVED**

That the unrestricted minutes of the ordinary meeting of the Pensions Committee held on 17<sup>th</sup> February 2010 be approved and signed by the Chair, as a correct record of the proceedings.

**5. DEPUTATIONS & PETITIONS**

Nil items.

**6. UNRESTRICTED REPORTS FOR CONSIDERATION****7. PENSION COMMITTEE TERMS OF REFERENCE, MEMBERSHIP AND QUORUM (PC/001/011)**

Mr A. Ingram, Democratic Services Officer, introduced the report which set out the Terms of Reference, Membership and Quorum of the Pensions Committee for the Municipal Year 2010/11. Further to a query from Councillor Rabina Khan, he confirmed that the date of the Annual General Meeting of the Council shown in Appendix A as 20<sup>th</sup> May 2009 should have read 26<sup>th</sup> May 2010.

The Chair **MOVED** and it was –

**RESOLVED**

That the report be noted.

**8. COMPOSITION OF THE PENSION FUND INVESTMENT PANEL (PC/002/011)**

Mr A. Finch, Service Head Corporate Finance, Resources introduced the report which gave details of the current arrangements for the provision of investment advice to the Committee. He then outlined the respective responsibilities of the Pensions Committee and Investments Panel, the latter being chaired by Raymond Haines, an independent professional advisor, with further financial advisory support being provided by Hymans Robertson & Co.

The Chair **MOVED** and it was –

**RESOLVED**

- (1) That an Investment Panel be established, with Terms of Reference as set out in Appendix 1 of the report.
- (2) That membership of the Investment Panel comprise:-



- All Members of the Pensions Committee or their designated deputies.
  - An Investment Professional as Chair.
  - The Corporate Director Resources or nominee.
- (3) That up to two Trade Union representatives (or their designated deputies) as nominated by the Staffside Secretary attend the Investment Panel as observers.

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

The meeting ended at 7.42 p.m.

Chair, Councillor Anwar Khan  
Pensions Committee

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# Agenda Item 5.1

COMMITTEE: <b>Pensions Committee</b>	DATE: <b>5 August 2010</b>	CLASSIFICATION: <b>Unrestricted</b>	REPORT NO.	AGENDA NO.
REPORT OF: <b>Corporate Director of Resources</b>	TITLE: <b>Draft Pension Fund Financial Accounts 2009/10</b>			
ORIGINATING OFFICER(S): <b>Alan Finch: Service Head: Corporate Finance</b>	Ward(s) affected: N/A			

## 1. SUMMARY

- 1.1 This report sets out the draft Pension Fund accounts for the financial year ending 31<sup>st</sup> March 2010.
- 1.2 Members are asked to note the pension fund financial accounts which have now been submitted to the external auditors.

## 2. RECOMMENDATIONS

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

### **3. BACKGROUND**

- 3.1 The Council as an administering authority under the Local Government Pension Scheme Regulations is required to produce a separate set of accounts for the scheme's financial activities and assets and liabilities.
- 3.2 The contents and format of the accounts are determined by statutory requirements and mandatory professional standards as established by the Chartered Institute of Public Finance (CIPFA) in their Statement of Recommended Practice (SORP).
- 3.3 The Pension Fund Accounts will be subject to a separate audit by the Council's external auditors the Audit Commission which must be completed by the 30<sup>th</sup> September.
- 3.4 Communities and Local Government (CLG) have introduced an additional requirement for Councils to publish before the 1<sup>st</sup> December 2010 an annual report which incorporates elements of the financial accounts. This document will be the subject of a further report to this Committee when the audit is substantially complete.

### **4 THE ACCOUNTS**

- 4.1 The accounts comprise two main statements with supporting notes. The main statements are:
  - Dealings with Members Employers and Others which is essentially the funds revenue account
  - The Net assets Statement which can be considered as the funds balance sheet.
- 4.2 The "Dealings with Members Employers and Other" sets out the movement in the net worth of the fund in the year by analysing the relevant financial transactions and movements in the market value of the investment portfolio. The statement has two main sections:
  - The financial transactions relating to administration of the fund.
  - The transactions relating to its role as an investor.
- 4.3 The administration section principally relates to the receipt of contributions from employers and active members and the payment of pensions. The section indicates that the fund is cash positive in that the receipt of contributions exceeds the pension payments by £10.865M (29%).
- 4.4 The investment section details the income received from the investment portfolio and the impact of managers activities and investment markets on the value of investments.
- 4.5 The section indicates that the value of investments has increased by £168.115M (30.2%) as a result of favourable conditions in investment markets. The performance of the portfolio and the investment will be the subject of a future report to this Committee.
- 4.6 The net asset statement represents the net worth of the fund as at the 31<sup>st</sup> March 2010. The statement reflects how the transactions outlined in the other statement have impacted on the value of the funds assets.

## **5. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

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

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

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

## **7. ONE TOWER HAMLETS CONSIDERATIONS**

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

## **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

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

## **9. RISK MANAGEMENT IMPLICATIONS**

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

## **10. APPENDICES**

- 10.1 Statement of Accounts

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

***Brief description of "background papers"***

*Working papers and technical accounting manuals.*

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

*Oladapo Shonola Ext. 4733  
Mulberry Place, 4<sup>th</sup> Floor.*

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**Message from Chris Naylor: Corporate Director Resources**

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

The Fund has seen positive movement in the year benefiting from the recovery in financial markets. The global market recovery has resulted in an increase in fund value of approximately 32% for the year which broadly corresponds to the experience of other pension funds and overall average gains in financial markets.

The Investment Strategy allocates assets across a range of asset classes and further attempts to minimise exposure to significant movements within each asset class by appointing fund managers that pursue contrasting but complementary investment strategies. This approach ensures a diversified and balanced portfolio that targets steady and sustainable growth.

It is worth noting that the Council is a long term investor both because a high proportion of pension benefits do not become payable until far in 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 significant reduction in public spending that was announced by the coalition government as part of the emergency budget in June. The government has established a review of public sector pension schemes and I will keep you informed of any changes to the Scheme that affect your entitlement.

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 Pension Scheme**

The London Borough of Tower Hamlets Pension Fund is part of the Local Government Pension Scheme (LGPS) and is governed by statute.

The London Borough of Tower Hamlets is the Administering Authority for the London Borough of Tower Hamlets Pension Fund. The Pensions Committee has delegated responsibility for the management of the Fund and oversees the general framework within which the Fund is managed and sets investment policy on behalf of the Council and other employers in the Fund. Therefore, the Pensions Committee considers all investment aspects of the Pension Fund.

**MANAGEMENT AND ADVISERS TO THE PENSION FUND**

**Pensions Committee:**

Councillors:

Councillor Rajib Ahmed (Chairman)  
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

Trade Union Representative (non-voting):

John Gray (Unison)  
Frank West (GMB)

**Investment Advisers**

Hymans Robertson  
Raymond Haynes (Independent Investment Adviser)

**Actuarial Services**

Hymans Robertson

**Custodian**

State Street

**Investment Performance**

WM Company

**Investment Managers**

Aberdeen Asset Management  
Auriel Capital Management Limited  
Baillie Gifford  
GMO UK Limited  
Martin Currie Investment Management  
Record Currency Management Limited  
Schroders Investment Management



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.

During 2009-10 the members of the Investment Panel were: -

**Investment Panel**

Raymond Haines, Independent Adviser (Chairman)

Councillor Rajib Ahmed

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

John Gray (Unison)

Frank West (GMB)

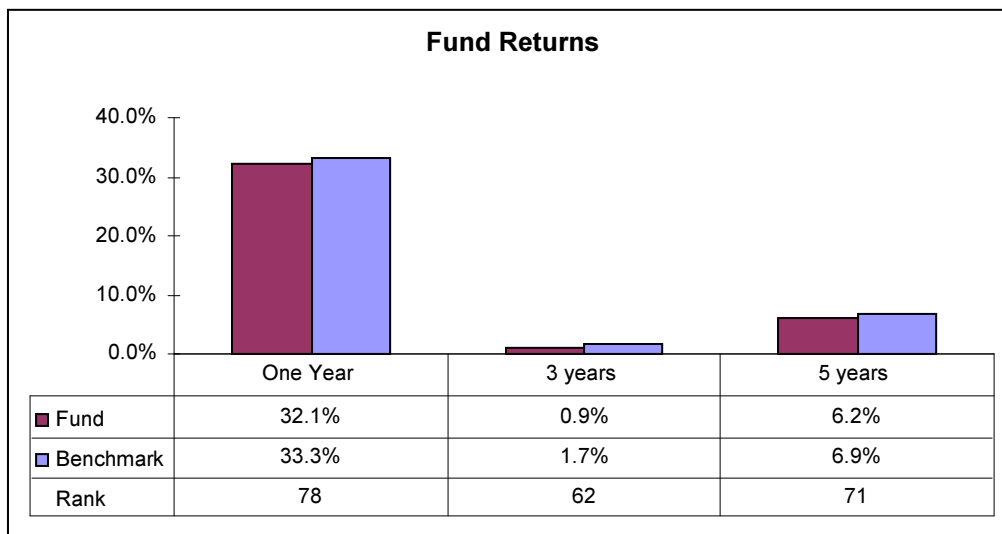
David O'Hara, Hymans Robertson

Alan Finch, Head of Corporate Finance

**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 2009/10 the fund achieved a return on its investment portfolio of 32.1% which is in line with the average return in the financial markets and the overall Fund benchmark of 33.3%. The positive return in 2009/10 was more than enough to offset the negative return of 18.9% in 2008/09.



**Fund Management Activity**

The Investment Panel reviewed the activities of the Fund in 2009/10 and made a number of recommendations to change strategy due to consistent poor performance by some of the Fund’s managers. The Panel recommended a switch from an active fixed income mandate to a passive mandate and also the transfer of UK active equity mandate held by Aberdeen to an absolute return mandate. None of these changes were concluded in 2009-10, but the changes will be implemented in 2010/11.

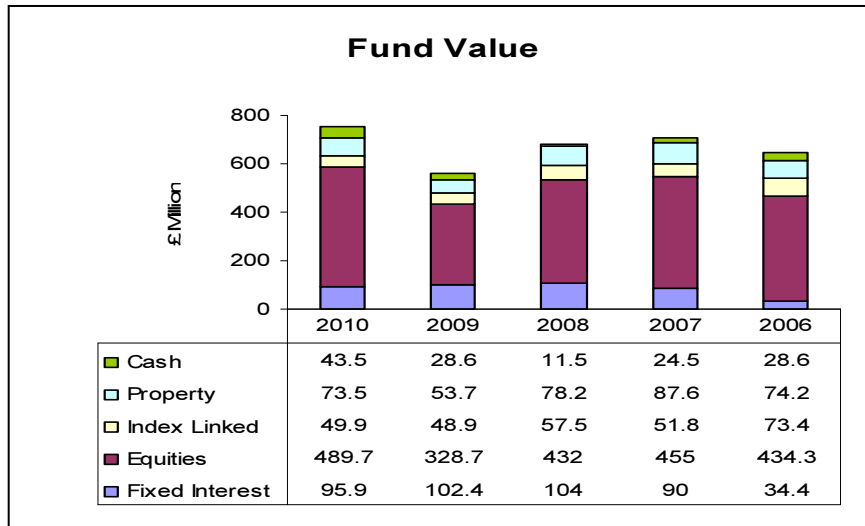
Both the passive and absolute return mandates are new asset classes within the overall Fund structure.

The Panel also decided to disinvest all of the funds that were held in the Auriel portfolio and reduce the exposure to currency instruments to a maximum of 1% of total fund assets. These decisions were based on manager performance and the perceived unsuitability of fund managers’ strategies to prevailing market conditions.

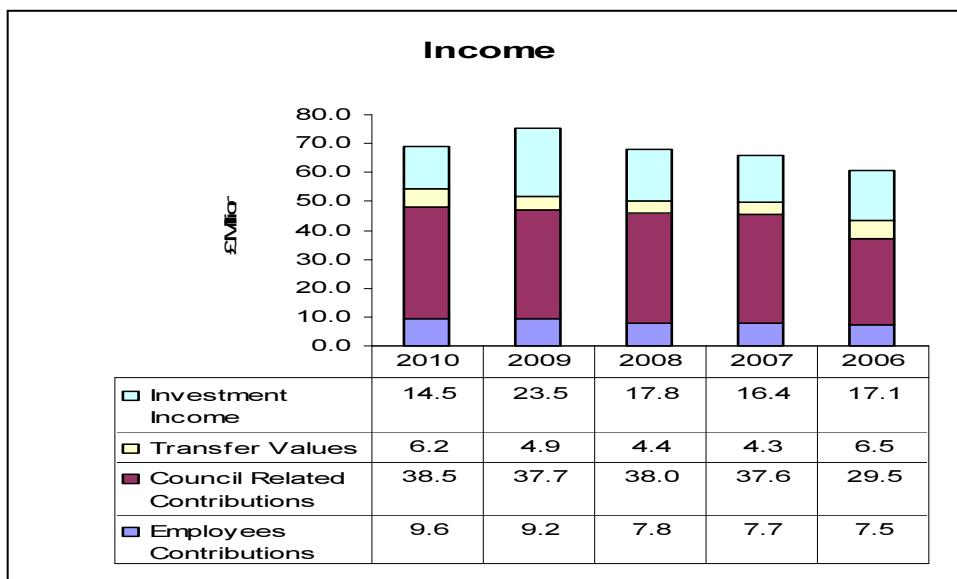
All investment activity is regulated by the Council’s Statement of Investment Principles which together with the Myners Compliance Statement set out in Appendix 2.

**Financial Accounts**

During the financial year 2009/10 the value of the Fund increased by £190m. 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 “cash” sum includes the amount held by managers and the Council (£25.4m), together with the two currency portfolios (£16.7m) and working capital (£1.4m).

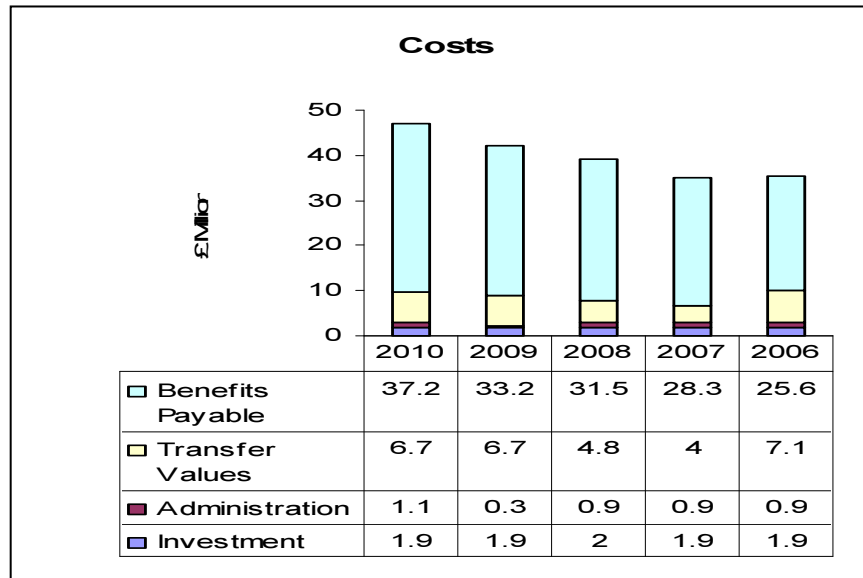


The Fund income decreased by £6.5 million (9%) in the year principally as a result of a fall in foreign equity dividends. Over the five year period the main reason for the decrease has been a fall in investment income of £2.6 million (15%) which has been offset by the Council’s contribution which increased by £9.0 million (31%). 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 reflects the new graduated contributions payable under the revised pension regulations issued by the Government.

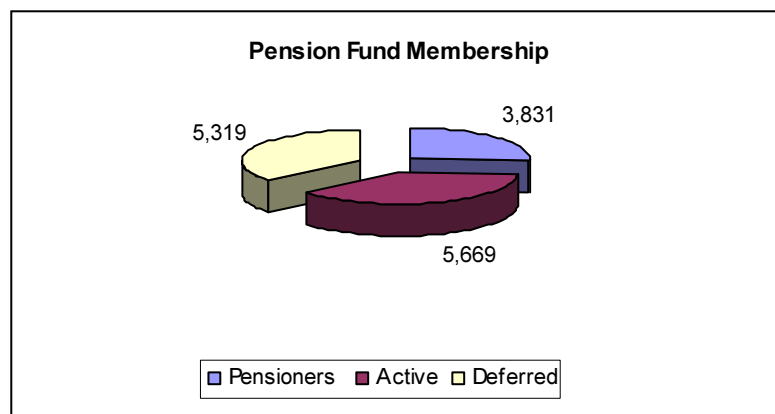


## Pension Fund Accounts and Report 2009/10

Over the year costs have increased by £4.8 million (11%). The increase is principally attributable to an increase in the benefits payable of £4 million (12%). The administration costs of £1.1m have remained low as a proportion of the total expenses (2.3%).



The Fund currently has a membership of 14,819 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. These are draft accounts and are in the process of being audited by the Council's 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 Statement

Appendix 5 Governance Compliance Statement

For further information on the Local Government Pension Scheme and your entitlement, please contact Anant Dodia at [anant.dodia@towerhamlets.gov.uk](mailto:anant.dodia@towerhamlets.gov.uk) or by telephoning 020 7364 4248.

# Pension Fund Accounts and Report 2009/10

## Appendix 1

### PENSION FUND ACCOUNTS

	Note	2009/2010 £'000	2008/2009 £'000
<b>FUND ACCOUNT</b>			
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME</b>			
<b>Contributions</b>			
From employers	3	38,455	37,755
From members	3	9,612	9,164
<b>Transfers in</b>			
Individual transfers in from other schemes		6,214	4,862
<b>Benefits</b>			
Pensions	4	(28,510)	(26,685)
Lump sum benefits	4	(8,692)	(6,495)
<b>Payments to and on account of leavers</b>			
Refunds of contributions		(6)	(6)
State scheme premiums		6	(30)
Individual transfers out to other schemes		(6,692)	(6,679)
<b>Administrative expenses</b>	14	(1,075)	(326)
<b>NET ADDITIONS FROM DEALINGS WITH MEMBERS</b>		<b>9,312</b>	<b>11,560</b>
<b>RETURN ON INVESTMENTS</b>			
		2009/2010 £'000	2008/2009 £'000
Investment income	11	14,527	23,535
Change in market value of investments			
Realised	10	3,999	(81,917)
Unrealised	10	164,201	(72,192)
Investment management expenses	15	(1,871)	(1,875)
<b>NET RETURN ON INVESTMENTS</b>		<b>180,856</b>	<b>(132,449)</b>
Net increase in the Fund during the year		190,168	(120,889)
Add: Opening net assets of the scheme		562,333	683,222
<b>CLOSING NET ASSETS OF THE SCHEME</b>		<b>752,501</b>	<b>562,333</b>
<b>NET ASSETS STATEMENT AS AT 31ST MARCH</b>			
		2010 £'000	2009 £'000
<b>Investments Assets</b>			
Fixed interest securities			
Public sector		40,659	54,006
Other		55,219	48,441
Equities		489,740	328,666
Index linked securities			
Public sector		49,898	48,922
Property		73,458	53,668
Managed and Unitised Funds			
Other		16,698	23,887
	10	<b>725,672</b>	<b>557,590</b>
Cash deposits	6	19,606	6,892
Other investment balances	5	4,213	10,833
<b>Investments Liabilities</b>			
Other investment balances	5	(2,116)	(8,920)
<b>Current Assets</b>			
	5	5,851	114
<b>Current Liabilities</b>			
	5	(725)	(4,176)
<b>TOTAL NET ASSETS</b>		<b>752,501</b>	<b>562,333</b>

**Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31st March 2010.**

# Pension Fund Accounts and Report 2009/10

## NOTES TO THE PENSION FUND ACCOUNTS

### 1. INTRODUCTION

The Council is the administering authority for the Pension Fund and has executive responsibility for it. The Council delegates its responsibility for administering the Fund to the Pensions Committee which is responsible for considering all pension matters and discharging the obligations and duties of the Council under the Superannuation Act 1972 and other statutes relating to investment issues. The Committee meets quarterly to determine investment policy objectives, appoint investment managers, monitor investment performance and make representations to the Government on any proposed changes to the Local Government Pension Scheme. The Committee is required to obtain proper advice on the investment strategy of the Fund for which it has established an Investment Panel which includes professional investment advisors. The Panel meets quarterly to determine the general investment strategy, monitor the performance of the Fund and individual managers and consider technical reports on investment issues. The Fund employs eight specialist investment managers with mandates corresponding to the principle asset classes.

The day to day administration of the Fund and the operation of the management arrangements and administration of the investment portfolio is delegated to the Corporate Director of Resources.

The Fund is operated as 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 individuals are referred to as "members". The 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 members, from employers 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.

### 2. ACCOUNTING POLICIES

#### (a) Accounts

The accounts summarise the transactions and net assets of the Pension Fund and comply in all material respects with Chapter 2 ("Recommended Accounting Practice") of the Statement of Recommended Practice (Financial Reports of Pensions Schemes) 2007.

#### (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.

#### (c) The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2010.

#### (d) Investments

Investments are shown in the Net Assets Statement at market value on the following bases.

(i) Listed securities are shown by reference to bid price at the close of business on 31st March 2010

(ii) Managed and Unitised funds are valued at bid price or latest single market price at close of business on 31st March 2010.

(iii) Property Unit Trusts are shown by reference to bid price at close of business on 31st March 2010.

(iv) The Fund does not hold any direct property holdings and therefore does not employ a separate property valuer.

(v) Where appropriate, investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling on the 31st March 2010.

#### (e) Management Expenses

Fund managers' fees are based mainly on a percentage of the value of the funds under their management, although part of the total fee is sometimes fixed.

### 3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. Employees pay contributions based on the level of pay they receive, with contribution rates set between 5.5% and 7.5% dependent on pensionable pay. The employer's 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 31st March 2010 was 15.8%. Contributions shown in the revenue statement may be categorised as follows:-

	2009/2010	2008/2009
	Total £'000	Total £'000
Members normal contributions		
Council	8,551	8,611
Admitted bodies	295	367
Scheduled bodies	766	186
<b>Total members</b>	<b>9,612</b>	<b>9,164</b>
Employers		
Normal contributions		
Council	20,003	20,247
Admitted bodies	885	1,257
Scheduled bodies	1,872	447
Deficit funding contributions		
Council	13,050	12,500
Other contributions		
Council	2,645	3,304
<b>Total employers</b>	<b>38,455</b>	<b>37,755</b>
<b>Total contributions</b>	<b>48,067</b>	<b>46,919</b>

The Council is required to operate an Additional Voluntary Contributions (AVC) scheme for employees. In 2009/10 employees made contributions of £61,833.25 into the AVC Scheme not administered by the Council but provided by Norwich Union and £10,737.10 to Equitable Life. The contributions are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 N° 1831) but are deducted from salaries and remitted directly to the provider.

# Pension Fund Accounts and Report 2009/10

## 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 are brought into the accounts on a cash basis. Benefits payable are analysed below.

	2009/2010			2008/2009				
	Council £000	Admitted Bodies £000	Scheduled Bodies £000	Total £000	Council £000	Admitted Bodies £000	Scheduled Bodies £000	Total £000
Pensions	(27,710)	(606)	(194)	(28,510)	(26,568)	(95)	(22)	(26,685)
Lump sum retirement benefits	(6,481)	(387)	(921)	(7,789)	(5,525)	(188)	(524)	(6,237)
Lump sum death benefits	(903)	0	0	(903)	(258)	0	0	(258)
<b>Total</b>	<b>(35,094)</b>	<b>(993)</b>	<b>(1,115)</b>	<b>(37,202)</b>	<b>(32,351)</b>	<b>(283)</b>	<b>(546)</b>	<b>(33,180)</b>

## 5. DEBTORS AND CREDITORS

Unless otherwise stated, all transactions are accounted for on an accruals basis. The following amounts were debtors or creditors of the Pension Fund as at 31st March.

	2009/2010 £'000	2008/2009 £'000
<b>Debtors</b>		
<b>Investments Assets</b>		
Investment sales	2,316	8,350
Dividends receivable	1,187	1,407
Tax recoverable	306	371
Interest receivable	404	705
	<b>4,213</b>	<b>10,833</b>
<b>Current Assets</b>		
Employers' contributions due from admitted bodies	74	114
London Borough of Tower Hamlets	5,777	0
	<b>5,851</b>	<b>114</b>
<b>Total Debtors</b>	<b>10,064</b>	<b>10,947</b>
<b>Creditors</b>		
<b>Investments Liabilities</b>		
Investment purchases	2,116	8,920
<b>Current Liabilities</b>		
Borrowings <sup>1</sup>	0	3,364
Unpaid benefits	187	282
Administrative expenses	538	530
	<b>725</b>	<b>4,176</b>
<b>Total Creditors</b>	<b>2,841</b>	<b>13,096</b>
<b>Net Debtors</b>	<b>7,223</b>	<b>(2,149)</b>

## 6. CASH

The cash balance can be further analysed as follows:

	2009/2010 £000	2008/2009 £000
GMO UK	2,732	2,406
Aberdeen: Fixed Interest Portfolio	2,388	1,996
Aberdeen: Private Equity Portfolio	74	0
Aberdeen: UK Equities	2,349	1,462
Schroders: Multi Asset Portfolio	0	13
Schroders: Property Portfolio	11,227	319
Martin Currie	835	666
Merrill Lynch	1	30
<b>TOTAL CASH</b>	<b>19,606</b>	<b>6,892</b>



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## 7. TAXATION

### UK Income Tax

Investment income is subject to UK tax which the Fund cannot recover under current tax legislation, except for tax deducted at source from Property Unit Trusts.

### Value Added Tax

By virtue of Tower Hamlets Council being the Administering Authority, VAT input tax is recoverable on all Fund activities.

### Overseas Tax

Taxation agreements exist between Britain and certain 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

	2010	2009
<b>London Borough of Tower Hamlets</b>		
Active Members	5,190	4,865
Pensioners	3,724	3,561
Deferred Pensioners	5,074	4,664
	<b>13,988</b>	<b>13,090</b>
<b>Admitted &amp; Scheduled Bodies</b>		
Active Members	479	530
Pensioners	107	78
Deferred Pensioners	245	183
	<b>831</b>	<b>791</b>

The following bodies have been admitted into the Fund:

### Admitted Bodies

Tower Hamlets Community Housing  
Redbridge Community Housing Limited  
East End Homes  
Greenwich Leisure Limited  
Swan Housing Association  
Gateway Housing Association (formerly Bethnal Green and Victoria Park Housing Association)  
One Housing Group (formerly Island Homes)  
Bees Services  
Circle Anglia Ltd.  
Look Ahead Housing and Care  
Ecovert FM Ltd.

### Scheduled Body

Tower Hamlets Homes Limited is a scheduled body contributing to the Fund.

## 9. STATEMENT OF INVESTMENT PRINCIPLES

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish a Statement of Investment Principles (SIP) in accordance with the Local Authority Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. The SIP is published as part of the Local Government Pensions Scheme Annual Report which will be submitted to the Council's Pensions Committee on 18<sup>th</sup> November 2010.

## 10. INVESTMENTS

The Fund employs eight specialist investment managers with mandates corresponding to the principal asset classes.

### Manager

GMO UK Ltd.  
Martin Currie Investment Management  
Schroders Asset Management Property Fund  
Investec Asset Management  
Baillie Gifford Life Ltd.  
Aberdeen Asset Management  
Auriel Capital Management  
Record Currency Management

### Mandate

Global Equity  
UK Equity  
Property  
Residual Venture Capital Fund  
Overseas Equities  
Fixed Interest, UK Equities and Private Equity  
Currency  
Currency

# Pension Fund Accounts and Report 2009/10

## 10. INVESTMENTS (Continued)

The value of the Fund, by manager, as at 31st March was as follows.

	2010		2009	
	£ million	%	£ million	%
GMO UK Ltd.	198.6	26.6	138.2	24.4
Martin Currie Investment Management	95.3	12.8	65.9	11.6
Schroders Asset Management Property Fund	84.9	11.4	61.8	10.9
Aberdeen Asset Management - Bonds	148.6	19.9	153.2	27.1
Aberdeen Asset Management - Equities	70.6	9.4	45.6	8.1
Baillie Gifford Life Ltd.	132.6	17.7	85.3	15.1
Auriel Capital Management	9.9	1.3	9.8	1.7
Record Currency Management	6.7	0.9	6.4	1.1

The movement in the opening and closing value of investments during the year, together with related direct transaction costs, were as follows.

	Market Value as at 1 Apr 2009	Purchases	Sales	Change in Market Value	Market Value as at 31 Mar 2010	Transaction Costs
	£000	£000	£000	£000	£000	£000
GMO UK Ltd.	135,035	84,175	(78,269)	54,195	195,136	38
Baillie Gifford Life Ltd.	85,338	0	0	47,267	132,605	0
Martin Currie Investment Management	64,842	44,186	(43,663)	28,703	94,068	6
Aberdeen Asset Management - Equities	43,646	11,984	(14,328)	26,629	67,931	3
Schroders Asset Management Property	61,317	21,467	(10,968)	1,642	73,458	0
Aberdeen Asset Management - Bonds	151,171	75,850	(87,508)	6,263	145,776	3
Auriel Capital Management	9,820	103	(1)	21	9,943	0
Record Currency Management	6,387	3,000	(1,917)	(731)	6,739	0
Aberdeen No.2	34	0	(230)	212	16	0
<b>TOTAL</b>	<b>557,590</b>	<b>240,765</b>	<b>(236,884)</b>	<b>164,201</b>	<b>725,672</b>	<b>50</b>

A further analysis of investments assets is as follows.

	Market Value as at 1 April 2009	Purchases	Sales	Change in Market Value	Market Value as at 31 Mar 2010
	£000	£000	£000	£000	£000
<b>UK Investment Assets</b>					
Quoted	359,937	156,590	(158,385)	62,527	420,669
Unquoted	34	0	(230)	212	16
<b>Overseas Investment Assets</b>					
Quoted	197,619	84,175	(78,269)	101,462	304,987
Unquoted	0	0	0	0	0
<b>TOTAL</b>	<b>557,590</b>	<b>240,765</b>	<b>(236,884)</b>	<b>164,201</b>	<b>725,672</b>

## 11. INVESTMENT INCOME

Investment income is broken down as follows.

	2009/2010 £'000	2008/2009 £'000
Income from fixed interest securities	2,368	2,696
Income from index linked securities	513	355
Dividends from UK equities	4,911	5,500
Dividends from overseas equities	4,267	12,966
Net rents from properties	2,236	2,415
Interest on cash deposits	101	(512)
Foreign tax	94	115
Underwriting costs, etc.	37	0
<b>TOTAL</b>	<b>14,527</b>	<b>23,535</b>

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## 12. SECURITIES

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

	2009/2010 £000	2008/2009 £000
Unlisted	88	32
Listed	745,190	564,450
Working Capital	7,223	(2,149)
	<b>752,501</b>	<b>562,333</b>

## 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) in the year estimated the deficit on the Fund to be £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 :-

	£m
2008/09	12.5
2009/10	12.5
2010/11	12.5

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

The Council, as Administering Authority, prepares a Funding Strategy Statement (FSS) in respect of the Fund in collaboration with the Fund's Actuary and after consultation with the employers and investment advisors. The Actuary is required to have regard to this statement when carrying out the valuation. The FSS includes the Fund's funding policy, the objectives of which are:

- 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 Council can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk.

The basis of valuing the Fund's assets (see note 2) is compatible with the basis of placing a value on members' benefits as both are related to market conditions at the valuation date.

In accordance with the funding policy, the Actuary determines the employer contribution requirement for future service for the Fund as a whole, and for employers who continue to admit new members. The cost of future service benefits is assessed, taking into account expected future salary increases. In order to place a current value on future benefit cashflows the Actuary "discounts" the future cashflows to the valuation date at a suitable rate. The Actuary adopts a "gilt-based" valuation which uses the yield on suitably dated Government bonds as the discount rate. This is then uplifted to the "funding basis discount rate" taking into account the Fund's current and expected future investment strategy to reflect the percentage by which the Fund is anticipated to "outperform" the yield on Government bonds. The contribution rate required to meet the expected cost of future service benefits is derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay. This is known as the "Projected Unit method". The future contribution rate for 2009-10 was 15.8%.

In addition, the Actuary compares the value of the Fund's assets with the estimated cost of members' past service. The ratio of the asset value to the estimated cost of members' past service benefits is known as the "funding level". If the funding level is more than 100% there is a "surplus"; if it less than 100% there is a "shortfall". The next valuation will be as at 31st March 2010 and the recommendations implemented from 1st April 2011.

Although the funding shortfall is significant, it should be noted that current legislation provides that the level of members' basic pension entitlement and contributions are not affected by the financial position of the Fund. It is the Council's responsibility to ensure that pension entitlements are fully funded and that the impact on Council Tax is minimised. It should also be recognised that the Council is a long-term investor both because a high proportion of pension benefits do not become payable until far in the future and the Council has a relatively secure long-term income stream.

The FSS requires that the Fund operates the same target funding level of all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis, to be achieved over a 20 year period (a period equivalent to the expected future working lifetime of the remaining scheme members). The valuation of the Fund as at 31st March 2007 determined that this would require a contribution (additional to the future contribution rate) of 9% of members' pensionable pay equivalent to £12.5 million per annum. This contribution was increased by the Retail Price Index plus 1.5% as from 1st April 2009.

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The main actuarial assumptions used in revaluation as at 31st March 2007 and applied during the intervaluation period were as follows:

<b>Financial</b>	<b>Financial</b>	<b>Nominal</b>	<b>Real</b>
Price Inflation (RPI)		3.2%	
Pay Increases		4.7%	1.5% Real rates are nominal rates
"Gilt based" discount rate		4.5%	1.3% adjusted for inflation
Funding basis discount rate		5.9%	2.7%
<b>Longevity ( Longevity (in years)</b>		<b>Male</b>	<b>Female</b>
Average future life expectancy for a pensioner aged 65 at the valuation date		19.6	22.5
Average future life expectancy at age 65 for a non-pensioner aged 45 at the valuation date		20.7	23.6
Average future life expectancy at age 45 for a non-pensioner at the valuation date		40.1	43.0

### **14. ADMINISTRATIVE EXPENSES**

	<b>2009/2010</b>	<b>2008/2009</b>
	<b>£000</b>	<b>£000</b>
Investment Advice	155	151
Performance Measurement	15	13
Administration	882	243
Other Fees	23	(81)
	<b>1,075</b>	<b>326</b>

### **15. INVESTMENT MANAGEMENT EXPENSES**

	<b>2009/2010</b>	<b>2008/2009</b>
	<b>£000</b>	<b>£000</b>
Payments to Managers	1,871	1,875

### **16. RELATED PARTY TRANSACTIONS**

Information in respect of material transactions with related parties is disclosed elsewhere within the Council's 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 administrative services undertaken by the Council on behalf of the Pension Fund.

### **17. CONTINGENT LIABILITES**

There were no contingent liabilities as at 31st March 2010.

### **18. 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 Committee which acts on delegated authority of the London Borough of Tower Hamlets. The Pensions 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 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 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 complies 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 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 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 with the next full review due to be completed by 31st March 2011.

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.



## **2. Purpose**

### **2.1 Purpose of FSS**

2.1.1 The Office of the Deputy Prime Minister (now Communities and Local Government – CLG) 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 A.

### **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 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).

3.1.7 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 2007 valuation, it is assumed that the Fund's equity investments will deliver an average return of 1.4% 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 Admitted Bodies 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:

<b>Type of Employer</b>	<b>Maximum Length of Deficit Recovery Period</b>
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 rates 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 previously 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 have been asked to give their written consent to participate in the pool.

**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.

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**

<b>Risk</b>		<b>Summary of Control Mechanisms</b>
5.2.1	Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	<b>Analyse progress at three yearly valuations for all employers.</b> Inter-valuation roll-forward of liabilities between formal valuations at whole fund level, provided on an annual basis.
5.2.2	Inappropriate long-term investment strategy	<b>Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.</b> <b>Consider measuring performance and setting managers' targets relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.</b>
5.2.3	Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	<b>Inter-valuation as above.</b>
5.2.4	Active investment manager under-performance relative to benchmark	<b>Short-term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.</b>
5.2.5	Pay and price inflation significantly more than anticipated	<b>Seek feedback from employers on scope to absorb short-term contribution rises.</b>
5.2.6	Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	<b>Seek feedback from employers on scope to absorb short-term contribution rises.</b> <b>Mitigate impact through deficit spreading and phasing in of contribution rises.</b>

**5.3 Demographic Risks**

<b>Risk</b>		<b>Summary of Control Mechanisms</b>
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**

<b>Risk</b>		<b>Summary of Control Mechanisms</b>
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 HMRC 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 relevant government department and comments where appropriate.</p> <p>The Administering Authority will consult employers where it considers that it is appropriate.</p>

**5.5 Governance**

<b>Risk</b>		<b>Summary of Control Mechanisms</b>
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.
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"> <li>• Seeking a funding guarantee from another Scheme employer, or external body, wherever possible.</li> <li>• Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</li> <li>• Vetting prospective employers before admission.</li> <li>• 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.</li> </ul>

**Appendix 4**

Communications Strategy Statement

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**Introduction**

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

The Fund liaises with over 10 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 Strategy Statement should be sent to:

London Borough of Tower Hamlets  
Town Hall  
Human Resources  
Payroll & Pensions Services  
Anchorage House  
2 Clove Crescent  
London E14

Telephone: 020 7364 4251

Facsimile: 020 7364 4593

Email: [pensions@towerhamlets.gov.uk](mailto:pensions@towerhamlets.gov.uk)

**Regulatory Framework**

This Policy Statement is required by the provisions of Regulation 106B of the Local Government Pension Scheme (LGPS) 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 are to be introduced, supported by a Code of Practice. The type of information that pension schemes are required to disclose will remain very much the same as before, although the prescriptive

timescales are being replaced with a more generic requirement to provide information within a “reasonable period”. The draft Code of Practice<sup>1</sup> 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 draft Code of Practice.

### **Responsibilities and Resources**

Within the Pension Section, the responsibility for communication material is performed by our Pensions 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 admitted bodies);
- senior managers;
- union representatives;
- elected members/the Pension Panel;
- Pensions 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 Customs, the Office of the Deputy Prime Minister, solicitors, the Pensions Advisory Service, and other pension providers. We also consider as part of this policy how we communicate with these interested parties.

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

### **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 compliment 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 pension section staffs 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 to 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.

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Our objectives will be met by providing the following communications, which are over and above individual communications with members (for example, 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
Road shows/ Workshops	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 road shows, 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.

**Road shows/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.

**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 Team Section, 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 Pensions Section and Scheme members.

**Newsletters** – A technical briefing newsletter that will include recent changes to the scheme, the way the Pensions 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.

**Pensions 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.

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### **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
- to promote the benefits of the Scheme as a recruitment/retention tool.

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

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.

**Policy on communication with elected members/Pensions Committee**

Our objectives with regard to communication with elected members/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 there is a new Pensions Committee and as and when required	Face to face or via the Employers Organisation for local government	All members of the Pensions 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 Pensions Committee
Pension Committee	Meeting	Quarterly	Members elected onto Pension Committee	All members of the Pensions Committee

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### **Explanation of communications**

Training sessions – providing a broad overview of the main provisions of the LGPS, and elected members responsibilities within it.

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

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 pension section staff**

Our objectives with regard to communication with Pension Section's 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

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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.

### **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 Additional Voluntary Contributions (AVC) scheme

Our objectives will be met by providing the following communications:

## ***Pension Fund Accounts and Report 2009/10***

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Pension Fund valuation reports <ul style="list-style-type: none"> <li>• Rates and Adjustments (R&amp;A) certificates</li> <li>• Revised R&amp;A certificates</li> <li>• Cessation valuations</li> </ul>	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



## ***Pension Fund Accounts and Report 2009/10***

### **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

## ***Pension Fund Accounts and Report 2009/10***

### **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 Compliance Statement**

#### **1. Background**

1.1 Regulation 31(3) of The Local Government Pension Scheme Regulations 1998 prescribes the content of the Statement and Regulation 34(1)(e) requires it to be included in the Annual Report

1.2 The content should include:

- An outline of the governance structure and the roles and responsibilities of each element within the structure (including whether the element is executive or advisory) e.g.
  - Pensions Panel / Pensions Committee
  - Any related sub committees
- Membership of Pensions Panel / Committee and any associated sub-committees within a matrix showing for each member :
  - Voting rights
  - Attendance at meetings
  - Training received during the reporting period
- Policy and processes of managing conflict of interest

#### **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 Pensions 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 Committee which comprises nine 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 Committee are open to the public and the procedures of that Committee are as set out in the Council Constitution.

### **3. Officer Delegation**

3.1 The following functions have been formally delegated to officers by the former Pensions and Accounts Committee: -

- The Corporate Director, Resources has delegated authority to admit external bodies to the Fund. (Ap11th August 2004)
- Specified officers are authorised to receive pension payments in trust. (20<sup>th</sup> December 2004)

3.2 The Pensions Committee delegate 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 Corporate Director, Resources.

3.4 The LGPS ( Administration ) Regulations 2008 require this Statement to cover the extent to which the delegation procedures comply with guidance given by the Secretary of State. This guidance is currently awaited.

### **4. Membership of Pensions Committee and Investment Panel 2009-10**

## ***Pension Fund Accounts and Report 2009/10***

### **Attendances at Pensions Committee 2009/10**

<b>Attendees</b>	<b>Voting Rights</b>	<b>Meetings Scheduled</b>				
		<b>23-Apr</b>	<b>11-Jun</b>	<b>13-Aug</b>	<b>19-Nov</b>	<b>17-Feb</b>
<b>Members</b>						
Cllr Joshua Peck	√	Present	Absent	Absent	Absent	Absent
Cllr Rajib Ahmed	√	Absent	Present	Present	Present	Present
Cllr Marc Francis	√	Present	Present	Present	Present	Apologies
Cllr Helal Abbas	√	Present	Present	Apologies	Apologies	Apologies
Cllr Waiseul Islam		Absent	Present	Present	Present	Absent
Cllr Denise Jones	√	Present	Present	Present	Present	Present
Cllr Fozol Miah		Absent	Absent	Absent	Absent	Present
Cllr Tim O'Flaherty	√	Absent	Absent	Absent	Absent	Absent
Cllr David Snowdon	√	Absent	Present	Present	Present	Present
Cllr Dr Emma Jones	√	Absent	Present	Present	Absent	Present
<b>Officers</b>						
Alan Finch	x	Present	Present	Present	Present	Present
Jim Ricketts	x	Present	Present	Present	N/A	N/A
Ian Talbot	x	N/A	N/A	Present	Present	N/A
Oladapo Shonola	x	N/A	N/A	N/A	N/A	Present
Zoe Folley	x	Present	N/A	N/A	N/A	N/A
Nadir Ahmed	x	N/A	N/A	N/A	N/A	Present
Daniel Hudson	x	N/A	Present	Present	Present	N/A
<b>Guest</b>						
Raymond Haines	x	Present				

- 4.1 Matters of potential conflicts of interest are dealt with under Part 5 (Codes and Protocols) of the Council's Constitution.

#### **1. Updating of Statement**

- 5.1 This Governance Compliance Statement is reviewed regularly and will be updated as and when guidance is received.

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# Agenda Item 5.2

<b>COMMITTEE:</b> <b>Pensions Committee</b>	<b>DATE:</b> <b>5<sup>th</sup> August 2010</b>	<b>CLASSIFICATION:</b> <b>Unrestricted</b>	<b>REPORT NO.</b>	<b>AGENDA NO.</b>
<b>REPORT OF:</b> <b>Corporate Director of Resources</b>		<b>TITLE:</b> <b>Report of Investment Panel for Quarter Ending 31<sup>st</sup> March 2010.</b>		
<b>ORIGINATING OFFICER(S):</b> <b>Oladapo Shonola – Chief Financial Strategy Officer</b>		<b>Ward(s) affected:</b> N/A		

<b>Lead Member</b>	<b>Cllr David Edgar – Resources and Performance</b>
<b>Community Plan Theme</b>	<b>All</b>
<b>Strategic Priority</b>	<b>One Tower Hamlets</b>

## 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 31 March 2010.
- 1.2 In the quarter to the end of March 2010 the Fund achieved a return of 6.4% which exactly matches the benchmark return. The twelve month Fund return of 32.3% slightly underperformed the benchmark return at 33.8%. For longer periods, performance continued to lag behind the benchmark with the three years return of 1.3% underperforming the benchmark return of 2.1% by 0.8% and the five years return of 6.6% underperforming the benchmark return of 7.2% by 0.6%.
- 1.3 The performance of individual managers was variable this quarter. Four managers achieved returns above the benchmark whilst the remaining four 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.

## 2. DECISIONS REQUIRED

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

## 3. REASONS FOR DECISIONS

- 3.1 There are no decisions to be made as a result of this report. The report is written to inform panel members of performance of pension fund managers and the overall performance of the Tower Hamlets Pension Fund. The report also updates the Committee on the activities of the Investment Panel.

## 4. ALTERNATIVE OPTIONS

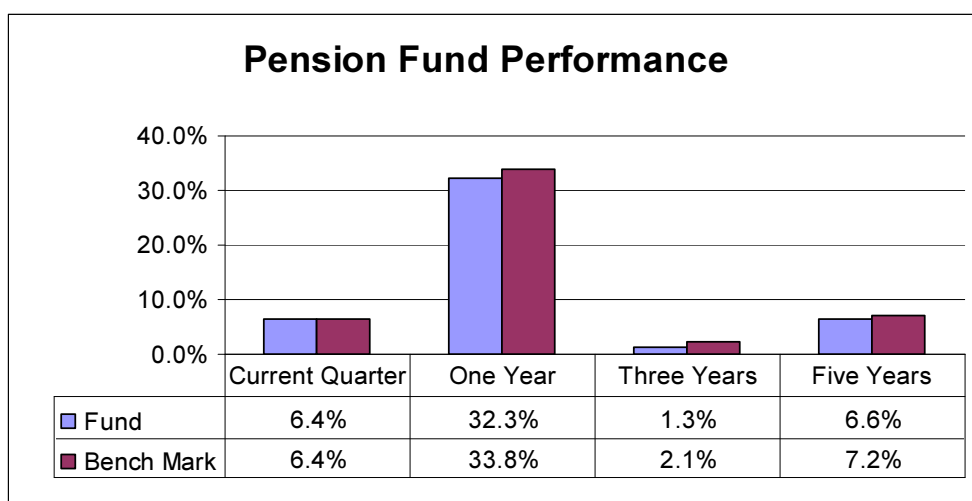
- 4.1 The Pension Fund Regulations requires that the Council establishes arrangements for monitoring the investments of the pension Fund. No alternative method of meeting the Pension Fund Regulations requirement has so far been identified.

## 5. BACKGROUND

- 5.1 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.
- 5.2 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.
- 5.3 This report informs Members of the activities of the Investment Panel and performance of the Fund and its investment managers for the period ending 31 March 2010.

## 6 INVESTMENT PERFORMANCE

- 6.1 The Fund achieved a return of 6.4% in the quarter which exactly matches the benchmark return.
- 6.2 The performance of the fund over the longer term is as set out in table 1.



- 6.3 The chart clearly demonstrates the volatility and cyclical nature of financial markets, but the outcomes 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.



## 7. MANAGERS

7.1 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	Actual % of Fund	Target % of Fund	Difference %	Date Appointed
GMO	Global Equity	198.9	26.6	25.0	1.6	29 Apr 2005
Baillie Gifford	Global Equity	132.6	17.7	16.0	1.7	5 Jul 2007
Martin Currie*	UK Equity	95.3	12.7	12.0	0.7	17 Jan 2006
Aberdeen (Equities)	UK Equity	70.6	9.4	10.5	-1.1	6 Jul 2007
Aberdeen (Bonds)**	Bonds	148.7	19.9	21.0	-1.1	28 Feb 2006
Schroder	Property	85.9	11.5	12.0	-0.5	30 Sep 2004
Record	Currency	6.7	0.9	1.5	-0.6	2 Sep 2008
Auriel	Currency	9.9	1.3	2.0	-0.7	2 Sep 2008
<b>Total</b>		<b>748.7</b>	<b>100.0</b>	<b>100.0</b>	<b>0.00</b>	

\*\* Aberdeen assets (excluding index-linked gilts) have been transferred to Investec

\* Aberdeen equities and Martin Currie assets to be transferred to Legal & General under a passive mandate

7.2 The fund value of £748.7.1 million held by the managers has risen by £43.4 million (6.15%) over the quarter.

7.3 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	-0.50%	-2.30%	-0.50%	-0.30
Baillie Gifford	0.90%	5.60%	1.90%	N/A
Martin Currie	0.50%	-5.00%	-2.20%	-2.70%
Aberdeen (Equities)	0.40%	-1.60%	-2.40%	N/A
Aberdeen (Bonds)*	0.30%	2.80%	0.00%	0.20%
Schroder	-1.50%	-6.1%	0.20%	0.90%
Record	-9.99%	-10.8%	-21.2%	N/A
Auriel	-1.90%	-0.3%	-21.2%	N/A
<b>Total Variance</b>	<b>0.00%</b>	<b>-1.10%</b>	<b>-0.80%</b>	<b>-0.60%</b>

7.4 **GMO** underperformed the benchmark over the quarter by 0.5% and are now 2.3% behind the benchmark. As with the previous quarter they attribute this to the outperformance of the more “speculative” stocks and GMO’s bias toward “higher quality” stocks.

7.5 **Baillie Gifford** continues to perform strongly, with the outperformance over the quarter at 0.9%, which puts performance over 12 months 5.6% ahead of benchmark. The fund continues to benefit from its financial holdings but other contributors to the outperformance this quarter include industrials, internet, pharmaceuticals and luxury goods companies.

- 7.6 **Martin Currie** slightly outperformed the benchmark by 0.5% over the quarter, but the 12 month performance significantly lags the benchmark by 5%. There have been doubts over the performance of Martin Currie since the inception of this mandate and they were given 6 months to turn things around at the February Pension Committee. Martin Currie has since announced that they will be closing their UK equity fund. Therefore, all Martin Currie assets to be transferred to Legal & General to be managed under the passive mandate.
- 7.7 **Aberdeen (UK Equities)** outperformed the FTSE All Share index modestly over the quarter. Although 12 month performance is ahead of benchmark, longer term performance remains poor.
- 7.8 **Aberdeen (Bonds)** marginally outperformed over the quarter, but longer term performance remains flat.
- 7.9 **Schroder (property)** underperformed over the quarter, continuing a poor year. Performance has been impacted upon by the temporary cash position. Schroder were allocated an additional £20m in Q1 2010 as part of the rebalancing exercise and they are part way through investing these funds, but approximately £8m remains uninvested as at the end of the quarter.
- 7.10 **Record** suffered another disappointing quarter with significant underperformance of 9.9%. Losses were attributable to the strengthening Japanese Yen against Sterling and the Euro in particular.
- 7.11 **Auriel** underperformed benchmark despite good returns in February and March, but had taken heavy losses in January. All units in the Auriel 2x Currency Fund held by the Pension Fund have been redeemed.

## **8 ASSET ALLOCATION**

- 8.1 The allocation of investments between the different asset classes was determined in conjunction with the Councils professional advisors in 2004 and is subject to periodic review by the Investment Panel. Recent reviews have led to the appointment of a passive manager and the Fund is the process of appointing an absolute manager. Asset allocation is determined by a number of factors including:-
  - 8.1.1 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.
  - 8.1.2 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.
  - 8.1.3 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 an eighteen year deficit

recovery term for this Council which enables a longer term investment perspective to be taken.

- 8.2 The benchmark asset distribution and the position at the 31 March 2010 are as set out below:

**Table 4: Asset Allocation**

<b>Fund Type</b>	<b>Benchmark 31 Mar 2010</b>	<b>Fund Position</b>	<b>Variance as at 31 Mar 2010</b>	<b>Variance as at 31 Mar 2009</b>
UK Equities	26.5%	25.4%	-1.1%	-2.8%
Global Equities	37.0%	38.0%	1.0%	-2.3%
Total Equities	63.5%	63.4%	-0.1%	-5.1%
Property	12.0%	10.0%	-2.0%	-2.4%
UK Bonds	13.6%	11.5%	-2.1%	3.9%
Overseas Bonds	0.0%	1.1%	1.1%	1.6%
UK Index Linked	7.4%	6.7%	-0.7%	0.1%
Cash	0.0%	2.8%	2.8%	2.5%
Currency	3.5%	2.2%	-1.3%	-0.6%
<b>Total Equities</b>	<b>100.0%</b>	<b>100.0%</b>	<b>0.00%</b>	<b>0.00%</b>

- 8.3 Individual managers have discretion within defined limits to vary the asset distribution.
- 8.4 In addition the distribution will vary according to the relative returns of the different asset classes. Equity markets have been recovering over the past several months and indexes are now nearing pre-recession levels. This has corrected the temporary distortion in the distribution of assets, so that the actual distribution of assets is similar to targets.

## **9. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

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

## **10. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)**

- 10.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 requires the Council, as an administering authority, to invest fund money that is not needed immediately to make payments from the Pensions Fund. The Council is required to have a Statement of Investment Principles that sets out its investment policy.
- 10.2 The Council does not have to invest the fund money itself and may appoint one or more investment managers. Where the Council appoints an investment manager, it must keep the manager's performance under review. At least once every three months the Council must review the investments that the manager has made and, periodically, the Council must consider whether or not to retain that manager.

- 10.3 One of the functions of the Pensions Committee is to meet the Council's duties in respect of investment matters. It is appropriate, having regard to these matters, for the Committee to receive information about asset allocation and the performance of appointed investment managers.

## **11. ONE TOWER HAMLETS CONSIDERATIONS**

- 11.1 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.
- 11.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

## **12. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 12.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

## **13. RISK MANAGEMENT IMPLICATIONS**

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

## **14. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 14.1 There are no any crime and disorder reduction implications arising from this report.

## **15. EFFICIENCY STATEMENT**

- 15.1 The monitoring arrangement for the Pension Fund and the work of the Pension Fund Investment Panel should ensure that the Fund optimises the use of its resources in achieving the best returns for members of the Fund.

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### **LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D**

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

***Brief description of "background papers"***

*Review of Investment Managers' Performance for the 3<sup>rd</sup> Quarter Report – prepared by Hymans Robertson LLP*

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

*Oladapo Shonola Ext. 4733  
Mulberry Place, 4<sup>th</sup> Floor.*

# Agenda Item 5.3

<b>Committee</b> <b>Pensions Committee</b>	<b>Date</b> <b>5th August 2010</b>	<b>Classification</b> <b>Unrestricted</b>	<b>Report No.</b>	<b>Agenda Item</b>
<b>Report of:</b> <b>Corporate Director Resources</b>		<b>Title</b> <b>Early Retirements: 2009/2010 Outturn</b>		
<b>Originating Officer:</b> Oladapo Shonola: Chief Financial Strategy Officer		<b>Ward(s) Affected</b> <span style="float: right;">N/A</span>		

## 1. SUMMARY

- 1.1 This report informs Members of the number of premature retirements in 2009/10 authorised under delegated authority.
- 1.2 The report indicates that the number of premature retirements has decreased from 41 in 2008/09 to 32 in 2009/10.

## 2. RECOMMENDATIONS

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

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### 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

Oladapo Shonola 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 12<sup>th</sup> 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.

### **5. OUTTURN 2009/10**

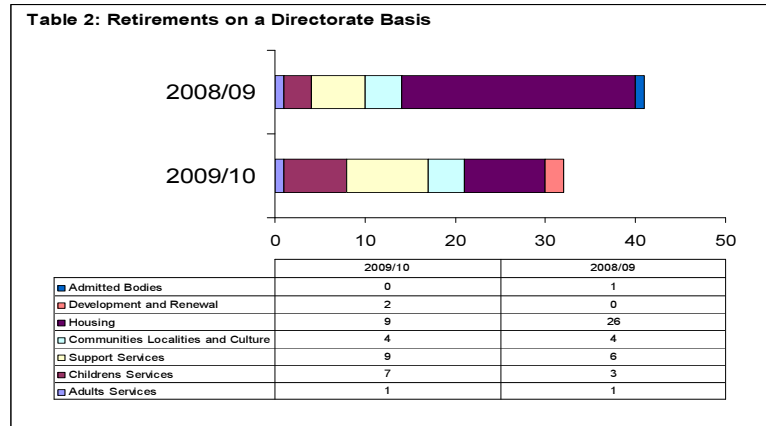
- 5.1 The Authority granted 32 employees premature retirement in 2009/10.
- 5.2 The statistics relating to the retirements, together with the comparable figures for the previous financial year are as set out below: -

<b>Table 1: Early Retirements</b>	<b>2009/10</b>	<b>2008/09</b>
Number of retirements	32	41
Average age at retirement (years)	55 years 8 months	54 years 8 months
Average years to normal age of retirement	4 years 12 months	4 years 3 months
Average length of service (years)	21 years 10 months	20 years 10 months
Average remuneration	£43,928	£37,033

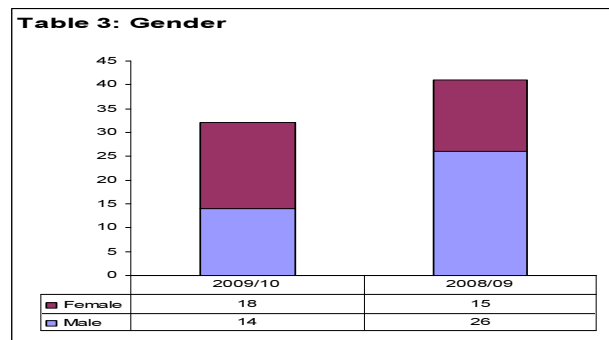
- 5.3 The table indicates that: -
  - The number of premature retirements has decreased from 41 to 32.
  - The average age at retirement has increased by exactly 1 year.
  - The average remuneration at retirement was £43,928, 18.6% more than 2008/09.
  - The average length of service has risen by exactly 1 year.

## 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 2009/10 on a Directorate basis.



- 6.3 Table 3 details the retirements during 2009/10 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 early 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.

Table 4: Costs.	2009/10		2008/09	
	Cost £000	Average £000	Cost £000	Average £000
Unfunded Pension	1,304	41	3,151	50
Added Years	-	-	-	-
<b>Total</b>	<b>1,304</b>	<b>41</b>	<b>3,151</b>	<b>50</b>

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.

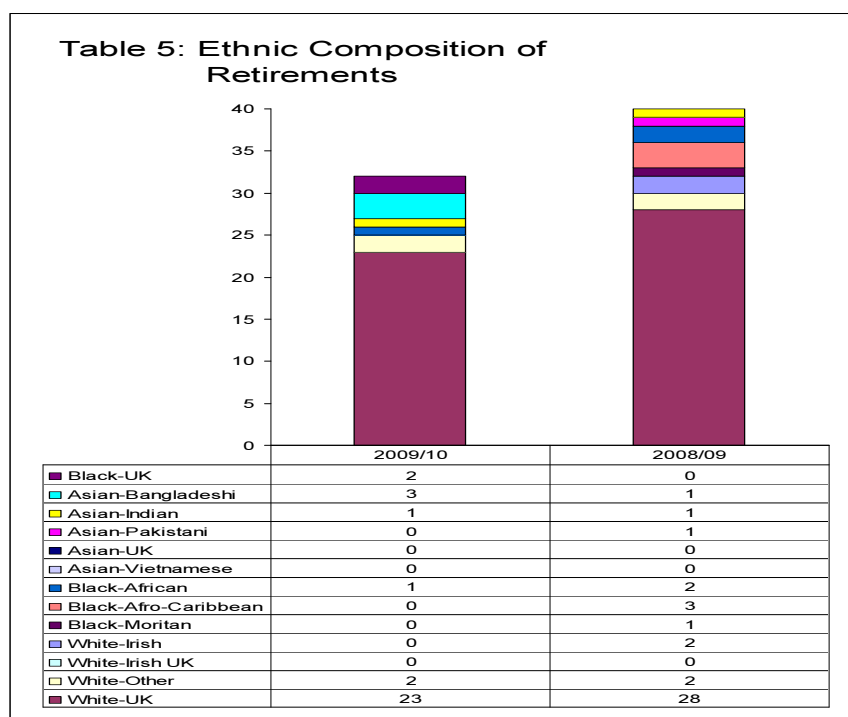
10.2 The accounting mechanism which charges individual Directorates for the costs of premature retirements enables the full costs of retirements to be identified when the decision is made.

## 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.





**13. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

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

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