



Meeting of the

PENSIONS COMMITTEE

Thursday, 18 November 2010 at 7.30 p.m.

A G E N D A

VENUE

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

Members:	Deputies (if any):
Chair: Councillor Anwar Khan	
Vice – Chair:	
1 Vacant Post - Non-Voting Member (Trade Union)	Councillor Tim Archer, (Designated Deputy representing Councillor Craig Aston)
1 Vacant Post - Non-Voting Member (Admitted Body)	Councillor David Snowdon, (Designated Deputy representing Councillor Craig Aston)
Councillor Craig Aston	
Councillor Shafiqul Haque	
Councillor Mohammed Abdul Mukit MBE	Councillor Zenith Rahman, (Designated Deputy representing Councillors Anwar Khan, Shafiqul Haque and Mohammed Abdul Mukit, MBE)
3 Vacancies	

[Note: The quorum for this body is 3 Members].

If you require any further information relating to this meeting, would like to request a large print, Braille or audio version of this document, or would like to discuss access arrangements or any other special requirements, please contact:

Daniel Hudson, Democratic Services
Tel: 020 7364 4881, E:mail: daniel.hudson@towerhamlets.gov.uk

LONDON BOROUGH OF TOWER HAMLETS

PENSIONS COMMITTEE

Thursday, 18 November 2010

7.30 p.m.

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

To receive nominations for the position of Vice-Chair of the Pensions Committee for the Municipal Year 2010/2011.

2. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

3. DECLARATIONS OF INTEREST

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

**PAGE
NUMBER** **WARD(S)
AFFECTED**

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4. UNRESTRICTED MINUTES

To confirm as a correct record of the proceedings the unrestricted minutes of the Pensions Committee meeting held on 5th August 2010.

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5. DEPUTATIONS & PETITIONS

To receive any deputations or petitions

6. UNRESTRICTED REPORTS FOR CONSIDERATION

6 .1 LGPS (Management and Investment of Funds) Regulation 2009

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6 .2 Absolute Return Manager Interviews

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6 .3 Investment Panel for Quarter Ending 30 September 2010

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6 .4 2009/10 Local Government Pension Fund Annual Report

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

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Agenda Item 3

DECLARATIONS OF INTERESTS - NOTE FROM THE CHIEF EXECUTIVE

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

Declaration of interests for Members

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

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

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

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

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

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

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

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

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

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

Agenda Item 4

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.30 P.M. ON THURSDAY, 5TH AUGUST 2010

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

Members Present:

Councillor Anwar Khan (Chair)
Councillor Shafiqul Haque
Councillor Craig Aston

Other Councillors Present:

Nil

Officers Present:

Alan Finch – (Service Head, Corporate Finance, Resources)
Oladapo Shonola – (Chief Financial Strategy Officer)

Daniel Hudson – (Democratic Services)

1. APOLOGIES FOR ABSENCE

Apologies for absence were received on behalf of Councillors Alibor Chodhury Rabina Khan.

The Clerk reported that arrangements were in place to appoint the non-voting members of the Committee.

2. DECLARATIONS OF INTEREST

No declarations of interest were made.

3. UNRESTRICTED MINUTES

The Chair **MOVED** and it was

RESOLVED

That the unrestricted minutes of the ordinary meeting of the Pensions Committee held on 10th June 2010 be approved and signed by the Chair, as a correct record of the proceedings subject to Councillor Shafiqul Haque being recorded as giving apologies for absence.

4. DEPUTATIONS & PETITIONS

Nil items.

5. UNRESTRICTED REPORTS FOR CONSIDERATION

5.1 LBTH Pension Fund Annual Report

The Service Head, Corporate Finance, Resources introduced the item and having clarified points raised in respect of the rationale for the increase in administration charges over the last 12 month recorded period, it was **RESOLVED** that the report be noted.

5.2 Investment Panel Report

The Chief Financial Strategy Officer introduced the report and detailed the work undertaken with Investment Fund Managers to ensure that performance continued to improve. The transfer of investments to other Fund Managers was outlined and Members were invited to attend a forthcoming meeting with the Investment Fund Managers. Invitations would be forwarded by Resources.

Subsequent to this, it was **RESOLVED** that the report be noted.

5.3 Early Retirement Outturn Report

Having been advised of the possible negative impact upon the Pension Fund of possible staff re-organisations it was **RESOLVED** that the report be noted.

6. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

None was raised.

The meeting ended at 7.47 p.m.

Chair, Councillor Anwar Khan
Pensions Committee

Agenda Item 6.1

COMMITTEE: Pensions Committee	DATE: 18 November 2010	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director of Resources		TITLE: Report on LGPS (Management and Investment of Funds) Regulation 2009		
ORIGINATING OFFICER(S): Oladapo Shonola – Chief Financial Strategy Officer		Ward(s) affected: N/A		

Lead Member	
Community Plan Theme	All
Strategic Priority	One Tower Hamlets

1. SUMMARY

- 1.1 This report outlines the requirements of the Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulation 2009 which came into effect on 01 January 2010, and its impact on the operation of Pension Fund assets.
- 1.2 The regulations are primarily good housekeeping as it consolidates the LGPS (Management and Investment of Funds) Regulation 1998 with the numerous instruments which have amended them since they were made and also to update the 1998 Regulation.

2. DECISIONS REQUIRED

- 2.1 Members are recommended
 - 2.1.1 To approve the operation of a separate bank account to hold monies held and received on behalf of the Pension Fund to ensure pension fund cash assets are clearly ring-fenced from other monies of the Council
 - 2.1.2 To agree that pension fund cash assets to continue to be co-mingled with Council Treasury assets to ensure efficient and effective treasury management
 - 2.1.3 To agree to pension fund cash assets being invested on co-mingled basis to ensure that pension fund cash enjoys the same economic rights and return as Council cash assets

3. REASONS FOR DECISIONS

- 3.1 The Council being the administering authority for the London Borough of Tower Hamlets Pension Fund is required to adopt requirements set out in the LGPS (Management and Investment of Funds) Regulation 2009. The majority of the requirements are process that are already in place or do not require the Committee to make a decision.

- 3.2 This report seeks approval to implement the requirements of the Regulation as set out in section 2 above.

4. ALTERNATIVE OPTIONS

- 4.1 The Council as the administering authority for the London Borough of Tower Hamlets Pension Fund is bound by the LGPS (Management and Investment of Funds) Regulation 2009.
- 4.2 Members could chose to take a different approach to the commingling of funds approach set out in section 2 above and have complete separation of pension fund cash assets from Council cash assets for treasury management purposes.
- 4.3 This approach is not considered to be the most efficient as it is likely to increase cost to the Pension Fund and is also likely to yield less return.

5. BACKGROUND

- 5.1 These Regulations are primarily a good housekeeping measure. The existing equivalent regulations, the 1998 Regulations, were made over 10 years ago, have been subject to numerous amendments since, and user have asked for there to be updated and where appropriate clarified.
- 5.2 The Minister also took the opportunity to make more changes that had been suggested by the Chartered Institute of Public Finance and Accountancy (CIPFA), Audit Commission and trade unions representing LGPS scheme members.
- 5.3 Pension Funds in the past have been able to pool and invest pension fund cash assets in line with treasury management strategy. Furthermore, by virtue of 1998 Regulation, the administering authority is allowed to pay the pension fund a specified minimum rate of interest. This was deemed at odds with current legislation because administering authorities tends to be one of the employers participating in the pension fund.
- 5.4 The Regulation (2009) puts this right by the requirement to have a separate bank account and also to ensure equal status is given to pension fund and Council cash assets when co-mingled.
- 5.5 Co-mingling in this sense relates to the pooling of pension fund cash and council cash assets for the purposes of treasury management. Although, assets are pooled, there will be in place robust framework for accounting for the Pension Fund assets being invested and thus the returns on investment too.
- 5.6 The co-mingling process can be likened to a cash unit trust arrangement that the pension fund is invested into, but managed by the Council and would most likely have the larger proportion of assets held by the trust. However, return on investment is shared equally in proportion to percentage of assets held by the investors.

6. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

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

- 7.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (“the 2009 Regulations”) came into force on 1 January 2010, repealing a number of statutory instruments, including the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (“**the 1998 Regulations**”).
- 7.2 In terms of the management of the pension fund, the 2009 Regulations –
- Specify sums which the Council as an administering authority must pay or credit to and may pay from the pension fund which it administers.
 - Places a restriction on the extent to which the Council may borrow where the borrowing is to be repaid out of the pension fund. The Council may only borrow by way of temporary loan or overdraft from a bank sums required for paying benefits due under the scheme or to meet investment commitments arising from the implementation of a decision to change the balance between different types of investment. The Council may only do this if at the time of borrowing it reasonably believes that the sum can be repaid within 90 days of the date of the borrowing. The Council is required to pay interest on pension fund money used to repay borrowings.
 - Requires the Council from 1 April 2011 to hold monies for the purposes of the pension fund in a separate bank account.
- 7.3 In terms of investments for the pension fund, the 2009 Regulations –
- Provide that the Council may, in accordance with the 2009 Regulations, appoint one or more investment managers to manage and invest fund money, or any part of such money on its behalf.
 - Specify the terms on which the Council must appoint investment managers.
 - Require the Council to keep an appointed investment manager’s performance under review.
 - Require the Council to formulate a policy for the investment of its fund money, to invest fund money that is not needed immediately to make payments from the fund, obtain advice at reasonable intervals about its investments and consider such advice in taking steps in relation to its investments.
 - Require the Council, after consultation, to prepare, maintain and publish a written statement of the principles governing its decisions about the investment of fund money.
 - Places restrictions on the types of investments the Council may make.
- 7.4 The provisions in the 2009 Regulations about investments reflect the previous contents of the 1998 Regulations.

8. ONE TOWER HAMLETS CONSIDERATIONS

- 8.1 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.
- 8.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

10. RISK MANAGEMENT IMPLICATIONS

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

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

12. EFFICIENCY STATEMENT

- 12.1 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.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

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

Brief description of "background papers"

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

*LGPS (Management & Investment of Funds) Regulation
2009, Explanatory Memorandum to Regulation*

*Oladapo Shonola Ext. 4733
Mulberry Place, 4th Floor.*

Agenda Item 6.2

COMMITTEE: Pensions Committee	DATE: 18 November 2010	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director of Resources	ORIGINATING OFFICER(S): Alan Finch – Service Head, Corporate Finance		TITLE: Report on Absolute Return Manager Interviews	
			Ward(s) affected: N/A	

Lead Member	
Community Plan Theme	All
Strategic Priority	One Tower Hamlets

1. SUMMARY

- 1.1 This report summarises the outcome of the interviews that were conducted to appoint an absolute return manager for the Pension Fund.

2. DECISIONS REQUIRED

- 2.1 Members are recommended to agree that Ruffer LLP and Baillie Gifford may be appointed to manage absolute manager portfolios for the Fund and that £70m (£35m each) be transferred from cash held and existing equity holdings to fund the mandates.
- 2.2 The contracts referred to in 2.1 are to be completed to the satisfaction of the Assistant Chief Executive (Legal Services).

3. REASONS FOR DECISIONS

- 3.1 The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulation 2009 requires an administering authority to invest fund money that is not needed immediately to make payments from the Pension Fund.
- 3.2 The Pension Committee is charged with meeting the duties of the Council in respect of investing pension fund assets having taken professional advice. Therefore it is appropriate that the Committee approves the appointment of investment managers.

4. ALTERNATIVE OPTIONS

- 4.1 The Council may invest the funds itself and may choose not to appoint an investment manager, but this approach is highly risky given the nature of the financial markets and depth of knowledge/specialism required to manage an absolute mandate.

5. BACKGROUND

- 5.1 The Investment Panel agreed at its 5th August meeting that officers should proceed with the tendering and selection of an absolute return manager as part of an overall desire to diversify the investment strategy.
- 5.2 The existing manager structure has become quite specialised with individual managers focussing on their own area of expertise. This means that there is little management of cross asset class positions, e.g. equities versus bonds.
- 5.3 Investment managers have in the past struggled to judge when to switch allocation between assets, but the biggest restriction is in the inability of managers to switch between asset classes. Given the current economic environment, with markets likely to remain very volatile, the Panel decided that it would be beneficial to have a manager who can seek to exploit any relative price movements in various asset classes. An absolute return mandate will be able to do this.
- 5.4 The key mandate parameters were set as follows:
- A multi-asset absolute return mandate, representing approximately 10% (£70m) of the Fund
 - Expected benchmark of 3% (or higher) above 3 month sterling LIBOR over a 3-5 year rolling period; and
 - Managers and their investment strategies will need to be able to comply with appropriate LGPS regulations.
- 5.5 The contract was tendered in accordance with European Union procurement legislation through. A Contract Notice was placed in the Official Journal of the European Union (OJEU), requesting that managers who wished to participate in the selection exercise complete Pre Qualification Questionnaire (PQQ).
- 5.6 41 managers requested PQQs, with 30 responses received by the agreed deadline. From the list of 30 responses, 10 managers were selected to complete detailed Request for Proposals (RfP). All ten managers submitted completed RfPs by the agreed deadline.
- 5.7 Following a review of RfP submissions, the following four managers were short listed for interview:
- Baillie Gifford & Co
 - Newton Asset Management
 - Ruffer LLP Investment Management
 - Standard Life Investments
- 5.8 The Panel agreed at its 5 August meeting that the interviews be conducted by a board of officers and the two professional advisers to the Pension Fund. The interviews were duly conducted and attended by all four managers on 20 October.
- 5.9 The four presentations were assessed broadly against these 3 categories:
- Quality of Presentation

- Ability to Answer Questions
 - Demonstration of Understanding of Process
- 5.10 All four managers presented well, but after evaluating the scores for each individual manager based on the advertised pre-determined evaluation criteria, the board recommend the appointment of Ruffer and Baillie Gifford, and for each manager to manage 5% (£35m) of Fund assets, splitting the 10% allocation to absolute return equally.
- 5.11 These appointments will provide access to Ruffer's absolute return focus and to the opportunities within the Baillie Gifford Fund. The board also believes that the governance of the structure will not be significantly increased by splitting the mandate since Baillie Gifford already manages a global equity mandate for the Fund. The fee basis offered by Baillie Gifford also makes this option appealing.

6. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

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

- 7.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 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.
- 7.2 The Council does not have to invest the fund money itself and may appoint one or more investment managers. The 2009 Regulations specify pre-conditions to the appointment of an investment manager. The Council must have taken proper advice in relation to the appointment. The Council must reasonably believe that the investment manager's ability in and practical experience of financial matters makes that investment manager suitably qualified to make investment decision for it. The investment manager must not be an employee of the Council. The Council must be satisfied that there will be an adequate number of investment managers and that the value of fund money to be managed by an investment manager is not disproportionate compared to the amount to be managed by the other investment managers.
- 7.3 The 2009 Regulations specify mandatory terms on which an investment manager must be appointed.
- 7.4 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, on receipt of appropriate advice, to determine whether or not it is necessary to appoint an investment manager and whether such appointment would be in accordance with the 2009 Regulations.

- 7.5 The selection of an investment manager must additionally comply with the Council's procurement procedures and with national legislation and EU law governing public sector procurement. The procedure followed in this case as specified in the report appears to comply with these requirements.

8. ONE TOWER HAMLETS CONSIDERATIONS

- 8.1 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.
- 8.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to residents.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

10. RISK MANAGEMENT IMPLICATIONS

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

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

12. EFFICIENCY STATEMENT

- 12.1 Following an open public tender process in the award of this contract offers the best opportunity to ensure most economically advantageous outcome for the Pension Fund.

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

Brief description of "background papers"

*Summary of Absolute Return Manager Interviews,
Hymans Robertson LLP*

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

*Oladapo Shonola Ext. 4733
Mulberry Place, 4th Floor.*

Agenda Item 6.3

COMMITTEE: Pensions Committee	DATE: 18 November 2010	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director of Resources		TITLE: Report of Investment Panel for Quarter Ending 30 September 2010.		
ORIGINATING OFFICER(S): Alan Finch – Service Head, Corporate Finance		Ward(s) affected: N/A		

Lead Member	
Community Plan Theme	All
Strategic Priority	One Tower Hamlets

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 30 June 2010.
- 1.2 In the quarter to the end of June 2010 the Fund achieved a return of -7.9% which is 1.3% below the benchmark. The twelve month Fund return of 16.2% slightly underperformed the benchmark return at 18.2%. For longer periods, performance continued to lag behind the benchmark with the three years return of -2.2% underperforming the benchmark return of -1.1% by 1.1% and the five years return of 3.8% underperforming the benchmark return of 4.8% by 0.8%.
- 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 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

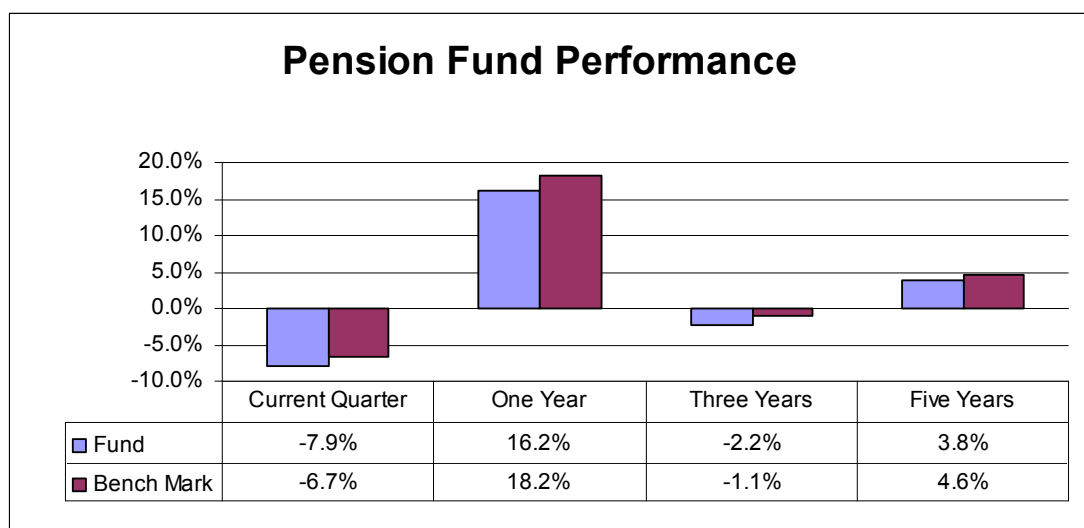
- 4.1 The Pension Fund Regulations requires that the Council establishes arrangements for monitoring the investments of the Pension Fund.

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 30 June 2010.

6 INVESTMENT PERFORMANCE

- 6.1 The Fund achieved a return of -7.9% which is 1.3% below the benchmark.
- 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	177.0	26.0	25.0	1.0	29 Apr 2005
Baillie Gifford	Global Equity	119.7	17.6	16.0	1.6	5 Jul 2007
Martin Currie*	UK Equity	81.0	11.9	12.0	-0.1	17 Jan 2006
Aberdeen (Equities)	UK Equity	63.9	9.4	10.5	-1.1	6 Jul 2007
Aberdeen (Bonds)**	Bonds	50.8	7.5	7.0	0.5	28 Feb 2006
Investec Bonds	Bonds	94.5	13.9	14.0	-0.1	26 Apr 2010
Schroder	Property	87.0	12.8	12.0	0.8	30 Sep 2004
Record	Currency	5.6	0.8	1.5	-0.7	2 Sep 2008
Auriel	Currency	0.0	0.0	2.0	-2.0	2 Sep 2008
Total		679.3	100.0	100.0	0.00	

** 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 £679.3 million held by the managers has fallen by £69.4 million (9.3%) over the quarter.

7.3 The performance of the individual managers relative to the appropriate benchmarks over the past five years 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	0.30%	-0.80%	-0.30%	-0.40%
Baillie Gifford	1.20%	5.10%	2.20%	
Martin Currie	-3.70%	-4.90%	-2.60%	-3.40%
Aberdeen (Equities)	2.60%	4.60%	-1.30%	
Aberdeen (Bonds)*	-1.40%	0.30%	-0.50%	-0.10%
Investec Bonds	-4.30%			
Schroder	-1.70%	-3.50%	-0.80%	0.40%
Record	-17.60%	-36.90%	-26.80%	
Auriel	2.20%	2.80%	-17.60%	
Total Variance (Relative)	-1.30%	-1.60%	-1.10%	-0.80%

7.4 GMO's performance was ahead of benchmark over the quarter. Exposure to the equity markets of Greece, Portugal and Spain had a detrimental impact on performance. However outperformance came from the portfolio's allocation to high quality US stocks as investors became attracted to these stocks due to reduced appetite for risk. Performance over the longer term remains modestly behind benchmark.

- 7.5 **Baillie Gifford** continues to perform strongly, with the outperformance over the quarter at 1.2%, which puts performance over 12 months 5.1% ahead of benchmark. The fund benefited from a mix of holdings in the quarter. Some of the contributors to outperformance include temporary power supplier Aggreko, the elevator manufacturer Schindler and Richemont who luxury brands such as Cartier and Montblanc.
- 7.6 **Martin Currie** performance continued to disappoint with the portfolio underperforming the FTSE All Share index by 3.7% leaving performance over twelve months, 3 years and since inception all significantly below benchmark. This manager has now been replaced and its asset allocation transferred to Legal & General under the newly awarded passive manager mandate.
- 7.7 **Aberdeen (UK Equities)** outperformed the FTSE All Share index over the quarter by 2.6%. Although 12 month performance is ahead of benchmark, longer term performance remains poor. This manager has now been replaced and its asset allocation transferred to Legal & General under the newly awarded passive manager mandate.
- 7.8 **Aberdeen (Bonds)** Performance was significantly below benchmark. Assets held have now been transitioned to Legal and General.
- 7.9 **Schroder (property)** There has been a drag on overall return from the portfolio on account of the costs associated with transaction volumes. Cash within the fund has been reduced and holdings acquired have been outperforming. As well as the costs of transactions, the holding of cash itself has been detrimental as the property market has recovered and outperformed cash. Of the approximately £20m of cash given to Schroders, 90% has now been invested or committed. Performance over the year has also been impacted by the underperformance of the Continental European Fund (performance has lagged the recovery in the UK) and also by the impact of currency exchange rates.
- 7.10 **Investec (Bonds)** Performance since inception on 26 April has been disappointing, underperformance has been driven by a sharp sell off in corporate bonds. Going forward Investec remain modestly defensively positioned in government bonds.
- 7.11 **Record** performance was disappointing in quarter 2 as high interest rate countries selected by both their strategies underperformed their low interest rate counterparts, particularly in May and June. Losses were mainly due to strengthening Yen versus the Australian dollar and Swiss franc strengthening against Sterling.
- 7.12 **Auriel** The final month of performance was strong relative to the benchmark but the Auriel fund's longer term track record remains disappointing. The Fund has withdrawn all funds that from Auriel.

8 **ASSET ALLOCATION**

8.1 The allocation of investments between the different asset classes was determined in conjunction with the Council's 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 in 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 is 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 30 June 2010 are as set out below:

Table 4: Asset Allocation

	Benchmark 30 Sep 2010	Fund Position	Variance as at 30 Sep 2010	Variance as at 31 Mar 2010
	%	%	%	%
UK Equities	26.5%	26.1%	-0.4%	1.1%
Global Equities	37.0%	37.2%	0.2%	1.0%
Total Equities	63.5%	63.3%	-0.2%	-2.1%
Property	12.0%	11.7%	-0.3%	1.1%
UK Bonds	13.6%	13.6%	0.0%	-0.7%
Overseas Bonds	0.0%	0.0%	0.0%	-2.0%
UK Index Linked	7.4%	7.4%	0.0%	-1.3%
Cash	0.0%	3.2%	3.2%	2.8%
Currency	3.5%	0.8%	-2.7%	0.1%
Total Equities	100.0%	100.0%	0.0%	0.0%

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 2009 require 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 policy in relation to its investments and a Statement of Investment Principles. The Council is required to take advice about its investments.
- 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.

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 2nd 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, 4th Floor.*

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Agenda Item 6.4

COMMITTEE: Pensions Committee	DATE: 18 November 2010	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director of Resources		TITLE: 2009/10 Local Government Pension Fund Annual Report		
ORIGINATING OFFICER(S): Oladapo Shonola – Chief Financial Strategy Officer		Ward(s) affected: N/A		

Lead Member	
Community Plan Theme	All
Strategic Priority	One Tower Hamlets

1. **SUMMARY**

- 1.1 This report asks the Committee to note the Pension Fund Annual Report.

2. **DECISIONS REQUIRED**

- 2.1 Members are recommended
- 2.1.1 To note the attached Pension Fund Annual 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 present the audited 2009/10 pension fund annual report before members prior to publication.

4. **ALTERNATIVE OPTIONS**

- 4.1 The final pension fund annual report is presented to Members following the conclusion of the audit carried out by the Council's external auditors, the Audit Commission.

5. **BACKGROUND**

- 5.1 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.
- 5.2 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).
- 5.3 The Pension Fund Accounts audited by the Council's external auditors, the Audit Commission is now complete and the final report is attached.

5.4 Communities and Local Government (CLG) have introduced an additional requirement for Councils to publish before the 1st December 2010 an annual report which incorporates elements of the financial accounts. The pension fund annual report will be published after it has been presented to this Committee.

5.5 The Accounts are essentially the same as those presented to Committee on 5 August other than for minor adjustments to classification of assets and the inclusion of member training statistics. Pension fund asset value remains the same as what was reported on 5 August.

6. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

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

7.1 Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008 imposes a duty on the Council as an administering authority to prepare a pension fund annual report.

7.2 The report should deal with the following matters:

- (a) management and financial performance during the year of the pension;
- (b) an explanation of the investment policy for the fund and a review of performance;
- (c) a report on arrangements made during the year for administration of the fund;
- (d) a statement by an actuary who carried out the most recent valuation of the fund and the level of funding disclosed by that valuation;
- (e) a Governance Compliance Statement;
- (f) a Fund Account and Net Asset Statement;
- (g) an Annual Report dealing with levels of performance and any other appropriate matters;
- (h) the Funding Strategy Statement;
- (i) the Statement of Investment Principles;
- (j) statements of policy concerning communications with members and employing authorities; and

(k) any other material which the authority considers appropriate.

8. ONE TOWER HAMLETS CONSIDERATIONS

8.1 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.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

10. RISK MANAGEMENT IMPLICATIONS

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

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

11.1 There are no any Crime and Disorder Reduction implications arising from this report.

12. EFFICIENCY STATEMENT

12.1 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.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

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

Brief description of "background papers"

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

None

N/A

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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)

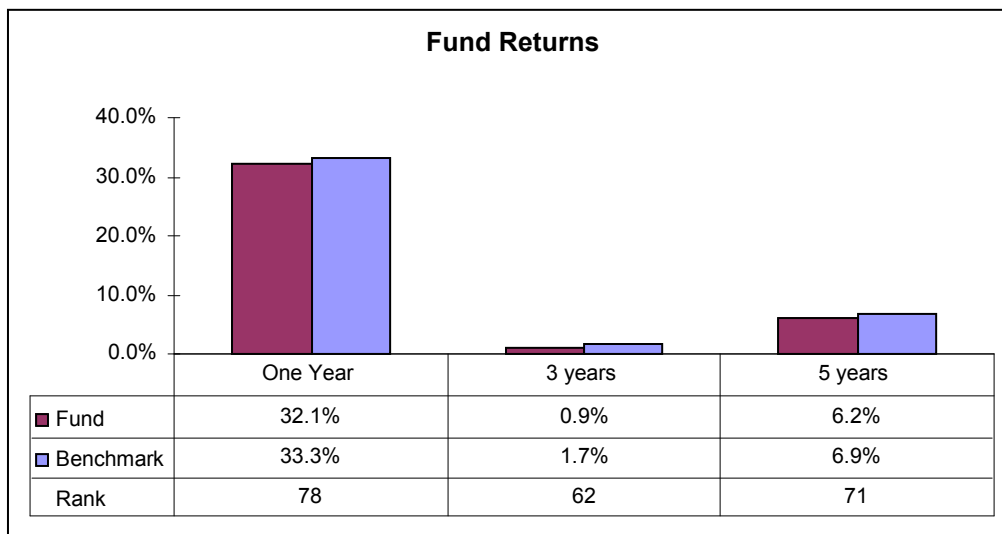
David O'Hara, Hymans Robertson

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.

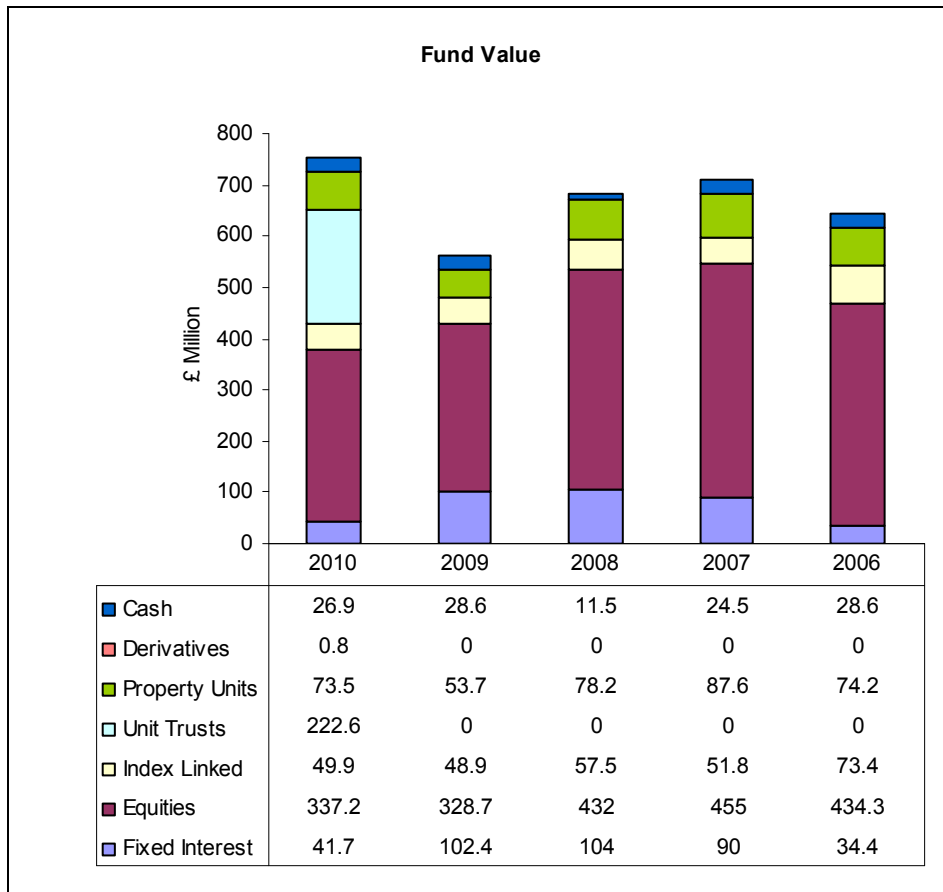
Both the passive and absolute return mandates are new asset classes within the overall Fund structure.

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.

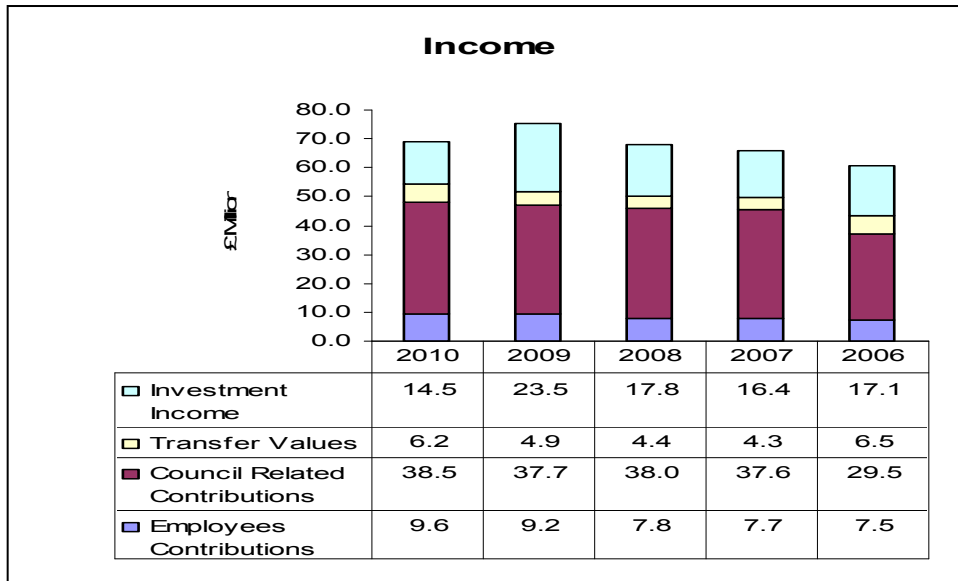
All investment activity is regulated by the Council’s Statement of Investment Principles which together with the Myners Compliance Statement set out in Appendix 2.

Financial Accounts

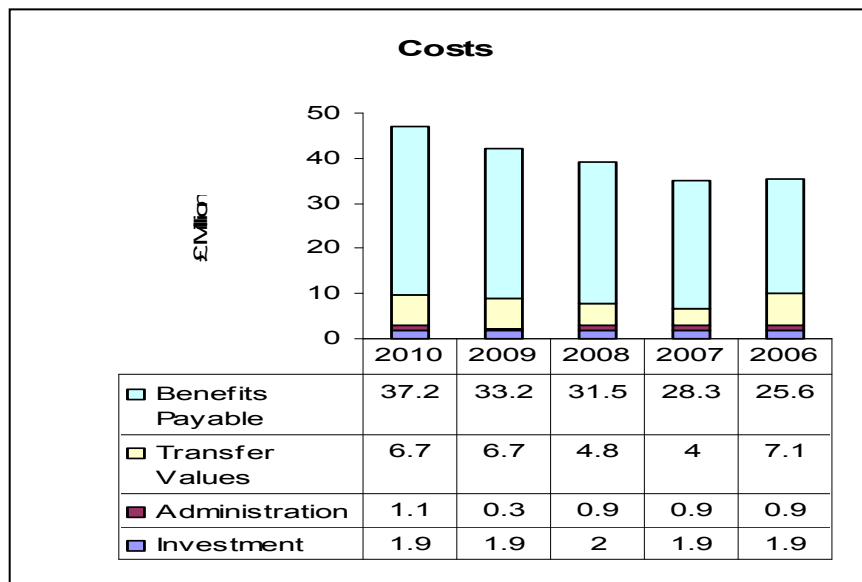
During the financial year 2009/10 the value of the Fund increased by £190m. The change in the value of the fund is principally attributable to the performance of the financial markets in which the Council holds its investments. The “cash” sum includes the amount held by managers and the Council (£25.5m) 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.

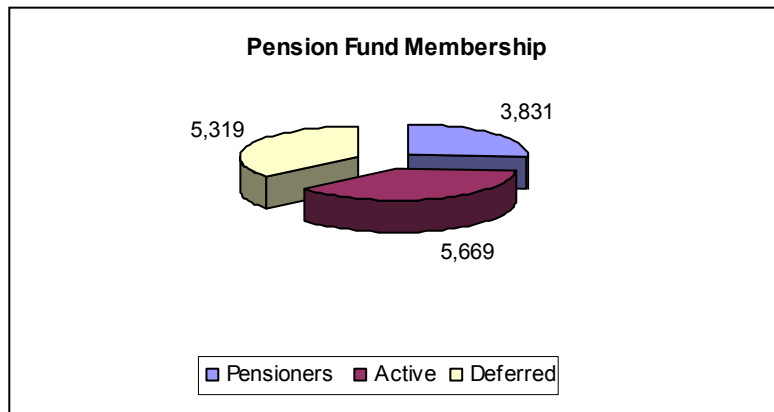


Over the year costs have increased by £4.8 million (11%). The increase is principally attributable to an increase in the benefits payable of £4 million (12%). The administration costs of £1.1m have remained low as a proportion of the total expenses (2.3%).



Pension Fund Accounts and Report 2009/10

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.

Pension Fund Accounts and Report 2009/10

Statement from the Actuary

An actuarial valuation of the London Borough of Tower Hamlets Pension Fund was carried out by Hymans Robertson LLP as at 31 March 2007 to determine the contribution rates that should be paid into the Fund by the employing authorities as from 1 April 2008 to 31 March 2011 in order to maintain the solvency of the Fund.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets represented 78% of the Funding Target and the estimated deficit on the Fund at the valuation date was £205m. The Actuary has determined that the deficit can be recovered over a period of 20 years and the agreed monetary contributions to recover the deficit for the term of the revaluation is £12.5m. The monetary contributions in the years ending 31 March 2010 and 31 March 2011 are required to increase at the rate of RPI plus 1.5% p.a.

The Common Rate of Contribution payable by each employing authority under Regulation 77 for the period 1 April 2008 to 31 March 2011 is 24.9% of pensionable pay.

Individual Adjustments are required under Regulation 77 for the period 1 April 2008 to 31 March 2011 resulting in a Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

Employer Name as at 31 March 2007	Year ending 31 March 2009	Minimum Contribution for the year ending				
		Additional Monetary Deficit Payment £m	Year ending 31 March 2010	Additional Monetary Deficit Payment £m	Year ending 31 March 2011	Additional Monetary Deficit Payment £m
London Borough of Tower Hamlets	15.8%	12.5	15.8%	12.5	15.8%	12.5
London Online						
Tower Hamlets Community Housing Limited	30.3%		30.3%		30.3%	
Redbridge Community Housing Limited	17.7%		17.7%		17.7%	
East End Homes Limited	21.8%		21.8%		21.8%	
Greenwich Leisure Limited	15.9%		15.9%		15.9%	
Swan Housing Association Limited	24.0%		24.0%		24.0%	
Bethnal Green & Victoria Park Housing Association Limited	20.5%		20.5%		20.5%	
Toynbee Island Homes Limited	20.6%		20.6%		20.6%	
Notes						
The deficit applicable to London Online has been pooled with the London Borough of Tower Hamlets						

In addition to the certified contribution rates, payments to cover the additional liabilities arising from early retirements (other than ill-health) will be made to the Fund by the employers.

The next triennial valuation of the Fund is due as at 31 March 2010. The contribution rates payable by the individual employers will be revised with effect from 1 April 2011.

Pension Fund Accounts and Report 2009/10

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 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
FUND ACCOUNT			
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions			
From employers	3	38,455	37,755
From members	3	9,612	9,164
Transfers in			
Individual transfers in from other schemes		6,214	4,862
Benefits			
Pensions	4	(28,510)	(26,685)
Lump sum benefits	4	(8,692)	(6,495)
Payments to and on account of leavers			
Refunds of contributions		(6)	(6)
State scheme premiums		6	(30)
Individual transfers out to other schemes		(6,692)	(6,679)
Administrative expenses	14	(1,075)	(326)
NET ADDITIONS FROM DEALINGS WITH MEMBERS		9,312	11,560
RETURN ON INVESTMENTS			
		2009/2010 £'000	2008/2009 £'000
Investment income	11	14,527	23,535
Change in market value of investments			
Realised		3,999	(81,917)
Unrealised	10	164,201	(72,192)
Investment management expenses	15	(1,871)	(1,875)
NET RETURN ON INVESTMENTS		180,856	(132,449)
Net increase in the Fund during the year		190,168	(120,889)
Add: Opening net assets of the scheme		562,333	683,222
CLOSING NET ASSETS OF THE SCHEME		752,501	562,333
NET ASSETS STATEMENT AS AT 31ST MARCH			
		2010 £'000	2009 £'000
Investments Assets			
Fixed interest securities			
Public sector		40,659	54,006
Other		1,071	48,441
Equities		337,215	328,666
Index linked securities			
Public sector		49,898	48,922
Pooled Investment Vehicles			
Unit Trusts		222,597	23,887
Property		73,458	53,668
Derivative Contracts			
Forward Foreign Exchange Contracts		774	0
	10	725,672	557,590
Cash deposits	6	19,606	6,892
Other investment balances	5	4,213	10,833
Investments Liabilities			
Other investment balances	5	(2,116)	(8,920)
Current Assets			
	5	5,851	114
Current Liabilities			
	5	(725)	(4,176)
TOTAL NET ASSETS		752,501	562,333

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31st March 2010. An explanation of the Actuarial position may be found in Note 13 and also in the Pension Fund Annual Report.

Pension Fund Accounts and Report 2009/10

NOTES TO THE PENSION FUND ACCOUNTS

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.

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) Pooled Investment Vehicles are valued at bid price, middle market price or single price at close of trading 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) Investments designated in foreign currencies are valued in sterling at the exchange rates ruling on the 31st March 2010.

(vi) Foreign exchange contracts are recognised in the net asset statement at their fair value. The amounts included in the accounts represent realised gains or losses on closed contracts and unrealised gains or losses on forward contracts.

(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.

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
Total members	9,612	9,164
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
Total employers	38,455	37,755
Total contributions	48,067	46,919

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

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

6. CASH

The cash balance can be further analysed as follows:

	2009/2010	2008/2009
	£000	£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
TOTAL CASH	19,606	6,892

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

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 18th 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

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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)	6,199	145,712	3
Aberdeen Asset Management - Derivatives	0	33,997	(33,997)	64	64	0
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
	557,590	274,762	(270,881)	164,201	725,672	50

A further analysis of investments assets is as follows.

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

Derivative Contracts

The fund managers GMO UK Ltd and Aberdeen Asset Management are permitted to use forward foreign exchange contracts to mitigate the effect on returns of appreciation or depreciation of Sterling against the local currencies of the assets held or to adjust the foreign currency exposure of the portfolio. The only derivative contracts held at 31st March 2010 were forward foreign exchange contracts.

The derivative contracts held are Forward Foreign Exchange Contracts. These are over-the-counter contracts whereby two parties agree to exchange currencies on a specified future date at an agreed rate of exchange. They are used to manage economic exposure to markets.

The amounts included in the accounts represent the unrealised gains or losses arising from the closing out of the contract at the reporting date. The market value of the contracts is represented by the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

Forward Foreign Exchange Contracts

	Sterling value of obligation on purchase or sale date	Sterling value of equal and opposite obligation at 31 March 2010	Gains/(losses) on Contract
	£000	£000	£000
Currency contracted to purchase	(45,640)	47,492	1,852
Currency contracted to sell	46,646	(47,724)	(1,078)
Net Position	1,006	(232)	774

Contract	Manager	Expiration	Gain/Loss on Contract
			£000
Australian Dollar Foreign Currency	GMO UK Ltd	April 2010	(29)
Canadian Dollar Foreign Currency	GMO UK Ltd	April 2010	323
Danish Krone Foreign Currency	GMO UK Ltd	April 2010	(2)
Euro Foreign Currency	GMO UK Ltd	April 2010	(266)
Hong Kong Dollar Foreign Currency	GMO UK Ltd	April 2010	11
Japanese Yen Foreign Currency	GMO UK Ltd	April 2010	8
Norwegian Krone Foreign Currency	GMO UK Ltd	April 2010	7
Singapore Dollar Foreign Currency	GMO UK Ltd	April 2010	(112)
Swedish Krona Foreign Currency	GMO UK Ltd	April 2010	214
Swiss Franc Foreign Currency	GMO UK Ltd	April 2010	481
US Dollar Forward Currency	GMO UK Ltd	April 2010	75
US Dollar Forward Currency	Aberdeen Asset Management	April 2010	64
			774

Realised gains were made on foreign exchange contracts in the year amounting to £0.684m. These were achieved by GMO (£0.483m) and Aberdeen Asset Management (£0.201m).

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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
TOTAL	14,527	23,535

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)
	752,501	562,333

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:

Financial	Financial	Nominal	Real
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%
Longevity (Longevity (in years))		Male	Female
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

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

15. INVESTMENT MANAGEMENT EXPENSES

	2009/2010	2008/2009
	£000	£000
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:

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

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

3.7.2 Surplus Spreading Periods

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

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

3.7.3 Phasing in of Contribution Rises

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

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

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

5.3 Demographic Risks

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

5.4 Regulatory

Risk		Summary of Control Mechanisms
5.4.1	Changes to regulations e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees	The Administering Authority is alert to the potential creation of additional liabilities and administration difficulties for employers and itself.
5.4.2	Changes to national pension requirements and/or 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

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

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

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 Practice¹ issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Management section of this document, alongside those proposed by the Pension Regulator in the 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.

¹ 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:

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

Explanation of communications

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

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

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

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

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Performance Measurement

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

Timeliness

We will measure against the following target delivery timescales:

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

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Quality

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

Results

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

Review Process

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

Appendix 5

London Borough of Tower Hamlets Pension Fund Governance 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. (20th 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

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Attendances at Pensions Committee 2009/10

Attendees	Voting Rights	Meetings Scheduled				
		23-Apr	11-Jun	13-Aug	19-Nov	17-Feb
Members						
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
Officers						
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
Guest						
Raymond Haines	x	Present				

- 4.1 Training was received by members of the Pensions Committee and Investment Panel on 1st October 2009. Two sessions were provided covering governance and investment strategy. The presentations gave an explanation of how pension funds operate covering areas relating to background, investment strategy, the major asset classes, investment managers and the Fund's finances. The attendance at training sessions is set out in the table below:

Attendances at Training Sessions 2009/10

Attendees **1 Oct**

Members

Cllr Rajib Ahmed	Present
Cllr Dr Emma Jones	Present
Cllr Ahmed Omer	Present

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

5. Updating of Statement

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