TOWER HAMLETS

Meeting of the

PENSIONS COMMITTEE

Thursday, 17 November 2011 at 7.30 p.m.

A G E N D A

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

<table>
<tr><td>Members:

Chair: Councillor Anwar Khan
Vice – Chair: Councillor Zenith Rahman</td><td>Deputies (if any):</td></tr>
<tr><td>Councillor Craig Aston
Councillor Aminur Khan
Councillor Rania Khan
Councillor Ahmed Adam Omer
Councillor Abdal Ullah
Frank West - Non-Voting Member (Trade Union)
John Gray - Non-Voting Member (Admitted Body)</td><td>Councillor Tim Archer, (Designated Deputy representing Councillor Craig Aston)
Councillor David Snowdon, (Designated Deputy representing Councillor Craig Aston)
Councillor Carlo Gibbs, (Designated Deputy representing Councillors Anwar Khan, Abdal Ullah, Zenith Rahman and Ahmed Omer)
Councillor Shiria Khatun, (Designated Deputy representing Councillors Anwar Khan, Abdal Ullah, Zenith Rahman and Ahmed Omer)
Councillor Mohammed Abdul Mukit MBE, (Designated Deputy representing Councillors Anwar Khan, Abdal Ullah, Zenith Rahman and Ahmed Omer)</td></tr>
<tr><td colspan="2">[Note: The quorum for this body is 3 Members].</td></tr>
</table>

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: Antonella Burgio, Democratic Services
Tel: 020 7364 4881, E:mail: antonella.burgio@towerhamlets.gov.uk

LONDON BOROUGH OF TOWER HAMLETS

PENSIONS COMMITTEE

Thursday, 17 November 2011

7.30 p.m.

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST (Pages 1 - 2)

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

3. UNRESTRICTED MINUTES (Pages 3 - 8)

To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting of the Pensions Committee held on 21 July 2011.

4. PETITIONS

To receive any petitions

5. MEMBER TRAINING

To receive training on the impact of the Hutton review and the implications of the Government's spending review on cash flow and fund maturity.

6. UNRESTRICTED REPORTS FOR CONSIDERATION

6 .1 2010/11 Local Government Pension Fund Annual Report (Pages 9 - 86)

To receive and consider the audited final Pension Fund Statement of Accounts.

6 .2 Hutton Commission Report (Pages 87 - 94)

To receive an update on the work of the Hutton Commission.

6 .3 **Report of Investment Panel for Quarter Ending 30 June 2011** (Pages 95 - 100)

To receive a report of the activities of the Investment Panel, and the performance of the Fur and its investment managers for the period ending 30 June 2011.

6 .4 **Review of Internal Control Report** (Pages 101 - 104)

To receive a report on the findings of a review of the adequacy of internal control measures put in place by the pension fund managers.

7. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

8. EXCLUSION OF PRESS AND PUBLIC

In view of the contents of the remaining items on the agenda, the Committee is recommended to adopt the following motion:

"That, under the provisions of Section 100A of the Local Government Act, 1972 as amended by the Local Government (Access to Information) Act, 1985, the Press and Public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government, Act 1972".

EXEMPT/CONFIDENTIAL SECTION (PINK)

The Exempt / Confidential (Pink) Committee papers in the Agenda will contain information, which is commercially, legally or personally sensitive and should not be divulged to third parties. If you do not wish to retain these papers after the meeting, please hand them to the Committee Officer present.

8 .1 **Academy Conversion - Recovery of Deficit** **105 - 180**

To consider an urgent report on the implications of academy conversion on the Pension Fund.

SPECIAL CIRCUMSTANCES AND REASONS FOR URGENCY

- The report was unavailable for public inspection within the standard timescales set out in the Authority's Constitution, because of unavoidable delays in obtaining detailed information required to commission the Actuary's Report.

- The report could not be delayed until the next sitting of the Pension Committee as two LBTH maintained schools are planning to convert to academy status on 1st December 2011 and 1st January 2012 and agreement is required on the applicable deficit recovery period prior to the conversion dates.
- These dates have been agreed between the schools and the Secretary of State and the Authority would need to explain to the Secretary of State why it cannot achieve them.

To consider an urgent report on the implications of academy conversion on the Pension Fund.

DECLARATIONS OF INTERESTS - NOTE FROM THE CHIEF EXECUTIVE

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

Declaration of interests for Members

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

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

(a) An interest that you must **register**

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

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

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

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

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

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

i. You must declare that you have a prejudicial interest, and the nature of that interest, as soon as that interest becomes apparent to you; and

ii. You must leave the room for the duration of consideration and decision on the item and not seek to influence the debate or decision unless (iv) below applies; and

iii. You must not seek to improperly influence a decision in which you have a prejudicial interest.

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

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6.30 P.M. ON THURSDAY, 21 JULY 2011

C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE

Members Present:

Councillor Anwar Khan (Chair)
Councillor Craig Aston
Councillor Zenith Rahman
Councillor Abdal Ullah
Councillor Ahmed Adam Omer

Other Councillors Present:

Frank West

Officers Present:

Oladapo Shonola	–	(Chief Financial Strategy Officer, Resources)
Peter Hayday	–	(Interim Service Head, Financial Services, Risk and Accountability)
John Williams	–	(Service Head, Democratic Services, Chief Executive's)
Antonella Burgio	–	(Democractic Services)

1. ELECTION OF VICE-CHAIR FOR THE MUNICIPAL YEAR 2011/2012

Councillor Abdal Ullah nominated Councillor Zenith Rahman to serve as Vice-Chair of the Committee for the remainder of the Municipal Year. The nomination was seconded by Councillor Ahmed Omer

There being no further nominations, it was

RESOLVED

That Councillor Zenith Rahman be elected Vice-Chair of the Pensions Committee for the remainder of the Municipal Year 2011/12.

2. APOLOGIES FOR ABSENCE

No apologies for absence were received.

3. DECLARATIONS OF INTEREST

No declarations of personal or prejudicial interests were made.

4. UNRESTRICTED MINUTES

The Chair **MOVED** and it was

RESOLVED

That the unrestricted minutes of the ordinary meeting of the Pensions Committee held on 18 November 2010 be approved and signed by the Chair, as a correct record of the proceedings.

5. PETITIONS

Nil items.

6. UNRESTRICTED REPORTS FOR CONSIDERATION

7. PENSION COMMITTEE TERMS OF REFERENCE, MEMBERSHIP AND QUORUM

John Williams, Service Head, Democratic Services, introduced the report which set out the terms of reference, membership and quorum of the Pensions Committee for the municipal year 2011/12.

Members were asked to note that, this year, the membership of the Committee had been determined in accordance with the Constitution Working Party's recommendations which had been adopted by Council in April 2010, that:

- political proportionality arrangements be upheld;
- 1 Admitted Body and 1 Trade Union representative be invited to join the Committee on a non-voting basis. Members were informed that nominations would be sought from amongst the admitted bodies and trade unions.

Members were also asked to note the schedule of quarterly meetings to be held during the municipal year.

RESOLVED

That the report be noted

8. COMPOSITION OF THE PENSION FUND INVESTMENT PANEL

On 28 July 2004, the Pensions Committee established an Investment Panel to fulfil pension fund regulations. These required that councils have in place arrangements for monitoring the investment activities of professional fund managers to ensure that proper advice is available on investment issues.

Peter Hayday, Interim Service Head, Financial Services, Risk and Accountability introduced the report which informed Members of the current arrangements and asked them to approve that the arrangements be continued.

RESOLVED

1. That the Investment Panel be established
2. That the membership of the Investment Panel comprise: all Members of the Pensions Committee or their designated deputies,
   an investment professional as Chair,
   an Independent Financial Advisor,
   the Corporate Director of Resources or his designated deputy.
3. That up to 2 Trade Union representatives or their designated deputies be appointed to attend Investment Panel meetings as observers
4. that the terms of reference of the Pension Fund Investment Panel as circulated at Appendix 1 of the report be approved

9. REPORT OF INVESTMENT PANEL FOR QUARTER ENDING 31 DECEMBER 2010

Peter Hayday, Interim Service Head, Financial Services, Risk and Accountability provided the following background to local government pensions. The Council's pension fund was governed by Local Government Pension Fund rules. In common with other local authorities, it was anticipated that, in the long term, payments from the fund would exceed its assets (hence the Government's Hutton enquiry). To address the deficit position, 3 options were available:

Increase employer contributions
Increase employee contributions
Improve investment return from the fund (this option would be difficult in the present unfavourable economic conditions)

Funds held by the London Borough of Tower Hamlets Pension Fund (LBTHPF) were divided amongst 7 Investment Managers and the Pensions Committee received advice on how it should be invested.

Members were referred to Table 2 of the report, which indicated how the Pension Fund was distributed in the quarter ending December 2010, and Table 3, which indicated fund manager investment performance relative to benchmark in the quarter to December 2010, over 1 year, 3 years and 5 years. The Committee was advised that since pensions were long term investments, short term performance was not a good indication of overall performance. Members were recommended to assess how investment managers had performed over half yearly periods, to analyse trends and to look for positive movements. If lack of performance was observed, the fund advisors (Hymans Robertson) would advise what options were available and their implications for LBTHPF.

Paragraph 7.3 informed the Committee that new absolute return mandates (short-term unrestricted investments for the purpose of preserving/enhancing overall fund value during different assets cycles) were added to the portfolio in quarter 1, 2011. It was agreed that the allocation to absolute returns would be 10% of the LBTHPF assets.

In response to questions, the Committee received the following information:

- At the last actuarial assessment in 2010, the sum of LBTHPF deficit was £300m.
- The Council agreed, as part of its budget setting process, to increase employer contributions over the next 3 years by £1.25m. From this it anticipated that the deficit would be closed over the period of the next 20 years. This position would be reviewed at the next actuarial review in March 2013.
- The Government intended to pursue the Hutton Review to mitigate the projected rise in the cost of public sector pensions to taxpayers.
- In regard to whether the differences in projected and actual fund performance would be smoothed over the course of the financial year, the Committee was informed that fund monitoring would take place to track that actual performance followed projected performance as closely as possible.

RESOLVED

That the report be noted.

10. REPORT ON USE OF DERIVATIVES

The report was presented, by Oladapo Shonola Chief Financial Strategy Officer, on the recommendation of the Audit Commission, to ensure that the Committee was aware of the possible issues of the fund managers' performance, and were able therefore, to interrogate fund managers such that they could satisfy themselves on the risks that the fund might be exposed to. The report illustrated how derivative contracts were used by investment managers to minimise the exposure of pension fund assets to currency risk and to ensure optimum portfolio efficiency.

It was noted that derivative trading was not used for profit purposes but to limit risk of loss due to currency fluctuations and that the risk range was defined to within certain limits. The derivatives were solely currency derivatives.

In response to questions concerning what alternative back up there was, in accounting terms, to mitigate risks; Members were informed that investment in foreign bonds carried a double risk. However Derivatives Managers used by the Council were not trading in foreign currencies but hedging their position to minimise the effect of currency fluctuations.

RESOLVED

That the report be noted.

11. REPORT ON GOVERNANCE COMPLIANCE AND STATEMENT OF INVESTMENT PRINCIPLES COMPLIANCE

The report was presented under constitutional provisions for special circumstances and urgency as, due competing priorities; it had not been possible to publish the report within the statutory publication deadline. It was necessary that the Committee consider the report and the subject of the report to be agreed before agreeing the account fund, as a further meeting was not scheduled until 11 November 2011, and there was some risk that the Auditor might require the documents.

The Committee was advised that regulations required:

- that the Council to keep under review the written statement prepared and published
- that a statement of investment principles be produced and reviewed and where necessary revised
- where there was a material change in the Council's policy, then the review and revision must take place within six months of the change and the revised statement must be published.

Members were informed that the statement had been revised now incorporating stronger controls; and investment principles had been reviewed and reduced from ten to six.

Members were asked to note the governance compliance statement set out at appendix 1. In regard to the 2 principles where the Council had been assessed as 'partly compliant', the Committee was informed that, in fact, there had been full compliance since admitted bodies had been invited to participate in accordance with governance principles.

RESOLVED

1. That the revised Governance Compliance Statement at Appendix A be approved.
2. That the revised Statement of Investment Principles at Appendix B be approved.

12. ANNUAL PENSION FUND ACCOUNT

This item was deferred to the next scheduled meeting.

Members were informed that the draft account had been passed to the Council's Auditors and was expected to be signed off at the beginning of September.

A copy of the draft report, once passed by the auditors, would then be circulated to Members of the Committee who were invited to submit any questions to the Service Head, Financial Services, Risk and Accountability.

13. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

The Chair agreed to receive questions on LBTHPF from the Committee. Concerning whether Councillors who contributed to the Council's pension scheme should receive an annual statement, the Committee was advised by the Service Head, Financial Services, Risk and Accountability that all members of the scheme should receive an annual statement and agreed to investigate on behalf of any Councillor who had statements outstanding.

Action Service Head, Financial Services, Risk and Accountability

Concerning what the Council was doing to facilitate early take up of pensions resulting from of redundancies, Members were informed that for any who had been granted voluntary redundancy, cost to the council would have informed the basis of the decision whether or not to grant the voluntary redundancy request. Where voluntary (pensionable) redundancies were given, the Council was required to make a lump sum payment into the pension fund to reflect the additional cost of pension being drawn down earlier. Therefore offering earlier (pensionable) redundancies was more costly.

Concerning whether there had been any assessment of who had taken or who might take redundancy in the past year, Members were informed that the approximate value was £10m. Redundancies made this year were taken from reserves set aside for this purpose and also from general fund budgets.

The Council was presently making an assessment for future redundancies in the next 3 year period. The Council had identified a gap and was assessing what the implications of closing this gap were at present.

The Chair informed the Committee that training on Pensions Committee matters was available and details would be circulated by the Chief Financial Strategy Officer.

The meeting ended at 7.29 p.m.

Chair, Councillor Anwar Khan
Pensions Committee

COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.	AGENDA NO.
Pensions Committee	**17 November 2011**	**Unrestricted**		

REPORT OF:	TITLE:
Corporate Director of Resources ORIGINATING OFFICER(S): **Oladapo Shonola – Chief Financial Strategy Officer**	**2010/11 Local Government Pension Fund Annual Report** Ward(s) affected: N/A

Lead Member	**Cllr Alibor Choudhury - Resources**
Community Plan Theme	**All**
Strategic Priority	**One Tower Hamlets**

1. SUMMARY

1.1 This report presents the audited final Pension Fund Statement of Accounts.

1.2 The 2010/11 Pension Fund Statement of Accounts were prepared for the first time under International Financial Reporting Standards (IFRS) rules and are now presented for consideration and approval by the Pensions Committee.

2. DECISIONS REQUIRED

2.1 Members are recommended to:
- approve the attached the Pension Fund Statement of Accounts;
- approve the Pension Fund Annual Report;
- approve the revised Funding Strategy Statement

3. REASONS FOR DECISIONS

3.1 The Local Government Pension Scheme (Administration) Regulation 2008 requires the Authority as the administering body for the London Borough of Tower Hamlets Pension Fund to publish an annual report by 1 December following the year end.

3.2 The publication of the Pension Fund Annual Report and Statement of Accounts helps to keep Fund members informed, shows good governance and also helps to demonstrate effective management of Fund assets.

4. ALTERNATIVE OPTIONS

4.1 The final Pension Fund Annual Report and Statement of Accounts are presented to Members following the conclusion of the audit carried out by the Council's external auditors, the Audit Commission.

4.2 There are no alternative options in so far as the publication of the Statement of Accounts and Annual Reports is a legislative requirement.

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 and agreed by this Committee.

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 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***

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APPENDIX 1

Pension Fund Annual Account and Report 2010-11

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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 continuing recovery in financial markets. The value of the Fund has increased by 8.0% this year which broadly reflects the average return on pension fund assets nationally and also average gains in financial markets. This improvement follows the 32% increase in 2009-10. However, the markets generally are very volatile and as a consequence the short to medium term outlook for the performance of the Fund remains uncertain.

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. After a review of the Fund Strategy four new managers were appointed to invest under 3 different mandates. The changes should ensure even more diversification and preserve the Fund’s assets through different market cycles.

The Coalition Government set up an independent commission headed by Lord Hutton to carry out a review of public sector pension schemes. The Commission completed its work in March 2011 and made 27 recommendations in total, with the main recommendation being for a move away from the existing final salary benefit scheme to a career average structure scheme. In addition the Coalition Government also changed the price inflation for determining pension fund liability from Retail Price Index to Consumer Price Index (CPI). In the longer term these changes have the potential to reduce the future level of Fund liabilities.

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 volatile investment returns which will inevitably impact on funding and employers’ contribution levels. At the same time, the Council continues to face significant budget pressures as a result of the Coalition Government’s austerity measures.

These issues do not affect scheme member entitlements as current legislation 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 Anwar Khan(Chairman) Councillor Craig Aston Councillor Shiria Khatun Councillor Shafiqul Haque Concillor Mohammed Abdul Mukit MBE 2 vacancies
Trade Union Representative (non-voting):	John Gray (Unison)

Investment Advisers
Hymans Robertson
Raymond Haines (Independent Investment Adviser)

Actuarial Services
Hymans Robertson

Custodian
State Street Bank

Investment Performance
WM Company

Investment Managers
Aberdeen Asset Management
Auriel Capital Management Limited
Baillie Gifford
GMO UK Limited
Investec Asset Management
Legal & General Investment Management
Martin Currie Investment Management
Record Currency Management Limited
Ruffer LLP
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 2010-11 the members of the Investment Panel were: -

Investment Panel

Raymond Haines, Independent Adviser (Chairman)
Councillor Anwar Khan
Councillor Craig Aston
Councillor Shiria Khatun
Councillor Shafiqul Haque
Councillor Mohammed Abdul Mukit MBE
2 Vacancies
John Gray (Unison)

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 2010/11 the fund achieved a return on its investment portfolio of 6.8%, although marginally behind the benchmark of 7.2% it remains in line with the average return in the financial markets. It was not expected to see a return comparable with that reported in 2009/10 (32.1%) as the unusually high returns made in that year were due to the upward turn of the stock markets following the credit crisis of 2008-09 when the fund reported a negative return of 18.9%. The returns for longer periods continue to lag the benchmark with both the three and five year returns averaging 0.7% lower than the benchmark.

	One Year	3 years	5 years
Fund	6.8%	4.6%	3.2%
Benchmark	7.2%	5.3%	4.0%
Rank	82	62	66

Fund Management Activity

A restructuring of the Fund was undertaken in 2010/11 to address long term performance issues. The impact of the restructuring is yet to be reflected in performance and this may not be seen until the revised structure has been fully operational for two to three years. The restructuring has involved the appointment of three new managers and a new diversified growth mandate with an existing manager, redistributing the asset classes from active fixed income and UK equities to diversified growth and absolute return funds.

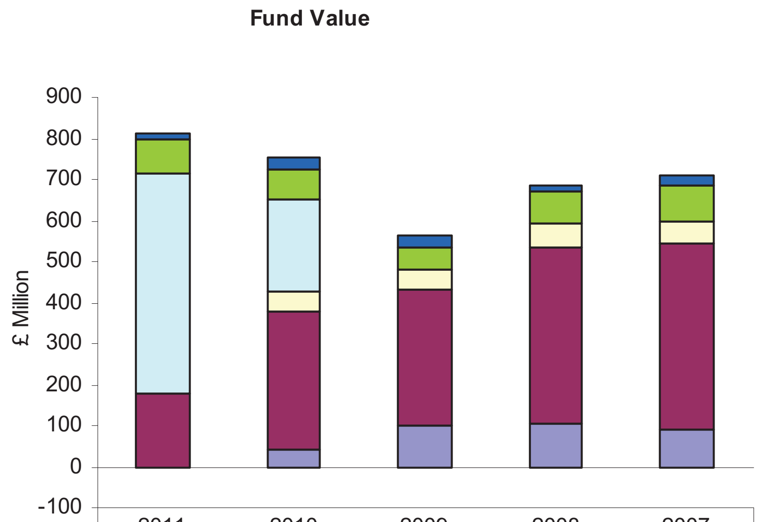
The diversified growth and absolute return mandates are new asset classes within the overall Fund structure.

The Panel also decided to disinvest all of the funds that were held in the currency manager portfolios due to the unsuitability of this type of investment in prevailing market conditions.

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

Financial Accounts

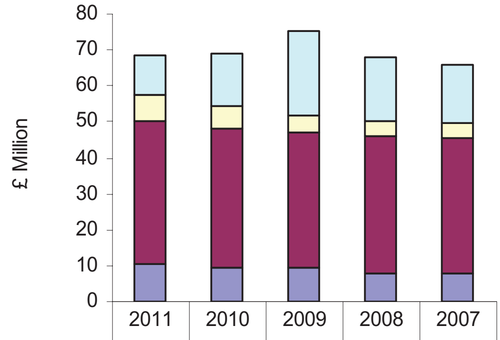
During the financial year 2010/11 the value of the Fund increased by £60m. The change in the value of the fund is principally attributable to the performance of the financial markets in which the Council holds its investments. The "cash" sum includes the amount held by managers and the Council (£13.7m) and working capital (£-0.2m).



	2011	2010	2009	2008	2007
Cash	13.5	26.9	28.6	11.5	24.5
Derivatives	-0.4	0.8	0	0	0
Property Units	86.2	73.5	53.7	78.2	87.6
Unit Trusts	532.8	222.6	0	0	0
Index Linked	0	49.9	48.9	57.5	51.8
Equities	180.1	337.2	328.7	432	455
Fixed Interest	0	41.7	102.4	104	90

The investment income reported for the year shows a decrease of £3.9 million (26.9%). This is due to the investment income earned by the new unit trust funds not being reported but reinvested in the fund by the purchase of additional units. The contribution income has steadily increased over the five year period with employee's contributions rising at a higher rate (33.8%) than that of the employer's (5.6%). There has been a significant increase in the Transfer Values paid in of £3.4m (79%) over the longer period. Transfer values are amount paid over when a fund member transfers their benefits from one fund to another.

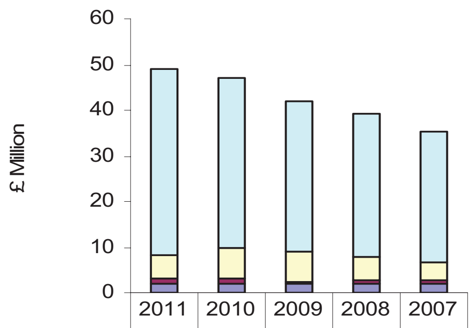
Income



	2011	2010	2009	2008	2007
Investment Income	10.6	14.5	23.5	17.8	16.4
Transfer Values	7.7	6.2	4.9	4.4	4.3
Council Related Contributions	39.7	38.5	37.7	38.0	37.6
Employees Contributions	10.3	9.6	9.2	7.8	7.7

Over the year costs have increased by £2.2 million (4.7%). This increase is principally attributable to a rise in benefits payable of £3.6 million (9.7%). Benefits payable comprise pensions payments and lump sum payments. The pensions paid over the year increased by 3.1% from £28.5m (2009/10) to £29.4m (2010/11), whilst lump sums increased by 31.2% from £8.7m (2009/10) to £11.4m (2010/11). The increase in lump sums payable is due to the Council making a significantly higher number of redundancies in the year as part of its commitment to reduce costs. Transfer values paid out over the year have decreased by £1.5m (22.4%). There has been a 12.5% reduction in investment management costs as a result of the restructure of the fund. This does not show in the table due to investment management fees totalling £0.5m having been disclosed in 2010/11 which were not shown in previous years. Administration fees have also reduced by 9% in the year.

Costs

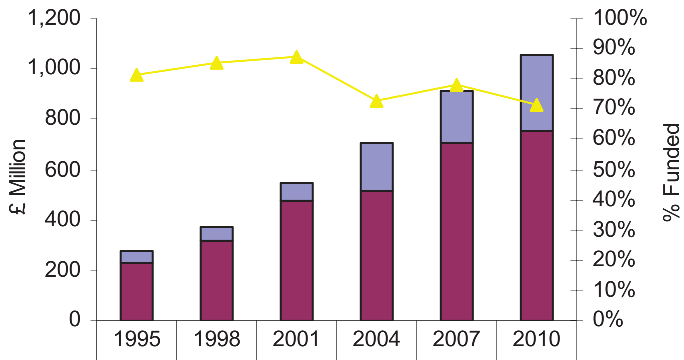


	2011	2010	2009	2008	2007
Benefits Payable	40.8	37.2	33.2	31.5	28.3
Transfer Values	5.2	6.7	6.7	4.8	4
Administration	1.0	1.1	0.3	0.9	0.9
Investment Management	2.1	1.9	1.9	2	1.9

Funding Level

The Council is required to value the Pension Fund every three years.

The fund was valued by the consultant Actuary Hymans Robertson & Co. as at the 31st March 2010. The Actuary has calculated that the Pension Fund is 71.2% funded and has a deficit of £305 million.



	1995	1998	2001	2004	2007	2010
Deficit	52.0	56.0	68.1	191.0	204.8	305.0
Assets	228.0	320.0	477.2	514.0	708.4	755.0
Funding	81%	85%	88%	73%	78%	71%

The funding position deteriorated by 7% between the previous revaluation in 2007 and the 2010 valuation. This is principally attributable to an increase in liabilities owing to improved life expectancy of scheme members and also to poorer than anticipated investments returns in the inter-valuation period.

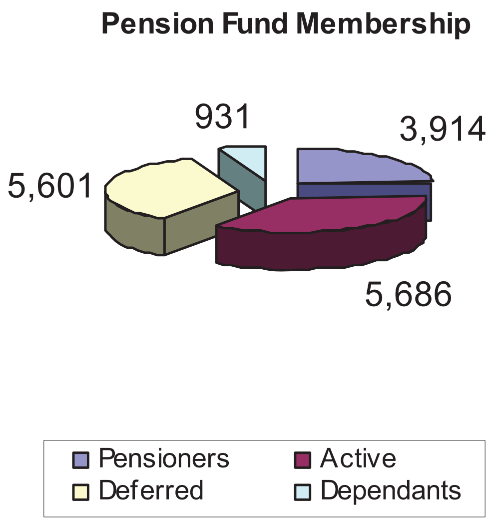
On the recommendation of the Actuary, the Council has adopted a strategy to recover the deficit over a 20-year period. This will involve the Council paying a lump sum of £14 million per annum, uplifted by £1.25m each year thereafter for the period of the valuation, into the pension fund specifically to recover the deficit.

The 2010 valuation exercise identified continuing improvements in the life expectancy of scheme members which is increasing the pension fund costs. Although this additional cost has necessitated an increase in the monetary amounts payable by the Council, the contribution rate has remained stable at 15.8% of employee pay.

It should be emphasised that the deficit does not affect employees' pension entitlement. The Council is under a statutory obligation to provide sufficient funds to pay pensions and has adopted a strategy recommended by the Actuary to achieve full funding in twenty years time. Councils can take a long-term perspective because of their financial stability and statutory backing.

It should be recognised that the position is not unique to the Tower Hamlets Fund. All Pension Funds in both the public and private sectors have been subject to declining investment returns and increasing life expectancy, which has resulted in rising deficits in many cases

The Fund currently has a membership of 16,132 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.

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 2010 to determine the contribution rates that should be paid into the Fund by the employing authorities as from 1 April 2011 to 31 March 2014 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 71% of the Funding Target and the estimated deficit on the Fund at the valuation date was £305m. The Actuary has determined that the deficit can be recovered over a period of 20 years and the agreed monetary contribution to recover the deficit for the term of the revaluation is £14m (2010-11) rising to £15.25m (2012/13) and £16.5m (2013/14).

The Common Rate of Contribution payable by each employing authority under Regulation 77 for the period 1 April 2011 to 31 March 2014 is 30.1% of pensionable pay.

Individual Adjustments are required under Regulation 77 for the period 1 April 2011 to 31 March 2014 resulting in a Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

		Minimum Contribution for the year ending				
Employer Name as at 31 March 2007	Year ending 31 March 2012	Additional Monetary Deficit Payment £	Year ending 31 March 2013	Additional Monetary Deficit Payment £	Year ending 31 March 2014	Additional Monetary Deficit Payment £
London Borough of Tower Hamlets	15.8%	14.0m	15.8%	15.25m	15.8%	16.5m
Tower Hamlets Community Housing Limited	33.2%		33.2%		33.2%	
Redbridge Community Housing Limited	17.7%		17.7%		17.7%	
East End Homes Limited	24.5%		27.2%		29.9%	
Greenwich Leisure Limited	15.9%	5k	15.9%	6k	15.9%	6k
Swan Housing Association Limited	22.5%	9k	22.5%	10k	22.5%	10k
Gateway Housing Association (Bethnal Green & Victoria Park)	30.8%		30.8%		30.8%	
One Housing Group (Toynbee Island Homes)	27.5%		27.5%		27.5%	
Circle Anglia Limited	44.1%		44.1%		44.1%	
Tower Hamlets Homes	16.4%		16.4%		16.4%	
Look Ahead Housing & Care Limited	19.9%		19.9%		19.9%	
Ecovert FM Limited	16.0%		16.0%		16.0%	

In addition to the certified contribution rates, payments to cover the additional liabilites 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 2014. The contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

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

	Note	2009/10 £'000	2010/11 £'000
FUND ACCOUNT			
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions			
From employers	3	38,455	39,659
From members	3	9,612	10,266
Transfers in			
Individual transfers in from other schemes		6,214	7,704
Benefits			
Pensions	4	(28,510)	(29,407)
Lump sum benefits	4	(8,692)	(11,406)
Payments to and on account of leavers			
Refunds of contributions		(6)	(2)
State scheme premiums		6	(2)
Individual transfers out to other schemes		(6,692)	(5,167)
Administrative expenses	14	(1,075)	(1,003)
NET ADDITIONS FROM DEALINGS WITH MEMBERS		**9,312**	**10,642**

RETURN ON INVESTMENTS		2009/10 £'000	2010/11 £'000
Investment income	11	14,527	10,562
Change in market value of investments			
Realised		3,999	70,468
Unrealised	10	164,201	(29,888)
Investment management expenses	15	(1,871)	(2,118)
NET RETURN ON INVESTMENTS		**180,856**	**49,024**
Net increase in the Fund during the year		190,168	59,666
Add: Opening net assets of the scheme		562,333	752,501
CLOSING NET ASSETS OF THE SCHEME		**752,501**	**812,167**

NET ASSETS STATEMENT AS AT 31ST MARCH		2010 £'000	2011 £'000
Investments Assets			
Fixed interest securities			
Public sector		40,659	0
Other		1,071	0
Equities		337,215	180,091
Index linked securities			
Public sector		49,898	0
Pooled Investment Vehicles			
Unit Trusts		222,597	452,951
Property		73,458	86,158
Other		0	79,839
Derivative Contracts			
Forward Foreign Exchange Contracts		774	292
	10	725,672	799,331
Cash deposits	6	19,606	9,362
Other investment balances	5	4,213	1,096
Investments Liabilities			
Forward Foreign Exchange Contracts	10	0	(699)
Other investment balances	5	(2,116)	0
Current Assets	5	5,851	4,385
Current Liabilities	5	(725)	(1,308)
TOTAL NET ASSETS		**752,501**	**812,167**

NOTES TO THE PENSION FUND ACCOUNTS

1. INTRODUCTION

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

The objective of the Pension Fund's financial statements is to provide information about the financial position, performance and financial adaptability of the Fund. They show the results of the stewardship of management - that is the accountability of management for the resources entrusted to it - and the disposition of its assets at the period end.

2. ACCOUNTING POLICIES

(a) **Accounts**
The accounts summarise the transactions and net assets of the Pension Fund and comply in all material respects with Chapter 2 ("Recommended Accounting Practice") of the Statement of Recommended Practice (Financial Reports of Pensions Schemes) 2007 and the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

(b) **Basis of preparation**
Except where otherwise stated, the accounts have been prepared on an accruals basis, that is income and expenditure are recognised as earned or incurred, not as received or paid. The accounts for 2010/11 are the first to be prepared on an IFRS basis. Adoption of the IFRS-based code has not resulted in the restatement of any prior year balances.

The accounts for 2010/11 are the first to be prepared on an IFRS basis. Adoption of the IFRS-based code has not resulted in the restatement of any prior year balances.

(c) The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2011.

(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 2011.
(ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March
(iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2011.
(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 31st March 2011. Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.
(vi) Foreign exchange contracts are recognised in the net asset statement at their fair value. The amounts included in the accounts represent unrealised gains or losses on forward contracts.

(e) **Management Expenses**
Fund managers' fees are paid in accordance with the terms of each individual management agreement and are based mainly on a percentage of the market value of the funds under their management.

3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. Employees pay contributions based on the level of pay they receive, with contribution rates set between 5.5% and 7.5% dependent on pensionable pay. The employer's contributions are made at a rate determined by the Fund's Actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rate used during the financial year ending 31st March 2011 was 15.8%. Contributions shown in the revenue statement may be categorised as follows:-

	2009/10 £'000	2010/11 £'000
Members normal contributions		
Council	8,551	9,246
Admitted bodies	295	257
Scheduled body	766	763
Total members	**9,612**	**10,266**
Employers		
Normal contributions		
Council	20,003	20,754
Admitted bodies	885	867
Scheduled body	1,872	1,845
Deficit funding contributions		
Council	13,050	13,624
Other contributions		
Council	2,645	2,569
Total employers	**38,455**	**39,659**
Total contributions	**48,067**	**49,925**

The Council is required to operate an Additional Voluntary Contributions (AVC) scheme for employees. In 2010/11 employees made contributions of £60,530.28 into the AVC Scheme not administered by the Council but provided by Aviva (Norwich Union) and £9,455.96 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.

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 relate to the period of previous pensionable employment. Transfer values are brought into the accounts on a cash basis. Benefits payable are analysed below.

	2009/10				2010/11			
	Council £'000	Admitted Bodies £'000	Scheduled Bodies £'000	Total £'000	Council £'000	Admitted Bodies £'000	Scheduled Bodies £'000	Total £'000
Pensions	(27,710)	(606)	(194)	(28,510)	(28,428)	(688)	(291)	(29,407)
Lump sum retirement benefits	(6,481)	(387)	(921)	(7,789)	(9,909)	(483)	(264)	(10,656)
Lump sum death benefits	(903)	0	0	(903)	(750)	0	0	(750)
Transfer Values Received	6,214	0	0	6,214	7,704	0	0	7,704
Transfer Values Paid	(6,692)	0	0	(6,692)	(5,167)	0	0	(5,167)
Total	**(35,572)**	**(993)**	**(1,115)**	**(37,680)**	**(36,550)**	**(1,171)**	**(555)**	**(38,276)**

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 .

	2009/10 £'000	2010/11 £'000
Debtors		
Other Investment Balances		
Investment sales	2,316	0
Dividends receivable	1,187	656
Tax recoverable	306	440
Interest receivable	404	0
	4,213	1,096
Current Assets		
Contributions due from admitted bodies	74	22
London Borough of Tower Hamlets	5,777	4,363
	5,851	4,385
Total Debtors	10,064	5,481
Creditors		
Other Investment Balances		
Investment purchases	2,116	0
Current Liabilities		
Unpaid benefits	187	922
Administrative expenses	538	386
	725	1,308
Total Creditors	2,841	1,308
Net Debtors	**7,223**	**4,173**

6. CASH

The deposits held by fund managers can be further analysed as follows:

	2009/10 £'000	2010/11 £'000
GMO UK	2,732	3,413
Schroders: Multi Asset	0	8
Schroders: Property	11,227	5,930
Ruffer	0	1
Martin Currie	835	0
Aberdeen: Bonds	2,388	0
Aberdeen: Equities	2,349	0
Aberdeen: Private Equity	74	10
Merrill Lynch	1	0
TOTAL CASH	**19,606**	**9,362**

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 the UK 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 Fund at 31st March

	2010	2011
London Borough of Tower Hamlets		
Active Members	5,190	5,219
Pensioners	3,724	3,779
Deferred Pensioners	5,074	5,338
Dependants	958	931
	14,946	**15,267**
Admitted & Scheduled Bodies		
Active Members	479	467
Pensioners	107	135
Deferred Pensioners	245	263
Dependants	0	2
	831	**865**

The following bodies have been admitted into the Fund:

Admitted Bodies

Tower Hamlets Community Housing
Redbridge Community Housing Ltd.
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)
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 was submitted to the Council's Pensions Committee on 21st July 2011.

10. INVESTMENTS

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

Manager	Mandate
GMO UK Ltd.	Global Equity
Schroders Asset Management Property Fund	Property
Legal & General Investment Management	UK Equity, Index Linked Gilts
Investec Asset Management	Absolute Return Bonds
Baillee Gifford Life Ltd.	Global Equity, Diversified Growth
Ruffer LLP	Diversified Growth
Auriel Capital Management	Currency
Record Currency Management	Currency

10. INVESTMENTS (continued)

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

	2010		2011	
	£ million	%	£ million	%
GMO UK Ltd.	198.6	26.6	204.7	25.3
Schroders Asset Management Property Fund	84.9	11.4	90.2	11.1
Baillee Gifford Life Ltd - Equities	132.6	17.7	135.0	16.7
Baillee Gifford Life Ltd - Diversified Growth	0.0	0.0	40.2	5.0
Investec Asset Management	0.0	0.0	97.8	12.1
Legal & General Investment Management	0.0	0.0	201.6	24.9
Ruffer LLP	0.0	0.0	39.6	4.9
Martin Currie Investment Management *	95.3	12.8	0.0	0.0
Aberdeen Asset Management - Bonds *	148.6	19.9	0.0	0.0
Aberdeen Asset Management - Equities *	70.6	9.4	0.0	0.0
Auriel Capital Management **	9.9	1.3	0.0	0.0
Record Currency Management **	6.7	0.9	0.0	0.0

* Funds have been disinvested from these managers following a change of investment strategy and their asset allocation transferred to Legal & General and Investec.

** The currency manager funds have been temporarily withdrawn following decision to reduce exposure to currency instruments owing to current market conditions.

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 2010 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2011 £'000	Transaction Costs £'000
GMO UK Ltd.	195,136	64,308	(64,023)	4,944	200,365	43
Schroders Asset Management Property	73,458	10,915	(2,705)	2,352	84,020	0
Baillee Gifford Life Ltd - Equities	132,605	0	(11,257)	13,675	135,023	0
Baillee Gifford Life Ltd - Diversified Growth	0	40,000	0	195	40,195	0
Investec Asset Management	0	98,701	0	(867)	97,834	0
Legal & General Investment Management	0	204,874	(27,230)	23,907	201,551	2
Ruffer LLP	0	70,000	(30,000)	(356)	39,644	0
Martin Currie Investment Management	94,068	28,244	(103,138)	(19,175)	(1)	3
Aberdeen Asset Management - Bonds	145,712	2,000	(90,423)	(57,353)	(64)	1
Aberdeen Asset Management - Equities	67,931	4,008	(72,085)	146	0	1
Aberdeen Asset Management - Derivatives	64	0	0	0	64	0
Aberdeen No.2	16	0	(14)	0	2	0
Auriel Capital Management	9,943	0	(11,244)	1,300	(1)	0
Record Currency Management	6,739	0	(8,083)	1,344	0	0
	725,672	523,050	(420,202)	(29,888)	798,632	50

A further analysis of investments assets is as follows.

	Market Value as at 1 Apr 2010 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2011 £'000
UK Investment Assets					
Quoted	420,669	458,742	(356,165)	(34,832)	488,414
Unquoted	16	0	(14)	0	2
Overseas Investment Assets					
Quoted	304,987	64,016	(63,324)	4,944	310,623
Unquoted	0	292	(699)	0	(407)
	725,672	523,050	(420,202)	(29,888)	798,632

10. INVESTMENTS (continued)

Derivative Contracts

The fund managers GMO UK Ltd is 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 2011 were forward foreign exchange contracts.

Forward Foreign Exchange Contracts 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 Forward Foreign Exchange Contracts are stated at fair value which is determined by the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date.

The global equity manager GMO is instructed to use forward foreign exchange contracts to minimise currency risk exposure. Net exposure to forward foreign exchange is restricted to 10% of the portfolio.

Forward Foreign Exchange Contracts

	Sterling value of obligation on purchase or sale date £'000	Sterling value of equal and opposite obligation at 31 March 2011 £'000	Gains/(losses) on Contract £'000
Currency contracted to purchase	(31,197)	31,489	292
Currency contracted to sell	30,248	(30,947)	(699)
Net Position	**(949)**	**542**	**(407)**

Contract	Manager	Expiration	Gain/Loss on Contract £'000
Australian Dollar Foreign Currency	GMO UK Ltd	April 2011	26
Canadian Dollar Foreign Currency	GMO UK Ltd	April 2011	(2)
Danish Krone Foreign Currency	GMO UK Ltd	April 2011	(64)
Euro Foreign Currency	GMO UK Ltd	April 2011	(661)
Hong Kong Dollar Foreign Currency	GMO UK Ltd	April 2011	4
Japanese Yen Foreign Currency	GMO UK Ltd	April 2011	(6)
Singapore Dollar Foreign Currency	GMO UK Ltd	April 2011	52
Swedish Krona Foreign Currency	GMO UK Ltd	April 2011	51
Swiss Franc Foreign Currency	GMO UK Ltd	April 2011	186
US Dollar Forward Currency	GMO UK Ltd	April 2011	7
			(407)

Unrealised losses were made on foreign exchange contracts in the year amounting to £0.407m.

11. INVESTMENT INCOME

Investment income is broken down as follows.

	2009/10 £'000	2010/11 £'000
Income from fixed interest securities	2,368	37
Income from index linked securities	513	340
Dividends from UK equities	4,911	1,609
Dividends from overseas equities	4,267	5,660
Net rents from properties	2,236	2,769
Interest on cash deposits	101	(59)
Foreign tax	94	199
Underwriting costs, etc.	37	7
TOTAL	**14,527**	**10,562**

12. SECURITIES

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

	2009/10 £'000	2010/11 £'000
Unlisted	88	(397)
Listed	745,190	808,391
Working Capital	7,223	4,173
	752,501	**812,167**

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 2010 statutory triennial revaluation of the Pension Fund completed by the Actuary (Hymans Robertson) in the year estimated the deficit on the Fund to be £305 million and the funding level to be 71%. This compares to a deficit at the previous revaluation in 2007 of £205 million and a corresponding funding level of 78%.

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
2011-12	14.00
2012-13	15.25
2013-14	16.50

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 2010 determined that this would require a contribution (additional to the future contribution rate) of 12.9% of members' pensionable pay equivalent to £14.0 million per annum.

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.

13. ACTUARIAL POSITION (continued)

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 2010-11 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 2013 and the recommendations implemented from 1st April 2014.

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 latest full triennial actuarial valuation of the Fund's liabilities in accordance with IAS26 took place at 31st March 2010. The main actuarial assumptions used in revaluation and applied during the intervaluation period were as follows:

Actuarial Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £1.122 million (£1,276 million in 2009/10).

Financial Assumptions	Nominal	Real	
Price inflation (CPI)	3.3%		
Pay increases	5.3%	2.0%	Real rates are nominal rates
"Gilt based" discount rate	4.5%	1.2%	adjusted for inflation
Funding basis discount rate	5.9%	2.6%	

Longevity (in years)	Male	Female
Average future life expectancy for a pensioner aged 65 at the valuation date	21.0	23.8
Average future life expectancy at age 65 for a non-pensioner aged 45 at the valuation date	22.9	25.7

Actuarial Value of Promised Retirement Benefits

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed and for this purpose the actuarial assumptions and methodology should be based on IAS19.

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £1,122 million (£1,276 million in 2009/10).

14. ADMINISTRATIVE EXPENSES

	2009/10 £'000	2010/11 £'000
Investment Advice	155	170
Performance Measurement	15	15
Administration	882	883
Other Fees	23	(65)
	1,075	**1,003**

15. RISK MANAGEMENT

Nature and extent of risks arising from financial instruments

Credit risk
Credit risk is the risk that a counter party to a financial instrument may fail to pay amounts due to the Pension fund. The Fund carries out a review of its investment managers annual internal control reports to ensure that managers are diligent in their selection and use of counterparties and brokers.

The Fund employs a custodian to provide secure safe-keeping of the Fund's assets and to ensure that all trades are settled in a timely manner.

Liquidity risk
This is the risk that the Fund might not have the cash flow required in order to meet its financial obligations when they become due. Over the years contributions have tended to be greater than benefits and this has ensured that sufficient cash has been available to meet payments.

The Fund currently operates two bank accounts. One is held by the Fund's custodian (State Street Bank) and holds cash relating to the investment activities and the other is the Council's Pension Fund bank account and this is used to hold cash relating to member activities.

Should the Fund have insufficient money available to meet its commitments it may, under Regulation 5.2 borrow cash for up to 90 days. If there was a longer term shortfall then the Fund's assets could be sold to provide additional cash. A significant proportion of the Fund is made up of readily realisable assets.

Market risk
This is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises; interest rate risk, currency risk and other price risk. The Fund mitigates these risks as follows:

<u>Interest rate risk</u>
Cash deposits held in the Pension Fund bank account are invested in accordance with the Council's approved Treasury Management Strategy.

The Fund holds a percentage of its portfolio in fixed interest securities to mitigate this risk should interest rates fall.

<u>Currency risk</u>
The Fund invests in financial instruments denominated in currencies other than Sterling and as a result is exposed to exchange rate risk. To alleviate this risk the Fund allows investment managers to use derivative contracts, in accordance with the contract conditions.

<u>Other Price risk</u>
To mitigate the risk of a loss owing to a fall in market prices the Fund maintains a diverse portfolio of investments. Diversification ensures that the Fund has a balance of investments that offer different levels of risk and return.

The Fund employs a number of investment managers, with differing but complementary styles, to mitigate the risk of underperformance of any single manager and to ensure that any fall in market prices should not affect the Fund as a whole.

Manager performance and asset allocation policy is regularly reviewed by the Pensions Investment Panel. The Fund also uses certain derivative instruments as part of efficient portfolio management.

16. FINANCIAL INSTRUMENTS DISCLOSURES

The net assets of the Fund are made up of the following categories of financial instruments:

	Long-term		Current	
	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000
Financial Assets				
Loans and receivables	0	0	4,287	1,118
Available for sale financial assets	724,898	799,039	0	0
Financial assets at fair value through profit or loss	0	0	26,157	14,017
Total Financial Assets	**724,898**	**799,039**	**30,444**	**15,135**
Financial Liabilities				
Payables	0	0	(2,841)	(1,308)
Financial liabilities at fair value through profit or loss	0	0	0	(699)
Total Financial Liabilities	**0**	**0**	**(2,841)**	**(2,007)**

Fair Value Hierarchy

IFRS7 requires the Fund to classify fair value instruments using a three-level hierarchy.
The three levels are summarised as follows:

Level 1 - inputs that reflect quoted prices for identical assets or liabilities in active markets
Level 2 - inputs other than quoted prices for identical assets or liabilities in active markets
Level 3 - inputs that are not based on observable data

The following sets out the Fund's assets and liabilities according to the fair value hierarchy as at 31st March 2011.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	180,091	0	0	180,091
Pooled Funds				0
Unit Trusts	452,951	0	0	452,951
Property Unit Trust	86,158	0	0	86,158
Other	79,839	0	0	79,839
Derivative Contracts				0
Forward Foreign Exchange Contracts	0	(407)	0	(407)
Cash and bank Deposits	13,725	0	0	13,725
Current Assets	1,118	0	0	1,118
Current Liabilities	(1,308)	0	0	(1,308)
	812,574	**(407)**	**0**	**812,167**

During the year ended 31st March 2011 there were no transfers between the levels of the fair value hierarchy

17. INVESTMENT MANAGEMENT EXPENSES

	2009/10 £'000	2010/11 £'000
Payments to Managers	1,871	2,118

Where a fund manager deducts the investment management fee from the net asset value of the Fund this is shown in the Fund Account as an investment management expense and is reflected in the balance sheet as a reduced closing net asset value.

18. 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.

Fund administration expenses payable to the administrating authority are as set out in the table below.

Fund Administration Expenses	2009/10 £'000	2010/11 £'000
Payroll / HR Support	790	805
Corporate Finance	78	78
	868	**883**

19. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st March 2011.

20. 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. Following a review in October 2008 the Treasury published a revised set of six principles. Local authorities are required to state the extent to which the administering authority Compliant with the six 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.
The extent to which the Scheme complies with these principles are outlined in the table at the end of this document.

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.

Principle	Examples of Compliance	Compliance
Principle 1: Effective Decision Making Administering authorities should ensure that: Decisions are taken by persons or organisations with the skills, knowledge, advice and resources to make them effectively and monitor their implementation; Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.	The Council has a Pensions Committee and an Investment Panel who meet on a quarterly basis for decision making purposes. The Fund's Governance Compliance Statement sets out the governance structure, Terms of Reference, delegations and representation. All members and officers of the Committee are required to undertake training on a periodic basis to ensure that they attain the necessary knowledge and skills with which to undertake their duties effectively. To ensure that they are fully aware of their statutory and fiduciary responsibilities new members are provided with a handbook containing the Committee's terms of reference, standing orders and operational procedures. Two training days per year are arranged for the committee members to deliver training. The committee intends to use the CIPFA knowledge and skills framework as the basis for a training programme to assess the training needs of its members and to actively monitor the progress made. The Fund contracts an actuary, a professional investment advisor and an independent investment advisor all of who attend committee meetings throughout the year and provide advice to committee members. Other expert advisors attend as required.	Compliant
Principle 2: Clear Objectives An overall investment objective should be	The Fund's aims and objectives are set out in its Funding Strategy Statement and Investment Management Agreements are in place on the segregated mandates held by the Fund. The funding strategy is	Compliant

set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.	reviewed at each triennial valuation and the actuarial position and financial impact on scheme employers and tax payers is considered when formulating the investment strategy. All external procurement is conducted within EU procurement regulations and the authority's own procurement rules. The Fund is aware of the investment management fees charged by the investment managers and transaction related costs, and this is considered when letting and monitoring contracts for investment management.	
Principle 3: Risk and Liabilities In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	Following each triennial valuation the Committee assesses the structure of the Fund's liabilities and, where necessary, amends its investment strategy to ensure that it remains appropriate to the Fund's liability profile. The same investment strategy is currently followed by all employers. The Fund's liabilities are long term in nature and the investment strategy reflects this liability profile by investing in long term generating assets. The Fund's benchmark includes a significant holding in equities in pursuit of long term higher returns. Allowances are made for periods of underperformance in the short term. The triennial valuation sets out the liability profile for each individual employer. The strength of covenant of each employing body and risk of default is taken into consideration when setting the employer contribution rate. The Fund has an active risk management programme in place. The risk management process is outlined in the Fund's Annual Report and Accounts. The Committee receives the external auditor's Annual Governance Report which states their assessment of the risk management process.	Compliant

Principle 4: Performance assessment Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to the scheme members.	The Fund's Investment Panel meets quarterly to review the Fund's performance against its investment objective. In consultation with the Fund's investment advisors the Committee will assess the performance of the investment managers and consider whether any action is required. The fund managers attend the Investment Panel meetings periodically. The Fund employs the WM company to measure the performance of its investment managers. The Fund's Annual Report is presented to the Committee explaining the Fund's activities and decisions taken during the year. This allows the Investment Panel to reflect on the effectiveness of its strategy and also the management of the fund managers to deliver against agreed benchmarks.	Compliant
Principle 5: Responsible ownership Administering authorities should: Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents, include a statement of their policy on responsible ownership in the statement of investment principles. Report periodically to scheme members on the discharge of such responsibilities.	The Fund requires its investment managers to adopt the Institute Shareholders Committee Statement of Principles. The extent to which these principles are taken into account in the selection, retention and realisation of investments is left to the manager's discretion. The manager's activities in this regard are reviewed by the Investment Panel. The Fund's approach to responsible ownership is set out in its Statement of Investment Principles. Any significant issues arising over the year are reported in the Fund's Annual Report.	Compliant
Principle 6: Transparency and reporting Administering authorities act in a transparent manner, communicating with	The Fund publishes a Governance Policy Statement, a Communications Strategy, a Funding Strategy Statement, and a Statement of Investment Principles. The statements are reviewed and updated when required and are approved by the Pensions Committee.	Compliant

stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Provide regular communication to scheme members in the form they consider most appropriate.	Fund manager performance data is included in the Fund's Annual Report and Accounts. The statements form part of a suite of annual report documentation which may be found on the website http://www.towerhamlets.gov.uk An Annual Benefits Statement is sent hard copy to active and deferred members of the Fund. Pensioner members receive an annual newsletter detailing any information affecting pensions in payment.	

Appendix 3

THE LONDON BOROUGH OF TOWER HAMLETS PENSION FUND –

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 LLP, and after consultation with the Fund's employers and investment adviser and is effective from 31 March 2011.

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); replaced from 1 April 2008 with the Local Government Pension Scheme (Administration) Regulations 2008, regulations 35 and 36;

- 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, and 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.

1.1.4 The key requirements relating to the FSS are that:

- After consultation with all relevant interested parties involved with the Fund, the administering authority will prepare and publish their funding strategy.

- In preparing the FSS, the Administering Authority must have regard to:
  - FSS guidance produced by CIPFA
  - Its statement of investment principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

The Fund's actuary must have regard to the FSS as part of the fund valuation process

1.2 **Reviews of FSS**

1.2.1 The FSS is reviewed in detail at least every three years as part of the triennial valuation being carried out, with the next full review due to be completed by 31 March 2014. More frequently, Annex A is updated to reflect any changes to employers.

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

2. **Purpose**

2.1 **Purpose of FSS**

2.1.1 The department for Communities and Local Government (CLG), formally the Office of the Deputy prime Minister, 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. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

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 Fund are summarised in Annex B.

2.3 **Aims of the Funding Policy**

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

- to ensure the long-term solvency of the Fund;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

3. **<u>Solvency Issues and Target Funding Levels</u>**

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 (see 3.3.3 below for deficit recovery periods).

3.1.2 The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], 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

[1] **See Rgulation 77(4)**

Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years.

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[2]. 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 3.7.8.

3.1.6 Annex A contains a breakdown of each employer's contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14. It includes a reconciliation of each employer's rate with the *Common Contribution Rate*. It also identifies which employers' contributions have been pooled with others.

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

3.1.8 Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

3.2 Solvency and Target Funding Levels

3.2.1 The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

3.2.2 "Solvency" for ongoing employers is defined to be the ratio of the current 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. The ongoing funding basis assumes employers in the Fund are an ongoing concern and is described in the next section.

The ongoing funding basis has traditionally been used for each triennial valuation for all employers in the fund.

Where an admission agreement for an admission body that is not a Transferee Admission Body and has no guarantor is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe, the fund reserves the right to set contribution rates by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment outperformance relative to gilts). The target in setting

[2] **See Regulation 77(6)**

contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the agreement terminates or the last active member leaves in order to protect other employers in the fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

The Fund also reserves the right to adopt the above approach in respect of those admission bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

The Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority.

The Fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. The time horizon of the funding target for Community and Transferee Admission bodies will vary depending on the expected duration of their participation in the Fund. Please refer to Section 3.10 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 based on past experience of LGPS funds advised by the Fund actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Employers should be aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profiles 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 In the light of the statutory requirement for the Actuary to consider the stability of employer contributions 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 2010 valuation, it is assumed that the Fund's equity investments will deliver an average additional real 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. All employers have the same asset allocation.

Details of other significant financial assumptions and their derivation are given in the Fund Actuary's formal valuation report.

3.4 **Future Service Contribution Rates**

3.4.1 The future service element of the employer contribution rate is traditionally 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 future service rate has been calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. Where it is considered appropriate to do so then the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a gilts basis (most usually for admission bodies that are not a Transferee Admission Body and that have no guarantor in place).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 ***Employers that do not admit new entrants***

Certain Admission Bodies who have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as membership ages.

To give more long term stability to such employers' contributions, the Attained Age Method is normally adopted. This will limit the degree of future contribution rises by paying higher rates at outset.

Both funding methods are described in the Actuary's formal report on the valuation.

Future service rates calculated under both funding methods will include related administration expenses, to the extent that they are borne by the Fund, and will 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;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between the 2007 and 2010 triennial valuation and each subsequent triennial valuation period.

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 refunds of contributions or individual transfers to other Funds;
- 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 Solvency Issues and target Funding Levels

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of prudential strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include:-

- capping of employer contribution rate increases / decreases within a pre-determined range ("Stabilisation")
- the pooling of contributions amongst employers with similar characteristics
- the use of extended deficit recovery periods
- the phasing in of contribution increases/decreases

3.7.2 Stabilisation

There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

In view of this possibility, the Administering Authority has commissioned the Pension Fund actuary to carry out extensive modelling to explore the long term effect on the Pension Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit employer contribution rate changes, subject to the following conditions being met:

- the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
- there were no material events occurring before 1 April 2011 which rendered the stabilisation unjustifiable.

In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Pension Fund actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" and are currently paying less than their theoretical contribution rate should be aware of the risks of this approach and should consider making additional payments to the Pension Fund if possible.
The Pension Fund currently has a strong net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.

The Scheme regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities within reasonably stable employer contribution rates. The role of the Pension Fund actuary, in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements. The approach to the actuarial valuation and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

3.7.3 Deficit Recovery Periods

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

3.7.3.2 The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table below:

Type of Employer	**Maximum Length of Deficit Recovery Period**
Statutory bodies with tax raising powers	A period to be agreed with each employer not exceeding 20 years
Community Admission Bodies	a period equivalent to the expected future working lifetime.
Transferee Admission Bodies	the period from the start of the revised contributions to the end of the employer's contract subject to not exceeding expected future working lifetime.

All other types of employer	a period equivalent to the expected future working lifetime allowing for expected leavers.

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

3.7.3.4 The deficit recovery period starts at the commencement of the revised contribution rate, which for the 2010 valuation is April 2011; contribution rates for 2010/11 having already been set at the level advised by the 2007 valuation (and which may include contributions towards the deficit where employers are contributing at more than the future service rate). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.7.4 Surplus Spreading Periods

3.7.4.1 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.

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

3.7.5 Phasing in of Contribution Rises

3.7.5.1 The Administering Authority may allow some employers to phase in contribution rises over the period to which their contribution rates apply i.e. 1 April 2011 to 31 March 2014

3.7.6 Phasing in of Contribution Reductions

3.7.6.1 Any contribution reductions will be phased in over three years for any employer for which the Administering Authority agrees.

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

3.7.7.1 Employers which are permitted and elect to use a longer deficit spreading period 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.

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

3.7.8 Pooled Contributions

3.7.8.1 **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. Transferee 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.

As at the 2010 valuation a separate pool was operated for the smaller Admission Bodies.

3.7.8.2 **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 Transferee Admission Bodies 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 subject to the terms of the agreement.

3.8.3 The Fund, however, considers any of the following as triggers for the termination of an admission agreement:

- Last active member ceasing participation in the LGPS;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity or to confirm appropriate alternative guarantor as required by the Fund.

3.8.4 In addition either party can voluntarily terminate the Admission Agreement by giving the appropriate period of notice as set out in the Admission Agreement to the other party (or parties in the case of a TAB).

3.8.5 If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation as required under Regulation 78 of the 1997 regulations (38 of the 2008 regulations) to determine whether there is any deficit.

3.8.6 The assumptions adopted to value the departing employers' liabilities for this valuation will depend upon the circumstances. For example:

(1) For Transferee Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with the assumptions used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

(2) For admission bodies that are not Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or which triggers a cessation event, 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 future. Where there is a guarantor, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis" with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and 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 guarantors in which case it may be possible to simply transfer the assets and liabilities relating to the former admission bodies to the respective guarantors, without needing to crystallise any deficit.

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

In the event that the Fund is not able to recover the required payment in full directly from the admission body or from any bond or indemnity or guarantor, then:

a) In the case of Transferee Admission Bodies the awarding authority will be liable. At its absolute discretion, the Administering Authority may agree to recover any outstanding amounts via an increase in the awarding authority's contribution rate over an agreed period.

b) In the case of admission bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the

Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date.

As an alternative to (b) above where the ceasing admission body is continuing in business, the Fund, at its absolute discretion, reserves the right to enter into an agreement with the ceasing admission body to accept an appropriate alternative security to be held against any funding deficit and to carry out the cessation valuation on an ongoing valuation basis. This approach would be monitored as part of each triennial valuation and the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified.

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. The current cost of these are specified in the latest early retirement manual from Hymans Robertson.

Since the introduction of the new LGPS many members now have two tranches of pension - namely that which was accrued before and after 1 April 2008. In theory, these can be paid without reduction from two different retirement ages. In practice, the member can only retire once and so both pensions are paid from a single age.It is assumed that the member will retire at the age when all of the members pension can be taken without reduction.

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

3.9.2 **Ill Health Monitoring**

The Fund will monitor each employer's, or pool of employers, ill health experience on an ongoing basis. If the cumulative cost of ill health retirements in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis that applies for non-ill health cases.

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.

4.2 **Consistency with Funding Basis**

4.2.1 The Fund's investment adviser's current *best estimate* of the long-term real return from equities is around 3% a year in excess of the return available from investing in index-linked government bonds.

4.2.2 In order to reduce the volatility of employers' contributions, the funding policy currently anticipates returns of 2% a year, that is 1% a year less than the *best estimate* return.

4.2.3 The anticipated future returns from equities used to place a value on employers' liabilities only relate to the part of the Fund's assets invested in equities (or equity type investments), currently around 70% of all the Fund's assets.

4.2.4 Non equity assets invested in bonds and cash are assumed to deliver long-term returns of 0.25% pa more than the prevailing redemption yield on Government bonds.

4.2.5 In this way, the employer contributions anticipate returns from Fund assets which in the Fund actuary's opinion there is a better than 50:50 chance of delivering over the long-term (measured over periods in excess of 20 years).

4.2.6 However, in the short-term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 5 will damp down, but not remove, the effect on employers' contributions.

4.2.7 The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.3 **Balance between Risk and Reward**

4.3.1 Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

4.4 **Intervaluation Monitoring of Funding Position**

4.4.1 The Administering Authority monitors investment performance relative to the growth in the liabilities by means of annual interim valuations.

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 a 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. Some investment in bonds might help to mitigate this risk.
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	Ill-health retirements significantly more than anticipated.	*Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill-health assumptions built into the triennial valuation.*
5.3.2	Pensioners living longer	*Set mortality assumptions with some allowance for future increase in life expectancy.* *Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.* *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.*
5.3.3	Deteriorating patterns of early retirements	*Employers are charged the extra capital cost of non ill-health retirements following each individual decision.* *Employer ill-health retirement experience is monitored.*

5.4 **Regulatory**

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

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 of the 1997 Regulations; 38 of the 2008 Regulations)) between triennial valuations.* *Deficit contributions are expressed as monetary amounts (see Annex A).*
5.5.3	Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt	*In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with Best Value contractors to inform it of forthcoming changes.* *It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements.*
5.5.4	An employer ceasing to exist with insufficient funding or adequacy of a bond	*The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.* *The risk is mitigated by:* • *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.*

ANNEX A – EMPLOYERS' CONTRIBUTIONS, SPREADING AND PHASING PERIODS

Following the 2010 valuations, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2010 valuation report are based on the deficit recovery periods and phasing periods shown in the table below. The table also shows the individual adjustments under Regulation 77(6) of the 1997 Regulations (36(4) of the 2008 regulations) to each employer's contributions from the 'Common Contribution Rate'.

Employer code	Employer name	Contributions currently being paid in 2010/11	Minimum Contributions for the Year Ending 31 March 2012	31 March 2013	31 March 2014
1	London Borough of Tower Hamlets1	15.8%	15.8% plus £14m	15.8% plus £15.25m	15.8% plus £16.5m
3	Tower Hamlets Community Housing Limited	30.3%	33.4%	33.4%	33.4%
4	Redbridge Community Housing Limited	17.7%	17.7%	17.7%	17.7%
6	East End Homes Limited	21.8%	24.5%	27.2%	29.9%
7	Greenwich Leisure Limited	15.9%	15.9% plus £5k	15.9% plus £6k	15.9% plus £6k
9	Swan Housing Association Limited	24.0%	22.5% plus £9k	22.5% plus £10k	22.5% plus £10k
10	Gateway Housing Association (Bethnal Green & Victoria Park)	20.5%	30.8%	30.8%	30.8%
11	One Housing Group (Toynbee Island Homes)	20.6%	27.5%	27.5%	27.5%
12	Circle Anglia Limited	18.1%	44.1%	44.1%	44.1%
13	Tower Hamlet Homes	16.4%	16.4%	16.4%	16.4%
15	Look Ahead Housing & Care Limited	17.9%	19.9%	19.9%	19.9%
16	Ecovert FM Limited	15.8%	16.0%	16.0%	16.0%

ANNEX B – RESPONSIBILITIES OF KEY PARTIES

The Administering Authority should:

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain a FSS and a SIP, both after proper consultation with interested parties; and
- monitor all aspects of the fund's performance and funding and amend FSS/SIP
- advise the Actuary of any new or ceasing employers

The Individual employer should:

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authorities promptly of all changes to membership, or as may be proposed, which affect future funding.

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS;
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

Appendix 4

Communications Strategy Statement

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PERFORMANCE MEASUREMENT
- Timeliness
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REVIEW PROCESS

Introduction

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

The Fund liaises with over 12 employers and approximately 15,000 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 remains very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a *"reasonable period"*. The draft Code of Practice[3] 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 Department for Communities and Local Government, solicitors, the Pensions Advisory Service, and

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

other pension providers. We also consider as part of this policy how we communicate with these interested parties.

How we communicate
General communication

We will continue to use paper based communication as our main means of communicating, for example, by sending letters to our scheme members. However, we will 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.

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.

- 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.

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

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

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:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Pension Fund valuation reports • Rates and Adjustments (R&A)	Electronic	Every three years	Via email	Government Departments)/ Her Majesty's Revenue and Customs

certificates • Revised R&A certificates • Cessation valuations				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

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

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 The Local Government Pension Scheme (Administration) Regulations 2008 require administering authorities to produce a statement on the governance policy of the pension fund. This document sets out the Policy of the London Borough of Tower Hamlets, as an administering authority in relation to its governance responsibilities for the Tower Hamlets Local Government Pension Scheme.

2. Governance Structure

2.1 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.

2.2 The governance structure is supported by:

- The Pensions Committee
- The Investment Panel
- Officers of the Council; and
- Professional Advisors

Pensions Committee

2.3 The terms of reference of the Pensions Committee 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.

2.4 The Pensions Committee meets quarterly and it comprises seven Members of the Council, one trade union member and one admitted body member. Special meetings of the Committee are arranged as necessary.

2.5 The Committee is subject to the Council's Financial Regulations and is advised on investment issues by an Investment Panel, which is a sub-committee of the Pensions Committee and includes professional advisors.

3. Investment Panel

3.1 The Investment Panel comprises of all members of the Pensions Committee, an independent chair, an independent advisor, the Corporate Director, Resources (or deputy) and one observer from trade unions and one observer from admitted bodies. The terms of reference of the Investment Panel include the following:

- Review the Scheme's asset allocation
- Consider and monitor the quarterly performance reports
- Review annually each manager's performance
- Consider the need for any changes to the Scheme's investment manager arrangements
- Evaluate the credentials of new managers prior to their appointment

4. Officer Delegation

4.1 The Corporate Director, Resources has delegated authority for implementing Council policy, Pension Committee decisions in the areas of scheme administration, funding, investment, communications and risk management.

5. Professional Advisors

5.1 The Council employs external professional advisors in the form of independent chair of the Investment Panel, investment advisers, fund managers, global asset custodians and independent performance assessors

6. Overall Power

6.1 The Pensions Committee delegate specific functions on the appointment of managers on a case by case basis after consideration of reports by that Committee.

6.2 Committee retain 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.

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
STRUCTURE	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council	Compliant	The Council's Constitution states that the Pensions Committee is responsible for the management of the Pension Fund
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	Trade union representatives sit on the Pension Committee. A seat has been allocated to admitted bodies on the Committee and representatives of admitted bodies on the Scheme have been invited to join the Committee.
	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	A report of the Investment Panel is presented at the following Pensions Committee. All key recommendations of the Investment Panel are ratified by the Pensions Committee.
	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Compliant	All members of the Investment Panel are also members of the Pensions Committee.
REPRESENTATION	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee	Compliant	Trade unions are represented on the Pensions Committee and

	structure. These include :- • employing authorities (including non-scheme employers, e.g. admitted bodies), • scheme members (including deferred and pensioner scheme members), • independent professional observers, • expert advisors (on an ad-hoc basis).		admitted bodies have been invited to sit on the Committee. An independent professional observer has also been appointed to chair the Investment Panel.
	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Compliant	Papers for Committee and the Investment Panel are made available to all members of both bodies at the same time and are published well in advance of the meetings in line with the council's committee agenda publication framework.
SELECTION & ROLE OF LAY MEMBERS	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	Members of the Pensions Committee/ Investment Panel have access to the terms of reference of each body and are aware of their roles and responsibilities as members of these bodies/ Panel.
VOTING	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	The Pensions Committee/ Investment Panel does not currently confer voting rights on non-Councillors in line with common practice

			across the local government sector.
TRAINING/FACILITY TIME/EXPENSES	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Compliant	Regular training is arranged for members of the Pensions Committee. In addition members are encouraged to attend external training courses. The cost of any such courses attended will be met by the Fund.
	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	The rule on training provision is applied equally across all members of the Pensions Committee.
MEETINGS (FREQUENCY/ QUORUM)	That an administering authority's main committee or committees meet at least quarterly.	Compliant	Meetings of the Pensions Committee are arranged to take place quarterly.
	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	Meetings of the Investment Panel are arranged to take place quarterly.
	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	Union representatives on the Pensions Committee are lay members. Other stakeholders of the Fund are able to make representations at the Annual General Meeting of

			the Pension Fund.
ACCESS	That subject to any rules in the Council's Constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Compliant	Panel meeting papers are circulated at the same time to all members of the Pensions Committee/ Investment Panel.
SCOPE	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	Pensions Committee considers are range of issues at its meetings and therefore has taken steps to bring wider scheme issues within the scope of the governance arrangements.
PUBLICITY	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Compliant	This Governance Compliance Statement is a public document that is attached as an appendix to the annual pension fund report.

Membership of Pensions Committee and Investment Panel 2010-11

Attendances at Pensions Committee 2010/11

		Meetings Scheduled			
Attendees	**Voting Rights**	**10-Jun**	**5Aug**	**18-Nov**	**17-Feb** Cancelled
Members					
Cllr Craig Aston	√	Present	Present	Present	
Cllr Alibor Choudhury	√				
Cllr Shafiqul Haque	√		Present	Present	
Cllr Anwar Khan	√	Present	Present	Present	
Cllr Rabina Khan	√	Present			
Cllr Rania Khan	√				
Cllr Mohammed Abdul Mukit MBE	√	Present			
Officers					
Alan Finch	x	Present	Present	Present	
Oladapo Shonola	x		Present	Present	
Alan Ingram	x	Present		Present	
Daniel Hudson	x		Present		
Guest					
Raymond Haines	x	Present	Present	Present	
John Gray	x			Present	
Frank West	x			Present	
David O'Hara	x	Present	Present	Present	

Training sessions were provided for members of the Pensions Committee on 11th June 2010 and 17th February 2011. The session booked for the 17th February did not take place due to the meeting being cancelled. The training session provided on the 11th June gave an introduction to the role and responsibilities of a pension scheme trustee. The attendance at training sessions is set out in the table below:

Attendance at Training Sessions 2010/11

Attendees	11-Jun	17-Feb
		Cancelled
Cllr Anwar Khan	Present	
Cllr Rabina Khan	Present	
Cllr Rania Khan	Present	
Cllr Craig Aston	Present	

<table>
<tr><td>Committee/Meeting:

Pensions Committee</td><td>Date:

17 November 2011</td><td>Classification:

Unrestricted</td><td>Report No:</td></tr>
<tr><td colspan="2">Report of:

Corporate Director Resources

Originating officer(s)
Alan Finch, Service Head – Finance, Risk & Accountability ; Oladapo Shonola, Chief Financial Strategy Officer</td><td colspan="2">Title:

Hutton Commission Report

Wards Affected:
All</td></tr>
</table>

Lead Member	Cllr Anwar Khan, Chair of Pensions Committee
Community Plan Theme	All
Strategic Priority	All

1. SUMMARY

1.1 At the November 2010 meeting of the Committee, Members requested an update on the work of the independent Public Service Pensions Commission, led by the former Cabinet Minister John Hutton. This report provides that information.

1.2 The Hutton Commission was established by the Chancellor of the Exchequer in June 2010 to undertake a fundamental review of public service pensions provision by the time of the next Budget in April 2011. Having issued an interim report in October 2010, the Hutton Commission issued its final report in March 2011.

1.3 In the Budget, the Government announced “The Government accepts Lord Hutton’s recommendations as a basis for consultation with public sector workers, trades unions and others…. The Government will set out proposals in the autumn that are affordable, sustainable and fair to both the public sector workforce and the taxpayer”.

2. DECISIONS REQUIRED

The Committee is recommended to:-

Note the report into the work of the independent Public Service Pensions Commission and that officers will report back when there are any further developments on this issue of public sector pension reforms

3. REASONS FOR THE DECISION

Members requested this report in order to update themselves on the work of the Hutton Commission.

4. ALTERNATIVE OPTION

4.1 No decision is required at this stage.

5. BACKGROUND

5.1. The issue of public sector pension provision has moved up the political agenda in recent years, largely because

- The cost of all pension schemes has increased substantially due to increased longevity.

- The closure of many Company defined benefits schemes increasingly makes public sector schemes seem generous in comparison to the provision available to other workers.

- The nature of the schemes is such that responsibility for any deficit rests with the taxpayer and not with the beneficiary, so that the cost of the schemes for the taxpayer, whether now or in the future, has increased.

5.2 The Coalition Agreement committed the Government to establishing an independent commission to review the long term affordability of public sector pensions, while protecting accrued rights. Subsequently, in June, the Chancellor announced that the Commission would be set up, under Lord Hutton of Furness (John Hutton), the former Labour Secretary of State for Work and Pensions, to undertake a fundamental structural review of public service pension provision. The commission was asked to "make recommendations on how public service pensions can be made sustainable and affordable in the long-term, fair to both the public service workforce and the taxpayer, and ensure that they are consistent with the fiscal challenges ahead".

5.3 The Commission was asked to consider a range of issues including:

- the disparity between public service and private sector pension provision;

- the need to ensure that future pension provision is fair across the workforce;

- how risk should be shared between the taxpayer and employee; and

- wider Government policy intended to encourage adequate saving for retirement and longer working lives.

5.4 The Commission was asked to report in time for the next Budget, which has been announced for 23rd March 2011, and to issue an interim report in time for the Spending Review in October. The interim report was published on 7th October 2010 and the final report 10th March 2011.

6. FINAL REPORT

6.1 The final report makes 27 recommendations in all, but the main recommendation is for a move away from the existing final salary benefit scheme to a career average structure scheme. Although, he recommends that any accrued rights under the existing scheme should be preserved.

6.2 The report emphasises the importance of public service pensions but points out that most schemes were last substantially reformed in the 1970s, since which time the context within which they operate has changed substantially. In the early 1970s, the life expectancy at age 60 was 18 years, now it is 28 years. In addition, many more people reach the age of 60. A man who retires at 60 can now expect to live more than 40% of his adult life in retirement and the figure is higher for women.

6.3 Some limited reforms have taken place in recent years. These include;

- The change in indexation from Retail Prices Index (RPI) to Consumer Prices Index (CPI), which in the run will increase pension benefits by a lesser amount year on year.

- Increases in pensionable age, which in the Local Government Scheme means that staff will ultimately not receive access to their pension until the age of 65 (previously 60).

- Introduction of differential employee contribution rates in the Local Government scheme so that rates now increase from 5.5% to 7.5% with increasing pay (replacing the previous 6% standard rate).

6.4 The drawback is that most of these measures will not affect the costs of the schemes for many decades.

6.5 The Commission has set a number of principles for future public service pension provision;

- Affordability and sustainability
  The question of affordability is ultimately a matter for political choice, but this decision needs to be taken in the context of a sustainably and affordable scheme (i.e. not one that simply shunts costs onto later generations).

- Adequacy and fairness
  Pensions should provide an adequate retirement pension for public sector workers, maintaining a balance of fairness between workers, and between pensioners and taxpayers.

- Supporting Productivity
  The pension schemes should offer value for money and should not be a barrier to measures that improve productivity and efficiency, such as outsourcing or mutualisation.

- Transparency and simplicity
  Schemes should be widely understood by beneficiaries and taxpayers

6.6 The report recommends an increase in contribution rates as a means for savings in the short. The Commission said this should be done in such a way as it protects the low paid and does not impact significantly on opt out rates. The Government has already adopted this recommendation and plan to implement it in a way that ensures that increased contributions will fall more heavily on higher earners. Although, there is a danger that any significant rise in rates would simply lead to more staff leaving the schemes, which would be counter-productive in terms of one of the Commission's principles of sustainability.

6.7 The report has come down against pure defined contribution schemes which it says would not necessarily be cheaper to fund, result in uncertainty of benefits for scheme members, including the low paid, and not make the best use of the ability of the Government, as a large employer, to manage some of the schemes' risks.

6.8 Other notable recommendations include:

- The immediate increase of retirement age to 65 years for new entrants and to age 68 by 2046. Some research as shown that the proposed increase is not enough to keep pace with the rate of increase in longetivity

- Replacement of Pension Committees with Pension Boards with member nominees

- Regular analysis of the fiscal impact of the schemes by the office for Budget Responsibility

- No access to public service pension schemes b future non-public service workers – this could lead to significant reduction in fund membership.

6.9 The Final Report is available in full at the following website:

http://www.hm-treasury.gov.uk/indreview_johnhutton_pensions.htm

6.10 The Government has responded by accepting the report as a basis for consultation and stating that proposals will be issued in the Autumn

6.11 At the Tower Hamlets Council meeting in April, the Council passed a resolution that the Council write to the Chancellor of the Exchequer calling for the Government to rethink its proposed increases to LGPS member contributions and resolved to work with Trade Unions to ensure employees are made aware of the proposals for the LGPS and to encourage them to support the Council's representations to defend their pension scheme. This letter has been sent.

7. OFFICERS REMARKS

7.1 This section of the report comprises some general remarks by officers on the principles of the reforms as put forward by Hutton. It is important to note that the Hutton Commission is reviewing pension provision across the public sector as a whole and not just in Local Government. The LGPS differs from most other public sector schemes in that it is a funded scheme, although the majority of funds are not currently fully funded, and it is managed locally by trustees within each local authority (the Pensions Committee in Tower Hamlets). Some of the criticism of the public sector pension schemes has been levelled at 'pay as you go' schemes such as the civil service, teachers and NHS schemes, and the LGPS is not in the same category. Nevertheless it is a statutory, defined benefits scheme based on final salary and its costs have risen over the years as longevity has risen.

7.2 There can also be little doubt that change needs to take place in order to adapt the scheme to the conditions of the 21st Century. For example, the use of a final salary scheme in an era when senior public sector salaries have increased far beyond what they were when the schemes were established no longer seems tenable. Much of the bad publicity for the scheme arises from the apparent generosity of so-called 'gold plated' pensions for 'fat cats', which has skewed debate and distracted from the fact that most local government pensions are small amounts. (The average annual pension payment in the Tower Hamlets scheme in 2009/10 was £7,400). In principle, changing to a career average scheme will have more impact on higher paid staff, as for these staff their final salary is likely to be much higher than their career average. Graduated contribution rates also have more impact on the higher paid. These principles could therefore be seen as introducing greater fairness into the LGPS.

7.3 The alternative to reform along the lines of the Commission's principles would be to allow the schemes to be adapted piecemeal by successive Governments in a bid to control costs. Such piecemeal change has already taken place to some extent and arguably these changes do not receive appropriate scrutiny. For example the switch from RPI to CPI indexation has reduced the benefits that existing pensioners would otherwise have received in a way that is not very transparent. A reform package that establishes a fair, affordable and sustainable scheme for the foreseeable future is arguably preferable to employers, scheme members and taxpayers than a series of marginal changes to the scheme that lack clear accountability.

7.4 The Government has promised to protect accrued rights, (although changing indexation from RPI to CPI is a grey area) and it appears that this promise will be met. This could be seen as an important principle in terms of natural justice, since staff entitled to accrued benefits have already undertaken the work that earned them those benefits, although it does means that the benefits of pensions reform in terms of reduced costs will take quite some time to emerge. Furthermore the Hutton Commission has stated that it is not an option to reduce public service pension provision to the level of a lowest common denominator if the state is to attract a suitably motivated and trained workforce.

7.5. In view of the fact that public sector staff are also seeing a real terms reduction in pay as a result of the pay freeze and high rates of inflation, there is a risk that some staff will decide that they cannot afford to pay the additional contributions and leave the fund. If this happens on a large scale then the costs of maintaining the LGPS could increase in the short term, because the Fund would lose some of the liquidity benefit of employee contributions and investment performance would need to rise. For those staff who can be persuaded to take a longer view, however, the LGPS is likely to remain a good value, subsidised pension scheme in comparison to available alternatives.

7.6 The Chancellor welcomed the report and a consultation is expected to be launched that is likely to conclude in the autumn of 2011. Therefore, it is going to be some months before we have definitive answers as to which recommendations have survived and how Local Government Pension Scheme (LGPS) will look going forward.

7.7 Officers will report back to the Committee if there are any further developments in this area, prior to or after consultation has been concluded.

8. COMMENTS OF THE CHIEF FINANCIAL OFFICER

The Council contributes £39m a year to the Pension Fund which supports current and future benefits to around 5,100 existing members of staff and 9,600 former employees. At the time of the 2010 actuarial valuation, the scheme liabilities were valued at £1,077m and these were 70% funded by the market valuation of assets.

9. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)

9.1 The LGPS is a national scheme, administered locally. The scheme is closely governed by a suite of regulations made pursuant to section 7 of the Superannuation Act 1972. The LGPS (Administration) regulation 2008 are particularly significant in the context of the Hutton Commission's work, as they deal with matters such as membership, contribution and payment of benefits. Any reform of the LGPS flowing from the Commission's recommendations would involve amendment of the statutory scheme. Advice can be provided about any such amendments as and when the details become available.

10. ONE TOWER HAMLETS CONSIDERATIONS

10.1 All employees of the London Borough of Tower Hamlets are entitled to join the Pension Scheme.

11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

11.1 There are no direct SAGE implications.

12. RISK MANAGEMENT IMPLICATIONS

12.1 The governance of the Pension Fund has its own risk management arrangements. These are not directly affected by the issues raised in this report.

13. CRIME AND DISORDER REDUCTION IMPLICATIONS

13.1 There are no direct crime and disorder reduction implications.

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

No "background papers" were used in writing this report

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COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.	AGENDA NO.
Pensions Committee	**17 November 2011**	**Unrestricted**		
REPORT OF: **Corporate Director of Resources** ORIGINATING OFFICER(S): **Oladapo Shonola – Chief Financial Strategy Officer**		TITLE: **Report of Investment Panel for Quarter Ending 30 June 2011.** Ward(s) affected: N/A		

Lead Member	**Cllr Alibor Choudhury - Resources**
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 2011.

1.2 In the quarter to the end of June 2011 the Fund achieved a return of 1.5% which is 0.5% above the benchmark. The twelve month Fund return of 18.0% is 1.9% ahead of benchmark of 16.1%. For longer periods, performance lags behind the benchmark with three years return at 6.1% only slightly behind benchmark of 6.3% and the five years return of 4.4% underperforming the benchmark return of 4.9% by 0.5%.

1.3 The performance of individual managers was mostly positive this quarter. Six managers matched or achieved returns above the benchmark whilst two 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 content 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 the performance of pension fund managers and the overall performance of the Tower Hamlets Pension Fund. The report also updates the Committee on the activities of the Investment Panel.

4. ALTERNATIVE OPTIONS

4.1 The Pension Fund Regulations requires that the Council establishes arrangements for monitoring the investments of the Pension Fund. No other alternative method of fulfilling this requirement has been identified.

5. BACKGROUND

5.1 The Pension Fund Regulations require that the Council establish arrangements for monitoring the investments of the Fund and the activities of the investment managers and ensure that proper advice is obtained on investment issues.

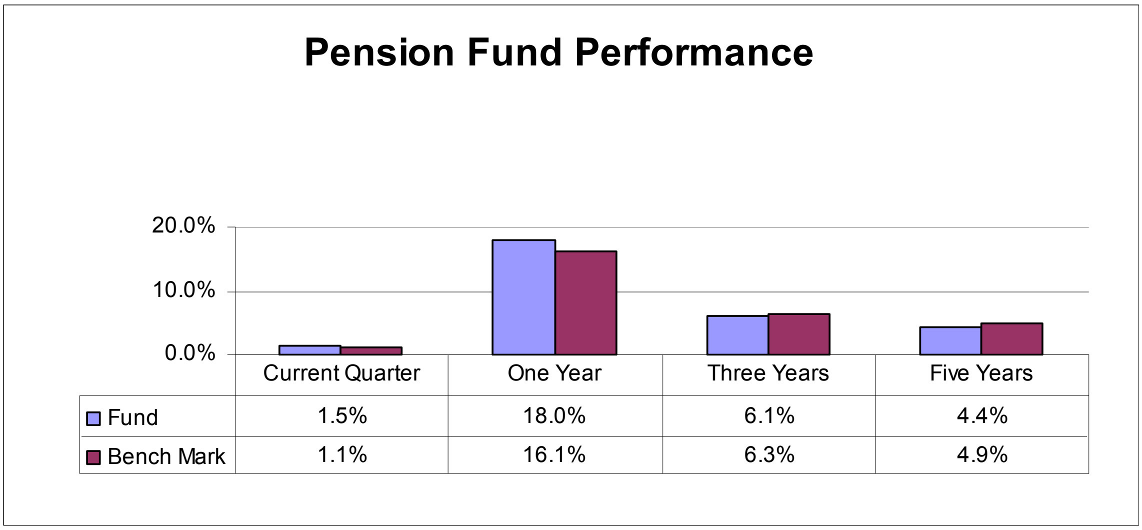
5.2 This Committee has established the Investment Panel, which meets quarterly for this purpose. The Panel's membership comprises all Members of the Pensions Committee, an Investment Professional as Chair, an Independent Financial Adviser, and the Corporate Director of Resources represented by the Service Head Corporate Finance, two trade union representatives and one representative of the admitted bodies. The Investment Panel is an advisory body which makes recommendations to the Pensions Committee which is the decision making body.

5.3 This report informs Members of the activities of the Investment Panel and performance of the Fund and its investment managers for the period ending 30 June 2011.

6. INVESTMENT PERFORMANCE

6.1 The Fund achieved a return of 1.5% which is 0.4% above 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 in the following table

Table 2: Management Structure

Manager	Mandate	Value £M	Target % of Fund	Actual % of Fund	Difference %	Date Appointed
GMO	Global Equity	208.6	25.0%	25.3%	0.3%	29 Apr 2005
Baillie Gifford	Global Equity	135.9	16.0%	16.5%	0.5%	5 Jul 2007
L & G UK Equity	UK Equity	167.2	20.0%	20.3%	0.3%	2 Aug 2010
Baillie Gifford Diversified Growth	Absolute Return	41.0	5.0%	5.0%	0.0%	22 Feb 2011
Ruffer Total Return Fund	Absolute Return	40.1	5.0%	4.9%	-0.1%	8 Mar 2011
L & G Index Linked-Gilts	UK Equity	39.7	3.0%	4.8%	1.8%	2 Aug 2010
Investec Bonds	Bonds	97.0	14.0%	11.8%	-2.2%	26 Apr 2010
Schroder	Property	93.3	12.0%	11.3%	-0.7%	30 Sep 2004
Cash	Currency	1.1	0.0%	0.1%	0.1%	
Total		**823.9**	**100.0%**	**100.0%**	**0.0%**	

7.2 The fund value of £823.7 million held by the managers has increased by £10.8 million (1.32%) 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	1.10%	1.50%	0.30%	0.00%
Baillie Gifford	0.40%	3.00%	1.80%	2.40%
L & G UK Equity	0.00%	0.10%		
Baillie Gifford Diversified Growth	1.90%	2.20%		
Ruffer Total Return Fund	0.90%	-0.10%		
L & G Index Linked-Gilts	0.00%	0.00%		
Investec Bonds	-1.00%	2.00%	-2.10%	
Schroder	0.30%	-0.40%	-0.90%	0.20%
Total Variance (Relative)	**0.80%**	**-0.90%**	**-0.70%**	**-0.70%**

7.4 **GMO** significantly outperformed over the quarter. They remain overweight in US high quality stocks as they keep to their long held belief that this is the right approach. Some of that belief was repaid this quarter as these stocks outperformed in a nervous market. The portfolio is also overweight European stocks despite weak financials in the Eurozone dominated by sovereign debt issues with Greece and Italy. GMO believe that the markets have priced in much of the threat already, so increased allocation to Europe, but particularly to Spain based on the belief that Spanish banks are among the better quality and more diversified large banks in the Europe. The portfolio continues to be significantly underweight in Canada and Australia due to a belief that these countries markets are overpriced.

7.5 **Baillie Gifford** Performance was significantly ahead of benchmark over the quarter and also over the longer term. Although, the portfolio was some turnover in the portfolio this quarter where market expectations are catching up with Baillie Gifford's view and other holdings that the manager believes have run their course. 'Growth' stocks continue to make significant contributions to returns as long held stocks performed strongly.

7.6 **L & G (UK Equity)** performance has been in line with the index benchmark (FTSE-All Share) since inception, as expected.

7.7 **L & G Index Linked Gilts** performance has been in line with the index benchmark (FTSE-A Index-Linked Over 15 Years Gilts) since inception.

7.8 **Schroder (Property)** Schroder outperformed benchmark in the quarter by 0.3%. The drivers of performance this quarter are the overweight positions in the central London office market and improved performance in continental European holdings. Schroder have taken a holding in their Real Income Fund to maintain real income and help protect value in low growth environment.

7.9 **Investec (Bonds)** returned -0.9% against a benchmark return of 0.1% underperforming by 1.0% over the quarter. Despite 3 quarters of outperformance, a poor start to the mandate and underperformance in Q2 of 2011 means performance since inception trails the benchmark. The main reasons for underperformance this quarter were interest rate and currency positioning and corporate bond exposure, but exposure to Emerging Markets Debt was a positive contributor.

7.10 **Baillie Gifford Diversified Growth Fund (Absolute Return)** significantly outperformed the benchmark returning 2.0% against benchmark of 0.1%. The portfolio continues to have little exposure to equities with higher weightings to cash and more defensive asset classes like insurance linked and absolute return funds.

7.11 **Ruffer Total Return Fund (Absolute Return)** outperformed the benchmark returning 1.1% against benchmark of 0.2%. The manager has reduced equity weighting in the portfolio which has assisted performance this quarter.

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 – the latest review was carried out in January 2011. Asset allocation is determined by a number of factors including:-

8.1.1 The risk profile. Generally there is a trade-off between the returns obtainable on investments and the level of risk. Equities have higher potential returns but this is achieved with higher volatility. However, as the Fund remains open to new members and able to tolerate this it can seek long term benefits of the increased returns.

8.1.2 The age profile of the Fund. The younger the members of the Fund, 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 a twenty 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 2011 are as set out below:

Table 4: Asset Allocation

Mandate	Benchmark 31 Mar 2011	Fund Position	Variance as at 31 Mar 2011	Variance as at 31 Mar 2010
UK Equities	24.0%	24.9%	0.9%	0.8%
Global Equities	37.0%	36.4%	-0.6%	1.9%
Total Equities	**61.0%**	**61.3%**	**0.3%**	**2.7%**
Property	12.0%	10.8%	-1.2%	-1.3%
Bonds	14.0%	11.8%	-2.2%	-2.0%
UK Index Linked	3.0%	4.8%	1.8%	-0.4%
Alternatives	10.0%	9.8%	-0.2%	0.0%
Cash	0.0%	1.5%	1.5%	1.3%
Currency	0.0%	0.0%	0.0%	-0.3%
Total Equities	**100.0%**	**100.0%**		

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. The rebalancing exercise that was undertaken in January has corrected the temporary distortion 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. Diversification relates to asset classes and management styles.

14. CRIME AND DISORDER REDUCTION IMPLICATIONS

14.1 There are no 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"	***Name and telephone number of holder And address where open to inspection***
Review of Investment Managers' Performance for the 2nd Quarter Report 2011 – prepared by Hymans Robertson LLP	*Oladapo Shonola Ext. 4733 Mulberry Place, 4th Floor.*

COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.	AGENDA NO.
Pensions Committee	**17 November 2011**	**Unrestricted**		

REPORT OF:	TITLE:
Corporate Director of Resources ORIGINATING OFFICER(S): **Oladapo Shonola – Chief Financial Strategy Officer**	**Review of Internal Control Report** Ward(s) affected: N/A

Lead Member	**Cllr Alibor Choudhury - Resources**
Community Plan Theme	**All**
Strategic Priority	**One Tower Hamlets**

1. SUMMARY

1.1 This report presents the findings of a review of the adequacy of internal control measures put in place by the pension fund managers.

1.2 Each fund manager is required to submit to the Council an audited Statement of Auditing Standards No. 70 (SAS 70). The SAS 70 is an internationally recognised audit standard that assesses the adequacy of internal controls in an organisation and is designed to provide third party assurance on how service organisations conduct business.

1.3 All the SAS 70 reports have been audited and approved by independent auditors. Officers have also reviewed these reports and are satisfied that the internal controls that are in place are satisfactory.

2. DECISIONS REQUIRED

2.1 Members are recommended to note this report.

3. REASONS FOR DECISIONS

3.1 The review of fund managers' SAS 70 reports provides assurance to the Pension Fund (Members and Trustees) that fund mangers have adequate controls and safeguards in place for managing the Fund assets. It is appropriate for the committee and Fund members to be kept abreast of any risks identified through this process and the likely impact of such risks to the Fund.

4. ALTERNATIVE OPTIONS

4.1 There are no alternative options as it is a statutory requirement that the Pension Fund administrators review the controls and safeguards in place for managing the Fund assets and report the outcome of the review to the Trustees and Members of the Fund.

5. BACKGROUND

5.1 Statement on Auditing Standards No.70 (SAS 70) is an internationally recognised auditing standard developed by the American Institute of Certified Public Accountants (AICPA). SAS 70 is widely recognised, because it shows that a service organisation has been through an in-depth audit of their control objectives and control activities, which often include controls over information technology and other related processes.

5.2 This authoritative guidance requires pension fund managers to disclose their control activities and processes in a universally recognised reporting format, which is updated annually.

5.3 The Fund requires that fund managers prepare and provide SAS 70 reports as part of their reporting requirement to the Fund. These reports provide assurance to the Fund that fund managers' internal controls/safeguarding measures are adequate. These reports are subject to annual audits, and consequently officers also review the updated reports annually to ensure that any changes are acceptable to the Council and will not expose the Funds assets to undue risk.

6. REVIEW OF FUND MANAGERS' INTERNAL CONTROL REPORTS

6.1 This financial year, the internal control reports for the following fund managers have so far been received and reviewed:

- Schroder's;
- Investec Asset Management;

6.2 The exceptions noted in the auditors' reports for these organisations have been considered for potential impact on the Pension Fund. Officers have not identified any significant change in risk.

6.3 Reports for other fund managers have now been received and are being reviewed. The outcome of these reviews will be reported to the February meeting of the Committee.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

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

8.1 The Pensions Committee is charged under the Council's constitution with the duty to consider pension matters and meet the obligations and the duties of the Council under the Superannuation Act 1972, and the various statutory requirements in respect of investment matters.

8.2 Under the principals of good governance Members need to satisfy themselves that appropriate checks and balances are built into the pension administration system to demonstrate that it is adequate and effective.

8.3 This officer's report is demonstrating one of those checks and balances as it reviews the internal control measures of the fund managers.

9. ONE TOWER HAMLETS CONSIDERATIONS

9.1 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.

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

11. RISK MANAGEMENT IMPLICATIONS

11.1 The review of the SAS 70 internal control reports of third parties that manage Pension Fund assets ensures that fund managers are able to demonstrate that they are properly managing pension fund assets as stewards of the Fund and are following procedures that do not expose fund assets to any undue risks.

11.2 Pension Fund assets could be exposed to undue risk where SAS 70 reports are not in place or adequate internal controls and safeguard measures are lacking in the management of Fund assets.

12. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

13. EFFICIENCY STATEMENT

13.1 The review arrangement of fund managers' internal control framework provides some assurance to the Committee that assets are being managed in a way that is congruent with the Fund Strategy and therefore more likely to yield returns/outcomes that reflect Fund objectives.

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***
Fund Managers SAS 70 reports (Schroder's & Investec)	*Oladapo Shonola, x4733, 4th Floor Mulberry Place.*

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Agenda Item 8.1

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