Meeting of the

PENSIONS COMMITTEE

Thursday, 21 February 2013 at 7.30 p.m.

A G E N D A

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

Members:	**Deputies (if any):**
Chair: Councillor Zenith Rahman **Vice – Chair: Councillor Motin Uz-Zaman**	
Councillor Craig Aston **Councillor Abdal Ullah** **Councillor Marc Francis** **2 Vacancies**	Councillor David Snowdon, (Designated Deputy representing Councillor Craig Aston) Councillor Tim Archer, (Designated Deputy representing Councillor Craig Aston) Councillor Carlo Gibbs, (Designated Deputy representing Councillors Zenith Rahman, Motin Uz-Zaman, Abdal Ullah and Marc Francis) Councillor Carli Harper-Penman, (Designated Deputy representing Councillors Zenith Rahman, Motin Uz-Zaman, Abdal Ullah and Marc Francis) Councillor Helal Abbas, (Designated Deputy representing Councillors Zenith Rahman, Motin Uz-Zaman, Abdal Ullah and Marc Francis)
Frank West – Non-voting Member Representing Trade Unions **John Gray – Non-voting Member representing Admitted Bodies**	
[Note: The quorum for this body is 3 Members].	

If you require any further information relating to this meeting, would like to request a large print, Braille or audio version of this document, or would like to discuss access arrangements or any other special requirements, please contact: Antonella Burgio, Democratic Services. Tel: 020 7364 4881

"If the fire alarm sounds please leave the building immediately by the nearest available fire exit, to which a Fire Warden will direct you. Please do not use the lifts. Please do not deviate to collect personal belongings or vehicles parked in the complex. If you are unable to use the stairs, a member of staff will direct you to a safe area. On leaving the building, please proceed directly to the Fire Assembly Point situated by the lake on Saffron Avenue. No person must re-enter the building until instructed that it is safe to do so by the Senior Fire Marshall. The meeting will reconvene if it is safe to do so, otherwise it will stand adjourned."

LONDON BOROUGH OF TOWER HAMLETS

PENSIONS COMMITTEE

Thursday, 21 February 2013

7.30 p.m.

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST (Pages 1 - 4)

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 5 - 8)

To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meeting held on 15th November 2012.

4. UNRESTRICTED REPORTS FOR CONSIDERATION

4 .1 Report on Fund Liquidity (Pages 9 - 14)

To approve the recall of dividend and rental income from two of the Fund's managers (GMC and Schroders) into the LBTH Pension Fund.

4 .2 Review of Internal Control Reports in 2012/13 (Pages 15 - 18)

To note the report.

4 .3 Report of Investment Panel for Quarter Ending 30 September 2012. (Pages 19 - 26)

To note the report.

4 .4 Report on Pension Fund Work Plan (Pages 27 - 32)

To agree the work plan attached at item 4.4.

4 .5 Recovery of Pension Fund Deficit Contribution - Academy Conversion (Pages 33 - 76)

To agree a deficit recovery period for active transferring members.

5. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

5 .1 Training Dates (Pages 77 - 78)

To note training opportunities offered.

DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Members' Code of Conduct at Part 5.1 of the Council's Constitution.

Please note that the question of whether a Member has an interest in any matter, and whether or not that interest is a Disclosable Pecuniary Interest, is for that Member to decide. Advice is available from officers as listed below but they cannot make the decision for the Member. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending a meeting.

Interests and Disclosable Pecuniary Interests (DPIs)

You have an interest in any business of the authority where that business relates to or is likely to affect any of the persons, bodies or matters listed in section 4.1 (a) of the Code of Conduct; and might reasonably be regarded as affecting the well-being or financial position of yourself, a member of your family or a person with whom you have a close association, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward affected.

You must notify the Monitoring Officer in writing of any such interest, for inclusion in the Register of Members' Interests which is available for public inspection and on the Council's Website.

Once you have recorded an interest in the Register, you are not then required to declare that interest at each meeting where the business is discussed, unless the interest is a Disclosable Pecuniary Interest (DPI).

A DPI is defined in Regulations as a pecuniary interest of any of the descriptions listed at **Appendix A** overleaf. Please note that a Member's DPIs include his/her own relevant interests and also those of his/her spouse or civil partner; or a person with whom the Member is living as husband and wife; or a person with whom the Member is living as if they were civil partners; if the Member is aware that that other person has the interest.

Effect of a Disclosable Pecuniary Interest on participation at meetings

Where you have a DPI in any business of the Council you must, unless you have obtained a dispensation from the authority's Monitoring Officer following consideration by the Dispensations Sub-Committee of the Standards Advisory Committee:-

- not seek to improperly influence a decision about that business; and
- not exercise executive functions in relation to that business.

If you are present at a meeting where that business is discussed, you must:-

- Disclose to the meeting the existence and nature of the interest at the start of the meeting or when the interest becomes apparent, if later; and
- Leave the room (including any public viewing area) for the duration of consideration and decision on the item and not seek to influence the debate or decision

When declaring a DPI, Members should specify the nature of the interest and the agenda item to which the interest relates. This procedure is designed to assist the public's understanding of the meeting and to enable a full record to be made in the minutes of the meeting.

Where you have a DPI in any business of the authority which is not included in the Member's register of interests and you attend a meeting of the authority at which the business is considered, in addition to disclosing the interest to that meeting, you must also within 28 days notify the Monitoring Officer of the interest for inclusion in the Register.

Further advice

For further advice please contact:-

Isabella Freeman, Assistant Chief Executive (Legal Services), 020 7364 4801; or
John Williams, Service Head, Democratic Services, 020 7364 4204

APPENDIX A: Definition of a Disclosable Pecuniary Interest

(Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, Reg 2 and Schedule)

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority— (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	Any tenancy where (to the Member's knowledge)— (a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.
Securities	Any beneficial interest in securities of a body where— (a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and (b) either— (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.30 P.M. ON THURSDAY, 15 NOVEMBER 2012

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

Members Present:

Councillor Zenith Rahman (Chair)
Councillor Craig Aston
Councillor Abdal Ullah
Councillor Marc Francis

Officers Present:

Alan Finch	–	(Interim S151 Officer, Service Head Financial Services, Risk & Accountability, Resources)
Anant Dodia	–	(Pensions Manager)
Oladapo Shonola	–	(Chief Financial Strategy Officer, Resources)
Lisa Stone	–	
Simon Kilbey	–	(Service Head, Human Resources and Workforce Development)
Antonella Burgio	–	(Democratic Services)

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Motin Uz-Zaman.

2. DECLARATIONS OF INTEREST

No declarations of disclosable pecuniary interests were made.

3. UNRESTRICTED MINUTES

The unrestricted minutes of the Pensions Committee meeting held on 20 September 2012 were approved as a correct record of proceedings.

4. DEPUTATIONS & PETITIONS

Nil items.

5. UNRESTRICTED REPORTS FOR CONSIDERATION

5.1 Annual Pension Fund Report and Statement of Accounts

The Chief Financial Strategy Officer presented the report containing the audited final Pension Fund statement of accounts for 2011/12. The Committee was informed that the fund total asset value and annual statement of accounts had been audited. No material information changes had been found at audit.

RESOLVED

That the following be approved:

a) 2011/12 final Pension Fund Statement of Accounts;
b) Pension Fund Annual Report
c) Funding Strategy Statement;
d) Statement of Investment Principles.

5.2 Proposed (2014) LGPS Scheme

The Chief Financial Strategy Officer presented the report which informed the Committee of proposed changes to the Local Government Pension Scheme (LGPS) emerging from the Public Service Pensions Bill 2012-13 presently being considered by Parliament.

In discussing the report, the Committee noted the following matters:

- It was not possible to predict how the changes would affect the workforce at present.
- It was anticipated that the option to pay half contribution for half pension benefits would be popular.
- The new scheme was not yet implemented although Government and Unions had given agreement, therefore actuarial calculations based on the new terms might be delayed. This would be factored in.
- The interim actuarial report anticipates a fund reduction of 1%.
- To mitigate the effects of member opting to leave the scheme officers were working on a strategy to build liquidity into the fund using payments received into the fund and matured investments. Additionally officers would monitor entry into and exit from the fund.
- There would be implications on the long term value of the fund.

RESOLVED

That the report be noted.

5.3 Report of the Investment Panel

The Chief Financial Strategy Officer presented the report of the Investment Panel for the quarter April – June 2012. He highlighted that:

- Markets had not performed well during the period
- The value of the Fund decreased by 0.5%
- In the period, Fund manager Baillie Gifford had performed well against benchmark

In discussing the report, the Committee noted the following matters:

- In general, the Fund had performed as expected and investments had been diversified to spread risk.
- Other than Schroders and GMO, there were no concerns with fund managers. However all managers' performance would be kept under observation.
- The Investment Panel had interviewed underperforming Fund Managers Schroders and GMO to hear how these would ensure that poor performance would not continue. Additionally a new fee structure had been negotiated with GMO.
- Fund Manager Ruffer underperformed as equities had performed poorly in the quarter. To mitigate the risk, the portfolio had been divided between Ruffer and Baillie Gifford previously.
- Ruffer was looking to reduce exposure to equities.
- It was felt that the present strategy was right for the economic times and the markets. However the Council would keep the matter under review and assess if the present strategy continued to be suitable or would need to be changed.
- It was agreed that the Investment Panel be asked to interview Ruffer and two other absolute return managers

RESOLVED

1) That the report be noted
2) That the Investment Panel be asked to interview Ruffer and two other absolute return managers at its next meeting

5.4 Workforce Pension Reform: Automatic Enrolment

The Service Head, Human Resources and Workforce Development presented the report which set out the Council's response to the Government's workplace pension reform which initiated phased automatic enrolment into a qualifying pension scheme for most employees. The Council has been given a staging date of 1st March 2013 at which time it will be required to comply with its new duties and offer new employees the opportunity to opt out of auto-enrolment and existing employees the opportunity to opt into the pension scheme.

In discussing the report, the Committee noted that it was an employer's responsibility to contact employees to advise them of the staging date and require employees to respond, therefore any admitted bodies would have to carry out this task for their own workforce where staff were admitted into the Council's pension scheme. It was agreed that a letter be written to admitted bodies reminding them of this new duty.

RESOLVED

1) That the report be noted
2) That a letter be written to admitted bodies reminding them of this new duty.

6. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

Nil items.

7. EXCLUSION OF THE PRESS AND PUBLIC

Under the provisions of Section 100A of the Local Government Act, 1972 as amended by the Local Government (Access to Information) Act, 1985, the Chair moved that Press and Public be excluded from the remainder of the meeting for the consideration of the Section Two business.

RESOLVED

That press and public be excluded from the meeting during the discussion of Section Two business on the grounds that the items contained information defined as Exempt in Parts 1, 2, 3 and 4 of Schedule 12A to the Local Government, Act 1972". ('information relating to an individual', 'information which may reveal the identity of a person, information relating to the financial or business affairs of a person' and 'information relations to any consultations or negotiations or contemplated consultations or negotiations in connection with any labour related matter arising between the authority , or a Minister of the Crown and employees of, or officer holders under, the authority.,').

8. RESTRICTED MINUTES

The restricted minutes of the Pensions Committee meeting held on 20 September 2012 were approved as a correct record.

9. ANY OTHER RESTRICTED BUSINESS CONSIDERED TO BE URGENT

Nil items.

The meeting ended at 8.05 p.m.

Chair, Councillor Zenith Rahman
Pensions Committee

COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.	AGENDA NO.
Pensions Committee	**21 February 2013**	**Unrestricted**		

REPORT OF:	TITLE:
Interim Corporate Director of Resources ORIGINATING OFFICER(S): Alan Finch – Service Head Financial Service, risk and Accountability Oladapo Shonola – Chief Financial Strategy Officer	**Report on Fund Liquidity** **Ward(s) affected:** **N/A**

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

1. SUMMARY

1.1 The London Borough of Tower Hamlets Pension Fund is maturing faster than previously anticipated. This has caused a major shift in the Fund's cash flow position to the extent that the Fund is expected to be cash flow negative (this is when the Fund pays out more in benefit and expenses that it takes in from contributions) within the next twelve to eighteen months.

1.2 This is significant in that a cash flow negative Fund needs a different funding strategy – preferably one that delays asset sell off for as long as possible whilst still ensuring that the Fund meets its liabilities.

1.3 Having reviewed the options available to the Fund, officers and Fund advisers are agreed that the best option to improve liquidity within the Fund in the short term and ensure liabilities are met is to recall dividend and rental income from two of its managers, GMO and Schroders. This is a good bridging solution in the short term pending the triennial actuarial valuation which should provide a timely opportunity to revise the Funding Strategy.

2. DECISIONS REQUIRED

2.1 The Committee is asked to approve the recall of dividend and rental income from two of the Fund's managers (GMO and Schroders) into the LBTH Pension Fund bank account to help meet the cost of in-year liabilities.

3. REASONS FOR DECISIONS

3.1 The London Borough of Tower Hamlets Pension Fund is part of the wider Local Government Pension Scheme (LGPS). The Scheme as with other LPGS schemes is funded and distinct from 'pay as you go' schemes which are unfunded.

3.2 The Fund receives contributions and investment income from current members and fund assets which it uses to pay benefits as they fall due. Consequently, one of the main objectives of the Fund is to ensure that sufficient funds are available to meet all benefits as they fall due for payment. However, this objective may be jeopardised if the Fund does not maintain sufficient liquidity.

3.3 The Pension Committee is charged with meeting the duties of the Council in respect of the Pension Fund. Therefore it is appropriate that the Committee formally approves any changes to the investment approach/funding strategy including taking decisions that will ensure that the Scheme is able to meets its liabilities as they fall due.

4. ALTERNATIVE OPTIONS

4.1 The London Borough of Tower Hamlets Pension Fund is bound by legislation to ensure that members of the Fund receive benefits as they fall due under the Fund's terms.

4.2 Other potential funding sources for the Fund that could be used to fulfil the Fund's obligations are as follows:

i. Use contributions into the Fund by active members and their employers to meet liabilities;
ii. Sell Fund assets and use the proceeds to meet Fund liabilities;
iii. Undertake temporary borrowing (this option is limited by legislation) to meet Fund liabilities.

4.3 Although, the Fund is free to determine how best to funds its liabilities as the fall due, it is expected to meet such obligations to its retired members.

5. BACKGROUND

5.1 In the past the London Borough of Tower Hamlets Pension Fund has always been cash flow positive and therefore has always been able to meet all its liabilities from contributions received without the need to sell off any of its assets, undertake temporary borrowing or recall income generated from invested assets.

5.2 The Fund was cash flow positive in 2011/12 taking in £3.7m more than it paid out in liabilities. Prior financial years also saw cash flow positive positions of £11.5m, £9.3m and £10.6m in 2008/09, 2009/10 and 2010/11 respectively. This shows that prior to austerity measures kicking in; the Fund was in a healthy cash flow position of taking in £10m more on average than it paid out annually. The transition from cash flow positivity to negativity is a natural part of the life cycle of a Fund. Although, the Funding Strategy has always assumed that the Fund will mature at some point in the future, maturity has been reached a lot sooner than had been anticipated.

5.3 It is difficult to be exact about the point at which the Scheme will become cash flow negative given the potential impact of transfers in/out and payment of lump sum amounts, both of which are extremely difficult to predict. Nevertheless, it is expected that the Fund will be cash flow negative at some point in the next 18 months. The biggest contributor to the jump toward a cash-flow negative Fund in the past two years is the pace of staff reductions by the Council, the main employer and contributor to the Fund. Reduction in payroll numbers by LBTH has a direct impact on scheme membership (i.e. reduces membership) and consequently cash inflow, and there is more to come.

5.4 The reduction in payroll affects the Fund in two ways: firstly, the Fund loses income that it would otherwise have received as contributions from employees who are active members of the Fund and also employer contributions to the Fund by the Council in relation to those active members; secondly, some staff will go straight into retirement which will mean immediate entitlement to cash lump sums /retirement benefits, both of which will have the effect of increasing cash outflow.

5.5 If the current trend is maintained, over the next two years, the Fund will need to find additional £10m cash inflow annually to fund in-year liabilities.

5.6 Officer and advisers have already taken actions to improve the Fund's cash flow position including negotiating and agreeing significant reduction in fund management fees paid to GMO and will continue to actively seek out opportunities to reduce cash outflow from the Fund.

6 OPTIONS TO IMPROVE FUND LIQUIDITY

6.1 Recent research by Hymans Robertson suggest that 50% of Funds expect to be cash flow negative once the impact of staffing reduction has fully fed through payroll, so this issue is not unique to LBTH Pension Fund. They also noted that a Fund going cash flow negative is not a cause for panic and that such funds will need to switch strategies from growth seeking to income generating.

6.2 As with all LGPS schemes, an objective of the LBTH scheme's funding policy is to ensure that sufficient funds are available to meet all benefits as they fall due for payment. The Fund receives contributions from employees and employers of fund members with a promise to pay benefits out at a later date, usually in retirement. However, given that the Fund is expected to be cash flow negative by the end of the next financial year, if not before that, it is necessary to put in place measures to ensure liquidity is maintained within the Fund and that the Fund is able to meet its obligations to scheme members.

6.3 Being cash flow negative means that the Fund has less cash coming in than payments going out, therefore, less likely to be able to meet all of its liabilities in a given period. In this situation there are a number of options open to the Fund. These are:

i. Sell Fund assets and use the proceeds to meet Fund liabilities;
ii. Undertake temporary borrowing (this option is limited by legislation) to meet Fund liabilities; and
iii. Use income generated from invested assets to meet Fund liabilities.

6.4 The first option, although a viable option, is more suited to Funds that have fully matured (i.e. retired members are more than active members) and would need to start selling off assets to pay off benefits accrued by its members. The LBTH Pension Fund is some way off this point. Taking this approach could also lead to assets being sold off at a discount in unattractive market condition, and in so doing, crystallising temporary losses. Depending on the future trajectory of the Fund and the outcome of the next actuarial valuation this option could be part of the long term funding strategy for the Fund, but for now it is deemed unsuitable to the immediate needs of the Fund.

6.5 The second option is restricted by legislation and can only be adopted as a temporary measure. The LGPS (Administration) Regulation 2010 sets the conditions under which an LGPS can borrow money that is expected to be paid out of the pension fund. These are that the Fund:

- Uses the borrowed money to pay benefits due under the scheme; or
- Uses the borrowed money to meet investment commitments arising from a decision to rebalance the Fund's portfolio of investment; and
- Must reasonably believe that the sum borrowed and interest charged can be repaid out of the pension fund within 90 days of the date of the borrowing.

  This option also carries costs associated with the servicing of the debt.

6.6 There is no guarantee that the Fund will be able to meet these criteria in a cash flow negative situation. Further, this is not a sustainable solution if the Fund is projected to remain cash flow negative into the future.

6.7 The third option, which is the preferred option, ensures that the Fund asset base is maintained through volatile/unattractive periods of the market and therefore prevents crystallising temporary losses in asset value. It also avoids transaction cost that will arise from the selling of assets.

6.8 Whilst the option does mean asset base growth would be slightly stunted as income that would otherwise have been reinvested would instead be used to pay member benefits, it nevertheless prevents the greater risk that could materialise from asset sell off. Therefore this option is still regarded as the best bridging solution available pending a detailed review of the Funding Strategy that will follow the scheduled triennial actuarial valuation.

6.9 There are two fund mandates which currently provide a stream of investment income in a form that can readily be taken by the Fund; the GMO Global Equity mandate and the Schroders Property Fund. At present these managers are instructed to reinvest income into their portfolios, but by changing these instructions, the authority can boost income to the Fund without significantly changing the overall strategy at this stage.

6.10 In the longer run the growing maturity of the Fund will have an impact on strategy and officers will be reviewing the position with the Fund's advisers over the coming period with a view to making further recommendations to the Committee in due course.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

7.1. The comments of the chief financial officer have been incorporated into the report.

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

8.1 Under Regulation 11 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 the Council, as an administering authority, is required to invest fund money that is not needed immediately to make payments from the Pensions Fund.

8.2 This report details how those investments need to be rearranged in order to ensure adequate funds are available to make payments that will become due

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 Fund will be at risk of not meet a key objective if it were not able to meets its obligations to scheme members as they fall due. This will be a major disincentive to current employees and would lead to the Fund being in breach of LGPS regulations.

12. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

13. EFFICIENCY STATEMENT

13.1 The option proposed in this paper is regarded as the most efficient method for ensuring that the Fund is able to meet its obligations as it prevents forced sale of assets in unattractive markets and no transactional costs are incurred.

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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COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.	AGENDA NO.
Pensions Committee	**21 February 2013**	**Unrestricted**		

REPORT OF:	TITLE:
Interim Corporate Director of Resources ORIGINATING OFFICER(S): Oladapo Shonola – Chief Financial Strategy Officer Lisa Stone – Pensions Accountant	**Review of Internal Control Reports in 2012/13** 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 finding of the review of the adequacy of internal control measures put in place by the fund managers that hold the Fund's assets in management. Officers have reviewed the available SAS70 and SSAE16 (which signifies that a service organization has had its control objectives and control activities examined by an independent accounting and auditing firm).

1.2 The review of fund managers SAS70/SSAE16 reports has identified no significant changes in the internal control environment from last year.

1.3 The Fund managers' internal control reports have been audited and approved by external auditors and they are satisfied that adequate controls are in place for managing and reporting of the Fund's assets.

2. DECISIONS REQUIRED

2.1 Members are recommended to note this report.

3. REASONS FOR DECISIONS

3.1 There are no decisions to be made.

4. ALTERNATIVE OPTIONS

4.1 The review of fund managers' SAS 70 and SSAE 16 reports should provide some assurance to the Pension Fund (Members and Trustees) that fund mangers have adequate controls and safeguards are in place to for managing the Fund's 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.

5. BACKGROUND

5.1 The new service organisation reporting standard Statement on Standards for Attestation Engagements No. 16 (SSAE 16), effective as of 15 June 2011, supersedes the Statement on Auditing Standards No.70 (SAS 70). It is an internationally recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA). SSAE 16 is widely recognized, because it represents that a service organization 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 allows pension fund managers to disclose their control activities and processes in a universally recognised reporting format, which is updated annually.

5.3 The Fund has always required that fund managers prepare and provide SAS70/SSAE16 reports as part of their reporting requirement to the Fund. These reports provide some 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 Fund's assets to undue risk.

6 REVIEW OF FUND MANAGERS' INTERNAL CONTROL REPORTS

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

- Schroder
- GMO
- Baillie Gifford
- Legal & General
- Ruffer LLP
- Investec

6.2 The exceptions noted in the auditors' reports for these organisations have been considered for potential impact on the Pension Fund. Where there have been changes to procedures officers have followed these up with the relevant managers to clarify impact on Fund assets. This process has not identified any significant change in risk to the Fund.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

7.1. The comments of the Interim 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 SAS70/SSAE16 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 SAS70/SSAE16 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***
	Oladapo Shonola, x4733, 7th Floor Mulberry Place. *Lisa Stone, x4731, 7th Floor Mulberry Place*

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COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.	AGENDA NO.
Pensions Committee	**21 February 2013**	**Unrestricted**		
REPORT OF: Interim Corporate Director of Resources ORIGINATING OFFICER(S): Oladapo Shonola – Chief Financial Strategy Officer		TITLE: **Report of Investment Panel for Quarter Ending 30 September 2012.** 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 September 2012.

1.2 In the quarter to the end ofSeptember 2012the Fund achieved a return of 2.6% which is0.1% above the benchmarkof2.5%. The twelve month Fund return of 10.2% is in line with benchmark at 10.3%. Over the longer term, performance slightly lags benchmark by 0.3% and 0.4% for three and ten year periods respectively.

1.3 Six managers matched or achieved returns abovethe benchmark and the other 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 overall portfolio returns.

1.4 The Fund investment in equity is in line with long term strategic equity asset allocationand the distribution of the Fund's assets amongst the different asset classes is also broadly in line with benchmark.

2. DECISIONS REQUIRED

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

3. REASONS FOR DECISIONS

3.1 There are no decisions to be made as a result of this report. The report is written to inform committee members of the performance of pension fund managers and the overall performance of the Tower Hamlets Pension Fund.

4. ALTERNATIVE OPTIONS

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

5. BACKGROUND

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

5.2 This Committee has established the Investment Panel, which meets quarterly for this purpose. The Panel's membership comprises all Members of the Pensions Committee, an Investment Professional as Chair, an Independent Investment Adviser, and the Corporate Director of Resources represented by the Service Head Financial Services, Risk and Accountability, one 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.

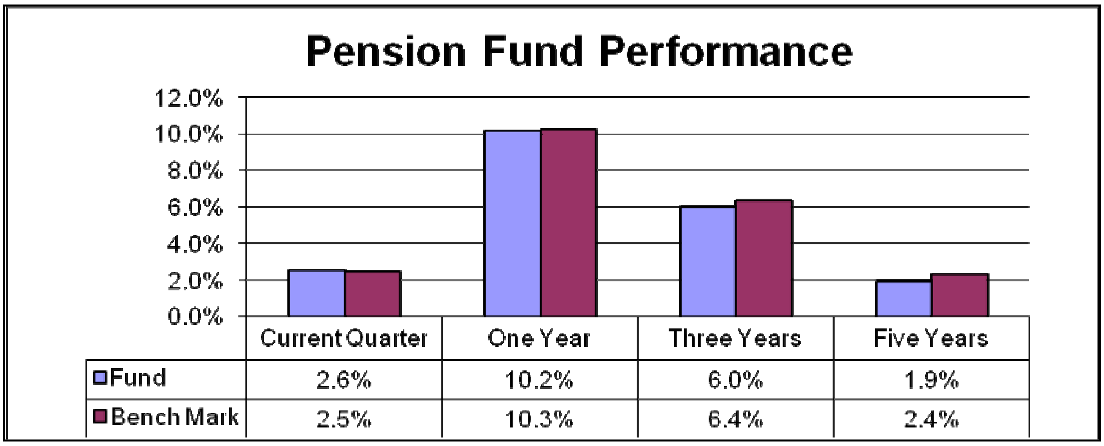
5.3. Officers and fund advisers meet regularly with investment managers to discuss their strategy and performance and may recommend that investment managers are invited to explain further to the Investment Panel.

5.4 This report informs Members of the activities of the Investment Panel and performance of the Fund and its investment managers for the period ending30 September 2012.

6INVESTMENT PERFORMANCE

6.1 The Fund achieved a return of 2.6%in the quarter which is0.1%above the benchmark of 2.5%.

6.2 The performance of the fund over the longer term is as set out in table 1.



6.3 The chart 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, mandateand funds held under management are set out below:

Table 2: Management Structure

Manager	Mandate	Value £M	Target % of Fund	Actual % of Fund	Difference %	Date Appointed
GMO	Global Equity	197.5	25.0%	23.8%	-1.2%	29 Apr 2005
Baillie Gifford	Global Equity	136.8	16.0%	16.5%	0.5%	5 Jul 2007
L & G UK Equity	UK Equity	169.8	20.0%	20.5%	0.5%	2 Aug 2010
Baillie Gifford Diversified Growth	Absolute Return	42.9	5.0%	5.2%	0.2%	22 Feb 2011
Ruffer Total Return Fund	Absolute Return	40.2	5.0%	4.8%	-0.2%	8 Mar 2011
L & G Index Linked-Gilts	UK Index Linked	44.9	3.0%	5.4%	2.4%	2 Aug 2010
Investec Bonds	Bonds	96.0	14.0%	11.6%	-2.4%	26 Apr 2010
Schroder	Property	94.5	12.0%	11.4%	-0.6%	30 Sep 2004
Cash	Currency	7.5	0.0%	0.9%	0.9%	
Total		**830.2**	**100.0%**	**100.0%**	**0.0%**	

7.2 The fund value of £830.2 million as at 30 September 2012, which includes cash held, has increased by £19.9 million (2.46%) over the quarter.

7.3 The performance of the individual managers relative to the appropriate benchmarksover the past five years is as set out in table 3.

Table 3: Manager Investment Performance relative to benchmark

Manager	Current Quarter	One Year	Three Years	Five Years
GMO	-0.60%	-2.50%	-0.50%	-0.30%
Baillie Gifford	1.30%	1.40%	2.70%	2.20%
L & G UK Equity	0.00%	0.10%	0.20%	N/A
Baillie Gifford Diversified Growth	2.20%	8.60%	4.40%	N/A
Ruffer Total Return Fund	1.00%	1.50%	-0.60%	N/A
L & G Index Linked-Gilts	0.00%	0.10%	0.00%	N/A
Investec Bonds	0.80%	2.40%	-1.80%	N/A
Schroder	-0.70%	-2.60%	-2.50%	-1.30%
Total Variance (Relative)	**0.10%**	**0.00%**	**-0.30%**	**-0.40%**

7.4 **GMO**performed in line with benchmark in this quarter at 3.1% against a benchmark of 3.8% giving a relative performance of -0.6%. Overall, stock selection had neutral impact on performance. Although aggregate position in Financials detracted from performance, European Financials were particularly strong through the quarter and therefore added value. In anticipation of turbulent markets ahead, GMO are proposing to minimise exposure to stocks that have been classed as high valuation by short term investors and instead lean toward investments that are protected by low valuation, but regarded as high quality in Europe and USA.

7.5 **Baillie Gifford –** recovered from a negative relative performance in the previous quarter to post strong third quarter performance. The portfolio delivered return of 5.3% against a benchmark of 3.9% resulting in relative outperformance of 1.3%. Contribution to outperformance was spread across the portfolio, with the majority of stockholdings making small gains. The largest contributors to performance were Naspers, a South African media company and Namco Bandai, a Japanese computer games company.

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 **Investec (Bonds)** – delivered a return of 0.9% this quarter against a benchmark of 0.1%, which equates to outperformance of 0.8%. The main contributor to outperformance was exposure to emerging markets where monetary policy in developed world was favourable to emerging markets exchange rates. Exposure to corporate bonds was reduced through the quarter and the manager crystallised gains in a number of positions that had rallied following underperformance in previous periods. Performance since inception still lags benchmark.

7.9 **Schroder (Property)**– delivered a return of -0.3% this quarter against a benchmark of 0.4%, which equates to a relative underperformance of -0.7%. European propertycontinues to detract from performance, a situation that is made worse by the fall in the value of the Euro relative to Sterling. The performance of the European portfolio is expected to continue to be a source of weakness to performance for some time to given that exiting the investment will lead to significant loss to the Fund. The UK portfolio performance trended downward this quarter adding to overall underperformance. Going forward the manager is keen to invest in low geared, balanced property funds and other funds targeting an income focussed approach as the manager believes this to be the approach most suited to the current economic environment.

7.10 **Baillie Gifford Diversified Growth Fund (Absolute Return)**delivered a return of 2.3% this quarter against a benchmark of 0.1%, which equates to a relative outperformance of 2.2%. The Baillie Gifford absolute return mandate, continue to perform strongly as it has done since inception.

7.11 **Ruffer Total Return Fund (Absolute Return)**– delivered a return of 1.2 % this quarter against a benchmark of 0.2%, which equates to a relative outperformance of 1.0%. The fund had positive contributions from gold and gold equity holdings following further quantitative easing announcement in the USA. Although, exposure to US dollar detracted from performance.

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 thisit 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 as at 30 September 2012are as set out below:

Table 4: Asset Allocation

Mandate	Benchmark 30 Sep 2012	Fund Position	Variance as at 30 Sep 2012	Variance as at 31 Mar 2012
UK Equities	20.0%	20.5%	0.5%	0.0%
Global Equities	41.0%	40.3%	-0.7%	-0.4%
Total Equities	**61.0%**	**60.7%**	**-0.3%**	**-0.4%**
Property	12.0%	11.4%	-0.6%	-0.5%
Bonds	14.0%	11.6%	-2.4%	-2.5%
UK Index Linked	3.0%	5.4%	2.4%	2.5%
Alternatives	10.0%	10.0%	0.0%	0.0%
Cash	0.0%	0.9%	0.9%	0.9%
Currency	0.0%	0.0%	0.0%	0.0%
Total Equities	**100.0%**	**100.0%**		

8.3 Allocations are therefore considered to be broadly in line with the benchmark. Individual managers have discretion within defined limits to vary the asset distribution.

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 the Council and 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 3rd Quarter Report 2012 – prepared by Hymans Robertson LLP	*Oladapo Shonola Ext. 4733 Mulberry Place, 4th Floor.*

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COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.	AGENDA NO.
Pensions Committee	**21 February 2013**	**Unrestricted**		

REPORT OF:	TITLE:
Interim Corporate Director of Resources ORIGINATING OFFICER(S): Oladapo Shonola – Chief Financial Strategy Officer	**Report on Pension Fund Work Plan** Ward(s) affected: N/A

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

1. SUMMARY

1.1 This report outlines the Work Plan for the Council's statutory function as the administering authority of the London Borough of Tower Hamlets Pension Fund.

2. DECISIONS REQUIRED

2.1 Members are recommended to agree the work plan attached as **Appendix 1** to this report.

3. REASONS FOR DECISIONS

3.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other 'scheduled bodies' as defined in the Regulation. The Regulation also empowers the Fund to admit employees of other 'defined' (e.g. other public bodies, housing corporations) bodies into the Fund.

3.2 The proposed work plan for the authority has been put together to assist in the management of the Fund, so that the Council is able to perform its role as the administering authority in a structured way. The Work Plan is not intended to cover all aspects of Pension Fund administration; rather it is designed to assist with meeting part of its delegated function as administering authority to the Fund. It does not cover other aspects of Fund management such as membership, administration and benefits.

3.3 The Pension Committee is charged with meeting the duties of the Council in respect of the Pension Fund. Therefore it is appropriate that the Committee formally adopts a work plan to assist with the discharge of its duties.

4. ALTERNATIVE OPTIONS

4.1 The development and implementation of a work plan should ensure that a structured approach is in place for the monitoring and management of the Pension Fund. This should in turn ensure that the Council meets its statutory obligations as administering authority to the Fund. However, the Committee is under no obligation to adopt a work plan in carrying its duties.

5. BACKGROUND

5.1 The Council has specific delegated function that it has to fulfil has the administering authority to the Pension Fund. This requires that a number of monitoring and management activities are undertaken to ensure that it fully discharges its oversight and governance responsibilities to the Fund.

5.2 It is appropriate that the Committee should set out how it intends to fulfil its obligations as the delegated authority appointed by the Council to be responsible for the Fund. Adopting a planned approach should make monitoring easier for the Committee and ensure that activities critical to the effective management of the Fund are being undertaken.

5.3 Although, the work of the Committee has always been planned, this is the first time that Committee has been expressly asked to agree a Work Plan. It is expected that an annual Work Plan will be presented to Committee for agreement. The Work Plan should be presented to Committee by the last committee meeting of the prior financial year to which the Work Plan applies.

6 WORK PLAN

6.1 In designing the work plan, the priorities of the Council as the administering authority of the Fund have been considered and incorporated into the Plan. The Work Plan has been developed using the below outline action plan.

ACTIVITY	PURPOSE
Governance & Staffing	
Member training on specific and general issues	To provide training on specific issues based on identified need or emerging/ current issues. To provide ongoing training to members to enable them to challenge the advice received and equip them with the tools to enter into constructive dialogue with advisers.
Review and refresh key policy documents; the Statement of Investment Principles, Funding Strategy Statement, Governance & Communications Policy Statement as necessary (i.e. where significant changes are made)	Seek member approval and formally publish any updated documents where this is deemed appropriate.
Minimum of four Pensions Committee/Investment Panel meetings to be held during the financial year 2013/14	To ensure that members are kept up to date on key developments with the London Borough of Tower Hamlets Pension Fund and to ensure that approval is received on key tasks/issues that affect the effective operation of the Fund.
Each Fund manager will attend at least one fund mangers' meeting during the year 2013/14 and more if deemed necessary	To oversee fund manager activities and monitor performance to ensure that they are achieving performance targets and investing fund assets within the confines of the risk parameters and approach agreed with the Council.

ACTIVITY	PURPOSE
Investment & Accounting	
Draft Pension Fund Annual Accounts approved by the Director of Resources in July 2013.	To ensure that the Council meets the regulatory timetable and fulfils its stewardship role to the Fund.
Audited Pension Fund Annual Report to be published on or before the statutory deadline of 1 December 2013	Ensure that the Council fulfils it statutory obligation and to keep members abreast of the Pension Fund activities in a transparent and accessible way.
Review of the Funds investment strategy	To ensure that the Fund's investment strategy is optimal. The Fund recently carried out a major review of strategy which resulted in the addition and award of a number of new mandates to the Fund's portfolio of assets. Consequently, there are no formal plans for a major investment strategy review over the financial year, although manager underperformance/ market developments may trigger a partial review of Strategy.
Review of (Actuarial, Investment Advise and Custodian Services)	This may not lead to full re-tendering for these services, but reviews will be commissioned to ensure that the Fund is still receiving good value for its major services. All options will be considered in the review including joining existing framework contracts.
Triennial Valuation of Pension Fund Assets and Liabilities	The Fund is bound by legislation to undertake an actuarial valuation of its assets and liabilities to ensure that appropriate future contribution rates are set and that any Fund deficit are recovered over an appropriate period of time in line with the Fund's Strategy Statement. This report will present to Members the outcome of this exercise.

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 In discharging their duties as members of the Pensions Committee it is important that members keep abreast of the latest information concerning the Pension Fund. The suggested workplan shows how this can be achieved.

9. ONE TOWER HAMLETS CONSIDERATIONS

9.1 The London Borough of Tower Hamlets Pension Fund represents an asset to the Council in terms of its ability for attracting and retaining staff who deliver services to residents. The adoption of a Work Plan should lead to more effective management of the Fund.

9.2 A significant element of the Council's budget is the employer's contribution to the Fund. Therefore, any improvement in the efficiency of the Fund that leads to improvement in investment performance or cost savings will likely reduce contributions from the Council and release funds for other corporate priorities.

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 adoption of a work plan will minimise risks relating to the management of the Fund and should assist in managing down the risk of non-compliance with the Council's obligations under the Regulation as the administering authority of the London Borough of Tower Hamlets Pension Fund.

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 A work plan should result in a more efficient process of managing the Pension Fund.

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

Brief description of "background papers"	Name and telephone number of holder And address where open to inspection

PENSIONS FUND MANAGEMENT WORK PLAN 2012/13 **APPENDIX 1**

Activity	Responsible Person	Pensions Committee/ Investment Panel / Managers' Meeting	Meeting 13 Jun 2013 (TBC)	Meeting 19 Aug 2013 (TBC)	Meeting 14 Nov 2013 (TBC)	Meeting 27 Feb 2014 (TBC)
Quarterly Performance Reporting of Fund Managers and update on emerging/current issues	Report of the Corporate Director of Resources	Pensions Committee and Investment Panel	√	√	√	√
Fund Managers' Meeting Presentation	Schedule of meetings and attendees to be confirmed by Hymans Robertson LLP	Managers' Meeting	√	√	√	√
Member Training	Chief Financial Strategy Officer	Pensions Committee/ Investment Panel		√	√	√
Consideration of (Annual Review) of Statement of Investment Principles (If necessary)	Report of the Corporate Director of Resources	Pensions Committee/ Investment Panel		√		
Consideration of Governance Compliance Statement (If necessary)	Report of the Corporate Director of Resources	Pensions Committee/ Investment Panel		√		
Presentation on Fund Performance 2011/12	The WM Company	Pensions Committee		√		
Review of actuarial and investment advice and custodial services arrangements for the Pension Fund	Report of the Corporate Director of Resources	Pensions Committee/ Investment Panel				√
Pension Fund Work Plan 2013/14	Report of the Corporate Director of Resources	Pensions Committee				√
Review/Approval of Annual Report 2011/12	Report of the Corporate Director of Resources	Pensions Committee		√	√	
Review of Fund Managers' internal control measures (SAS 70)	Report of the Corporate Director of Resources	Pensions Committee			√	
Report on impact and implementation of auto-enrolment and LGPS	Report of the Corporate Director of Resources	Pensions Committee				√
Other Ad-hoc items for consideration	Various	Pensions Committee/Investment Panel	√	√	√	√
Report on Triennial Valuation of the Fund	Report of Corporate Director of Resources	Pensions Committee				√

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COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.	AGENDA NO.
Pensions Committee	**21 February 2013**			

REPORT OF:	TITLE:
Corporate Director (Education, Social Ca and Wellbeing) & Corporate Director (Resources) ORIGINATING OFFICER(S): **Kate Bingham – Interim Service Head (Education, Social Care and Wellbeing Resources)**	**Recovery of Pension Fund Deficit Contribution – Academy Conversion** Ward(s) affected: N/A

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

1. SUMMARY

1.1 Two maintained community schools, Old Ford Primary School (OFPS) and Culloden Primary School (CPS), within the London Borough of Tower Hamlets (LBTH) have received an Academy Order from the Secretary of State for Education and plan to convert to academy status by 1st April 2013.

1.2 This report outlines the latest government guidance on academy conversion, including advice from the actuary and details the possible risks to the LBTH Local Government Pension Scheme (LGPS) as a consequence of maintained schools converting to academy status.

1.3 Further, the report provides specific details of the actuarial assessment in respect of the two maintained schools to become academies (OFPS and CPS) under the umbrella of one Multi-Academy Trust.

2. DECISIONS REQUIRED

2.1 The Committee is recommended to agree a deficit recovery period of 14 years for the amount of deficit attributable to active transferring members and that attributable to deferred and pensioner members of the LBTH Local Government Pension Scheme to Old Ford Primary School and Culloden Primary School on the creation of the Multi Academy Trust.

3. REASONS FOR DECISIONS

3.1 An academy is a “Scheduled Body” within the LGPS and each ‘converting’ academy should have it own contribution rate calculated and will be responsible for a share of the LGPS deficit.

3.2 In order to calculate that contribution rate, both the appropriate share of the deficit and the deficit recovery period must be determined and agreed by the Pension Committee.

3.3 Whilst each contribution rate to the scheme must be determined on its merits the Committee is reminded that it resolved at the meeting of 17 November 2011; *that a deficit recovery period of 14 years be approved for the amount of deficit* *attributable to active transferring members and that attributable to deferred and pensioner members of the LGPS to* the two community schools that had previously converted to academy status. Members should be aware that at that time, members of the Committee were informed that any decision made by the Committee in respect the deficit recovery for the two named schools that were converting to academies **would not** be binding on further academy conversions. Further, that the decision applied only to the two named schools that were to become academies, and it was not a policy setting decision as this was reserved to Council. However, were this Committee to take a different approach they would need to give good reason why different terms would be offered to other schools that wished to convert to academies. The letter referred to at paragraph 6.1 could be such a reason as this had not been issued when the last decision was taken.

3.4 The Committee is asked to agree that the appropriate share of the deficit is determined by attributing a share of the whole deficit i.e. that applying to the current (or active) transferring staff and that attributable to the deferred and pensioner members. The Local Authority (LA) will retain responsibility for the pension liabilities of former education staff (whose benefits will not transfer to the academy) and a deficit share calculated on this basis will ensure that LA will not lose funding.

3.5 In addition, the Committee is asked to agree that the appropriate deficit recovery period for both OFPS and CPS is 14 years in accordance with the guidance in the Fund's funding strategy as at 31st March 2012, taking note of the risks associated with that decision and if members were to wish to agree to a period of deficit recovery which was different to that they should have good reasons why they wished to differ from this proposal.

4. ALTERNATIVE OPTIONS

4.1 As they are scheduled bodies, the authority is required to admit new academies into the Scheme. This report is about the basis on which deficits will be recovered.

4.2 A further alternative is to agree to a "pooled" arrangement, in accordance with current central government guidance.

4.3 If a contribution rate assessment is approved then:

(a) In terms of determining the share of the deficit to be allocated, the alternative is to base the calculation of those active transferring members only; and

(b) In terms of the deficit recovery period, the alternative is to base the calculation on the current period of funding guarantee for academies of seven years.

5. BACKGROUND

5.1 In May 2010 the Secretary of State for Education, Michael Gove, wrote to all maintained schools in England inviting them to opt out of Local Authority Control and convert to academy status.

5.2 An academy is a "Scheduled Body" within the LGPS, which allows non teaching staff to be members of the local authority's pension scheme, with members of staff transferring from the "old" maintained school to the "new" academy retaining their membership of the LGPS. New academy non-teaching staff also have the right to join the scheme.

5.3 Both OFPS and CPS have proposed conversion dates of 1st April 2013. The conversion of the individual schools to academy status will be combined into one Multi-Academy Trust (MAT).

5.4 Whilst MATs are groups of Academies managed and operated by one proprietor. The employer of non-teaching staff in Academies is the proprietor of the Academy Trust and not the individual Academy within the Trust and so it is the proprietor who is the employer for LGPS purposes.

5.5 Within a MAT all Academies are governed by one Trust (the Members) and a board of Directors (the Governors). The MAT holds ultimate responsibility for all decisions regarding the running of the individual Academies, from setting the curriculum to HR. However, it can delegate some of these decisions to governing bodies of individual Academies to enable more focused local control, though it remains legally responsible for staff and standards across all schools in the chain.

5.6 As a number of non teaching staff working in OFPS and CPS are members of the Fund the Committee is asked to agree an appropriate policy on the deficit recovery period for these staff. As the two schools are being combined into one MAT one new employer contribution rate has been have determined.

5.7 This report includes:

- the current Department for Education (DfE) and Department for Communities and Local Government (DCLG) guidance (included in a briefing note from Hymans and Robertsons @ Appendix 1);
- further details in relation to the introduction of a pooling arrangement;
- a report from the actuary which covers the employer contribution rate for the MAT based on a previous decision of the Committee (Appendix 2 and 3); and
- an outline of the risks to the Pension Fund and risk management implications.

6. CURRENT GUIDANCE FROM THE GOVERNMENT

6.1 In December 2011, the Secretary of State for Education and the Secretary of State for Communities and Local Government issued a joint letter to LAs and LGPS Funds. This letter, coupled with a DfE briefing note, clarified Ministers’ views of how academies should be treated within the LGPS (Appendix 1, Annex 1 and 2).

6.2 Their preferred approach is that where an academy wishes to “pooled” with the LA for LGPS pension purposes, rather than be treated as a standalone employer within the fund, the fund should positively consider this.

6.3 This followed previous advice from the DfE to schools considering academy status that the level of contribution as an academy would be close to existing levels. The DfE also advised schools that the normal deficit recovery period is 20 years although it is for the actuary to take a view on this, but does not provide any details on who would provide a guarantee. The only advice from the DCLG, at that stage, was that any pension deficit recovery period would be a matter for the relevant administering authority to agree and this is one of the issues before the Pensions Committee.

7. POOLING ARRANGEMENTS

7.1 The DfE/DCLG's aims are to achieve consistency of approach between different LAs in the treatment of Academies and that no Academy should pay 'unjustifiably higher' employer contribution rates. If these aims are not achieved by guidance, they suggest that legislation will follow but it is now more than 12 months later and none has yet been provided.

7.2 As set put in Appendix 1, in practice this means that the LA's pool will effectively underwrite the liabilities of failed Academies. Some Councils may regard this as unfair, and may actually prefer legislation to avoid potential future complaints from other employers claiming that they didn't get treatment similar to that secured by DfE/DCLG for Academies or because they have been disadvantaged by being exposed to liabilities in respect of failing Academies.

7.3 Further, if pooling was to go ahead it would raise a number of practical issues. First there would be a problem with the stated desire for consistency going backward, that is to say what should be done with Academies that have already been set up in the Fund on an individual non-pooled basis: would there be a question of refund of contributions? Then there would be the issue of assessing the initial allocation of assets within the Council pool. The accounting treatment also presents a difficulty in that there will need to be clarity about Financial Reporting Standard (FRS) 17 requirements for Academies. Finally, as is the intention for this Authority going forwards, there is a question around what is to be done where the Council is paying off its deficit via monetary payments (as opposed to a percentage of pay). This could be done but may lead to additional administration burdens.

8. CONTRIBUTION RATE ASSESSMENT

8.1 In order to calculate the MAT's employer contribution, officers requested a determination from the Fund's actuary of the required level of employer contribution and amount of deficit attributable to the active transferring members and that attributable to deferred and pensioner members in line with the previous decision of the Committee on 17 November 2011 (i.e. a deficit recovery period of 14 years for the amount of deficit attributable to active transferring members and that attributable to deferred and pensioner members of the LBTH LGPS).

8.2 Appendix 2 and 3 contains the actuary's report on the proposed MAT employer contribution rate, based on a deficit recovery period of 14 years for active members and that attributable to deferred and pensioner members, resulting in a total contribution of 32.9% of payroll.

Appropriate share of the deficit

8.3 The initial DfE guidance stated that *"the Academy shall be responsible for any LGPS deficit relating to the Eligible Employees' membership of the LGPS referable to service up to and including the Transfer Date."*

8.4 This is a position that the LA would wish to see maintained given that:

i) the deficits arose whilst the academy was a maintained school, and

ii) the funding that the LA was receiving from the Government, and from which the deficit would have been recovered over a number of years, has now been passed to the academy.

8.5 It is therefore clearly right and proper that the academy should continue to meet its share of any past underfunding.

8.6 However, whilst the current guidance requires the academy to be responsible for a share of the funding deficit, there is no guidance on how this calculation should be performed. There are two main ways that a share of the funding deficit could be allocated:

i) the academy could only be attributed with a share of the deficit that applies to those current LGPS staff who transfer to the academy, or

ii) the academy could be attributed with a share of the whole deficit i.e. that applying to current LGPS staff who transfer to the academy and that attributable to deferred and pensioner members.

8.7 The second option is the preferred option as it is considered "fairer" on the basis that it recognises the LA will lose funding in respect of the provision of education services but will remain responsible for the pension liabilities of former education staff whose benefits will not transfer to the academy.

Local Authority deficit recovery periods

8.8 A survey on academy deficit recovery periods in 2011 conducted by the Chartered Institute of Public Finance and Accountancy received 27 LA responses. A summary of the responses are in Table 1 below:

Table 1: Academy Deficit Recovery Periods

Deficit Recovery Period	Number of LAs
7 to < 20 years	9
20 years	10
> 20 years	8
	27

8.9 The converting academies are scheduled bodies of the fund and, as such, are considered subject to the same deficit recovery period set out in the funding strategy statement, effective as at 31st March 2012 (as per Appendix 1, paragraph 3.7.3 in report 5 .1 *2011/12 Annual Pension and Statement of Account* agreed by the Committee on 20 November 2012).

8.10 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 2 below:

Table 2: Maximum length of deficit recovery period

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.

9. RISKS TO THE PENSION FUND AND RISK MANAGEMENT IMPLICATIONS

9.1 There are a number of risks to the Fund that the Committee should consider prior to making any decision on the deficit recovery period.

9.2 An academy will be a company limited by guarantee. It can therefore be argued that a shorter deficit recovery period should be applied similar to that adopted in the private sector.

9.3 There is currently no guarantor who would continue to meet deficit payments should the academy cease to exist before the end of the recovery period.

9.4 The Secretary of State for Education is only guaranteeing revenue funding for a rolling seven year period with the amount being confirmed for only the next school year. Setting the deficit recovery period at 14 years is a compromise between the 20 year period used for the Council and this rolling 7 year period

9.5 With maintained schools, the LA has the duty and right to intervene should a school get into financial difficulties. There is no such right or responsibility with an academy which is a stand alone business.

9.6 The council is the guarantor of the deficit of maintained schools. It has no such role for academies and the Secretary of State for Education has not offered any guarantees to fund pension deficits should schools get into financial difficulties. Some authorities have taken a different view and have allowed academies to keep the same rate as the local authority on the basis that should the academy fail; the academy will revert back to a LA maintained school, which is an assumption shared by the DfE. There is no guidance at the moment about how any deficits will be treated and who will bear the liability for them . This means currently they would fall on the Pension Fund. At the same time, the Council tax payer needs to have reasonable protection from liabilities arising from the decisions of an independent body.

9.7 The Secretary of State for Education has not identified the mechanisms to be used to deal with academies that get into financial difficulties.

9.8 The total deficit will be higher over a recovery period of 20 years compared to seven years due to inflation costs.

10. <u>COMMENTS OF THE CHIEF FINANCIAL OFFICER</u>

10.1. The comments of the chief financial officer have been incorporated into the report.

11. <u>CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)</u>

11.1 Under the current legislation all schools who receive Secretary Of State approval may take on academy status and the council must allow this to happen.

11.2 Under the relevant pension legislation academies count as “scheme employers” so any existing staff who are part of the local government pension scheme remain within the scheme without the academy having to apply for admitted body status.

11.3 Any non-teaching staff employed by the academy will be automatically enrolled into the pension scheme, unless they specifically opt out.

11.4 The LGPS is a funded scheme and is currently managing a deficit.

11.5 Central Government suggests that the normal period for recovery of the deficit is set at 20 years However each Pension Fund must make its own determination on the deficit recovery period and members have attached to this report the advice from the fund's actuary Hyman Robertson

11.6 Although the letter referred to in para 6.1 and attached to this report issued on 23.12.11 ("the Letter") is designed to give local authorities some comfort, it is not legislation and is not legally binding on the government.

11.7 It is clear that the decision on the deficit period is one for the individual Pension Fund as they legally bear the liability for any deficits and have to recover them from their admitted members. If the Academy Trust ceases to exist then although the government may choose to assist with any deficit they are not legally obliged to do so.

11.8 On pooling again this is a decision for the Pension Fund. The Letter is encouraging Pension Funds to agree to pooling as that will limit the level of contributions require from the Academy Trust. In making this decision members need to take due regard to this encouragement and balance it with the advice from the Pension Fund's actuary Hyman Robertson whose report is attached. As with the deficit period this is no guarantee of underwriting of any loss as a result of the pooling decision by the government.

12. ONE TOWER HAMLETS CONSIDERATIONS

12.1 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.

13. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

14 CRIME AND DISORDER REDUCTION IMPLICATIONS

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

15. EFFICIENCY STATEMENT

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

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

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

Brief description of "background papers"	***Name and telephone number of holder***
Not applicable	***And address where open to inspection***

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Funding approach for Academies

On 23 December 2011 Communities and Local Government (CLG) and the Department for Education (DfE) issued a "joint letter of understanding" on the treatment of Academies in the LGPS. This was the result of discussions between the two parties that had been called to address certain pension related problems incurred in the set up of Academies. A copy of this letter is attached for ease of reference.

The joint letter notes that the way that some Academies have been set up by LGPS funds has meant a large jump in the pension contributions when a school converts to Academy status; some Academies are paying significantly more than Local Authority maintained schools in the same area. The increase in rate from the one that the old school was paying has become an obstacle to new Academies being formed, and any such obstacles to its flagship education policy are a cause of concern to the Government.

Existing guidance

The existing DfE guidance on the approach to allocating LGPS assets and liabilities, and setting contribution rates, for Academies is not clear. This has led to LGPS funds adopting a wide variety of funding approaches for Academies.

Funding approach adopted

It was agreed at the last Pension Committee meeting that the following principles would apply to future new Academies that participate in the Fund:

- The share of deficit would be allocated after allowing for a proportionate share of the deferreds and pensioners remaining with the Council to be fully funded,
- The deficit recovery period would be 14 years.

In general this is likely to lead to a contribution rate for Academies that is higher than that of the Council. It is worth noting that the 14 year deficit recovery period is a compromise period that lies between the 20 years used for the Council and the 7 years over which Academies are expected to receive guaranteed funding from the DfE.

What the joint letter doesn't say

Importantly, there is nothing concrete in the letter to give Local Authorities comfort about the likely response from DfE were an Academy to fail. The main letter notes that the Academies are also funded out of the "public purse" and the attached notes state that the "Government would be bound to consider all available options" if an Academy were to come to an end. There is no suggestion as yet that DfE might act as guarantor of the pension liabilities of any failed academy. It would be no surprise to many if Local Authorities have been left wanting more (in terms of security).

What the joint letter does say

The letter gives an overview of the Academies programme, notes the government's desire for consistency of treatment across LGPS Funds, notes the Governments desire for post conversion pension contributions to be the same as those for a LEA maintained school and suggests that Administering Authorities "positively consider" requests to be pooled with the former Local Education Authority employer that maintained the school. There is also a suggestion that legislation may be brought forward imposing this approach if Administering Authorities do not toe the line.

What's the problem?

The aim of the Academy programme has been to give schools the opportunity to remove themselves from the LEA and take responsibility for their own decisions. One such area is their pension responsibilities to the LGPS. In many cases, the academy's current and former staff will have built up significant pension rights prior to the point of conversion. These pension rights bring with them funding responsibilities.

The fact that Academies only take the school's contributing members into the new body means that there is a legacy pensions risk to be addressed. Where there is the potential for a large number of employees to be involved (as many new Academies may be formed) then this legacy pensions risk becomes material and the treatment of these new bodies becomes critical for the ceding Council.

For this reason it was always going to be vital that a proper risk assessment was carried out in advance and that a funding approach was both understood and agreed by all sides. Unfortunately, neither the risk assessment nor agreement on approach happened and problems are now surfacing as a result – problems that are exacerbated by the fact that, in the absence of a DfE guarantee, administering authorities do not feel they can offer the same funding approach[*] to academies as they can to LEA controlled schools backed by the Local Authority with tax raising powers. In addition, a lot of new bodies are being set up at what appears to be a "bad" time in terms of funding levels and market yields.

[*]For example, most authorities take the view that (in the absence of a guarantor or other security) the same stabilisation overlays on employer contributions are not appropriate and deficit recovery periods should be shorter.

What are the issues with pooling?

The main thrust of the joint letter is that pooling with the former Local Authority employer is the solution to all the Academy funding problems in the LGPS. Unfortunately, we do not agree with this conclusion as we struggle with several aspects of the proposed pooling solution.

One of the major issues is that (depending on the definition of the pooling arrangements) other employers in the LA pool are effectively underwriting the pension liabilities of academies.

Assuming that pooling with the relevant former LEA employer is intended, there are two possible approaches to the pooling:

Pooling with tracked individual positions - in this approach to pooling there is no sharing of experience. The "pooling" is simply a means of controlling the contribution rate. The contribution will not reflect the underlying funding position of an individual Academy and it is unlikely that it is making inroads into its share of deficit sufficiently quickly as an employer without a guarantor. This, however, can be considered a pace of funding argument as the Academy will eventually have to fully meet its obligations. The lose connection between the contribution rate and the underlying position raises serious concerns about the security of the employer (see paragraph below).

On the plus side the contribution rate will be set across the pool and the Academy will be paying something towards the deficit relating to former members and pensioners. This will be the case whatever their initial asset allocation.

Pooling without tracked individual positions - this would be consistent with the current treatment of schools in many funds (where administration systems do not separately identify them as schools). There is sharing of nearly all experience between the former Local Authority employer and the academy (early retirements possibly being an exception). The cross-subsidies in this approach seem to go against the basic principle of Academies as stand-alone employers that are responsible for their own actions. (For example, we are aware of academies that have awarded material pay increases to some members).

It is quite possible that some Academies may want to stick with the position they have been given - others may object to being hitched to a Council contribution rate forever more that they cannot control. This may be especially the case where they anticipate that the Councils are going to see big hikes in contributions (when expressed as a percentage of pay) as a result of significant outsourcing programmes.

The inclusion of Academies within a Council pool also raises some issues relating to accounting requirements. If accounting positions are still required, then these will need to be extracted from the total pool position and there are alternative ways of doing this.

Security and guarantor issues – whichever approach to pooling is taken there remains a significant concern over the impact of a failed Academy on the pool. Although the strict legal interpretation suggests that any shortfall in these circumstances should fall on all employers in the Fund it would make more sense for it to fall on the pool or the ceding employer – the "default" guarantor.

Any of these parties is likely to object to the imposition of this extra risk on them and should be looking to protect itself– unfortunately the obvious guarantor (DfE) has not stepped forward. The parties may consider that the words in the Joint Letter (paragraph 9) are strong enough for them and that they are therefore happy to deal with any shortfall at the point of failure (including possibly asking DfE to meet any pensions shortfall, although there is no indication that DfE is likely to oblige in those circumstances), but this attitude and approach seems to go against current trends in governance and also seems to us to be storing up problems for the future.

The joint letter covers all sorts of Academy arrangements. We find it particularly hard to understand why DfE would expect a Council to act as the guarantor for the likes of Free Schools and Studio Schools where they have never had any involvement and they are not receiving any funding. As with any pooling arrangement it is vital that (before set up) there is clarity about how the pooling will operate and how employers will join and/or leave the pool. A "pooling agreement" could be used to specify how the pool will operate and in particular who takes responsibility for any shortfall in the event of the failure of an academy, e.g. the ceding Council or the Council pool. As an aside, it is worth noting that most Funds have been trying to break up pools in recent times as a result of the perceived lack of transparency and the problems that they have caused.

Practicalities of pooling

Of course there are various practical issues associated with:

- The stated desire for consistency going backwards – this raises all sorts of issues e.g. refund of contributions,
- Initial allocation of assets within the Council pool,
- Accounting - as noted above there will need to be clarity about IAS19 / FRS17 requirements for Academies,
- Deficit contributions – what is to be done where the Council is paying off its deficit via monetary payments (as opposed to a percentage of pay). This could be done but may lead to additional administration.

In the accompanying note there is the promise of supporting guidance – this will be of vital importance as there are currently too many practical areas that are unclear for practitioners.

Forthcoming miscellaneous regulation changes may include a provision to allow termination valuations for scheduled employers. This will not help though if failed academies have no cash and/or DfE is unwilling to step in.

In practice some administering authorities might prefer if the government did legislate and force administering authorities to pool academies with the ceding Council. This could protect administering authorities from complaints from other parties, e.g. any other employers in the Fund who might end up cross-subsidising a failed academy.

Alternative approaches

Some Funds may consider changing to the DfE / CLG preferred approach. Others may consider keeping their current approach or changing to one that does not fully comply but does help reduce contribution increases for schools converting to academies. These alternative approaches might include:

- Continuing with current approach but allowing a longer deficit recovery period (*typically academies pay a standalone rate based on their own membership data and the agreed approach to setting share of assets at commencement, without the benefit of any stabilisation approach that applies to the Council or other secure employers),
- Setting up academies only pools with longer deficit recovery periods than allowed previously,
- Allowing academies to pay the Council pool rate before applying any stabilisation overlay available to the Council and other secure employers, or
- Allowing academies to pay the stabilised Council pool rate but with an additional “risk premium” (e.g. if the Council is paying 20%, academies pay 23%).

It is not clear at this stage whether CLG will tolerate alternatives that go some way (but not all of the way) to meeting the objectives of DfE or whether CLG would simply move to legislate quickly.

A better solution

The words in the joint letter seem to suggest that the likelihood of a Local Authority being left holding the (Academy) baby is not material – it is suggested that a successor body or other solution will be found. If this is the case, then it should not be a big deal for them to say that the DfE will provide a guarantee and protect the Local Authority from the financial implications of any failed Academy. Such a guarantee would allow Administering Authorities to be much more relaxed when it comes to setting contribution rates.

Barry McKay

Barry McKay FFA

For and on behalf of Hymans Robertson LLP

5 February 2013

Annex 1: Department for Education Local Government Pension Scheme Guidance dated August 2010

Local Government Pensions Scheme – DfE briefing note

1. Non-teaching staff in a maintained school converting to academy status are likely to belong to the Local Government Pension Scheme (LGPS) and have their pension dealt with by the administering authority applicable to schools in that Local Authority (LA). The pensions authority is sometimes the same local authority as that maintaining the school, but in London there is a separate pensions authority, and in areas affected by local government reorganisation there is often a lead authority which acts as pensions authority for several LAs. <u>When a school is about to convert to academy status, the relevant pensions authority should be contacted at the earliest possible stage.</u>

2. Academies are separate scheme employers under the LGPS. Academies are 'scheduled body' employers, being listed in Part 1 of Schedule 2 to the LGPS Administration Regulations 2008 [SI2008/239] (as amended). They are not 'admitted bodies'.

3. Academies' funding agreements require them to offer LGPS membership to all non-teaching staff. Where maintained schools apply to convert to Academies under section 3 of the Academies Act 2010 and an Academy order is made under section 4, those existing staff who are already members of the LGPS by virtue of the Administration Regulations would not be affected by the conversion. Their membership of the LGPS would continue unaffected. After conversion, new non-teaching staff will be eligible to join the LGPS and will be automatically enrolled in the Scheme when employed, but will have the option to opt out of the Scheme if he or she gives notice within three months. It is also open to an Academy to pay contributions into private pension schemes, but this normally happens only if an academy was previously an independent school and some staff wish to remain in the private scheme.

4. The pensions authority should be asked for a calculation of the employer contribution rate for the academy. The actuarial assessment will be done by the LGPS administering authority's fund actuary but the school may wish to have their own assessment performed by an independent actuary. The employer contribution rate will be calculated on the basis of the academy's staff profile and relates only to the academy, whereas nearly all maintained schools in an LA pay the same pooled rate. This means the rate can be higher than the rate which applied to the school when maintained. There is likely to be a charge for the actuarial calculation.

5. Unlike the Teachers Pension Scheme (TPS), LGPS is a funded scheme and can be in surplus or deficit according to investment performance. Most pension funds are currently managing a deficit, and the deficit in respect of pensionable service prior to conversion transfers from the LA to the academy through the transfer agreement signed prior to conversion. The actuarial calculation of the employer contribution rate will take into account the amount needed to pay off any past service deficit and meet future accruals over a specified period, which is normally taken to be 20 years for Academies, although it is for the actuary to take a view on this.

6. Whatever arrangements apply currently for remitting contributions as a maintained school, the academy will itself be responsible for remitting employer and employee contributions to the pensions authority, although a payroll provider may do this on its behalf. The LA may itself be the payroll provider if the academy decides to use its services.

7. If there is a deficit in the relevant pension fund, the Charities Statement of Recommended Practice (SORP) requires that the academy's statutory accounts show the deficit as a liability in the balance sheet. The total deficit can be substantial. However, the Charity Commission has advised that this liability, even if it exceeds the academy's assets, does not mean that the academy is trading while insolvent, because the deficit is being reduced by the contributions made, using the grant payable to the academy. See the advice at

http://www.charitycommission.gov.uk/Charity_requirements_guidance/Charity_governance/Managing_resources/pensions.aspx#2

especially paragraphs 2 and 3.

Conclusion

8. When a school is converting, it is therefore vital to obtain details of the pension authority contacts as quickly as possible (usually from the HR/pay department of the maintaining LA), to ensure that staffing information required by the pension authority's actuary can be supplied by the school or the maintaining authority, and to ensure that the implications for the academy have been fully discussed with the pensions authority.

DfE
August 2010

Annex 2: Joint Letter from the Department for Education and Communities and Local Government dated December 2011

Department for Education

Communities and Local Government

A note from the Secretaries of State for Education and Communities and Local Government

To Local Authority Leaders and Chief Executives in England

copied: Local Government Pension Scheme administering authorities

Academies and the Local Government Pension Scheme (LGPS).

Academies in all their forms are central to improving education. They promote innovation and diversity in the school system, give power and freedom back to heads and teachers and raise school standards across the board. The Academy conversion programme ensures that the highest performing institutions help the weakest to improve. Where maintained schools are performing poorly the Government is encouraging their conversion to Academy status with the help of an outstanding school or experienced sponsor. The Government is committed to expanding the Academy programme. There are now 1,463 Academies across England, with many more schools wishing to convert. In addition, the first Free Schools opened in September 2011 and the range and choice of education provision is changing rapidly across the country. Free Schools, University Technical Colleges (UTCs) and Studio Schools are being opened as Academies in direct response to parental demand and will drive up standards in the communities they serve.

We are, therefore, writing to set out in further detail an approach to pooling that we recommend be adopted. The clear aim is that there is a consistency of approach across Local Government Pension Scheme (LGPS) administering authorities so that an Academy in one part of the country is not treated in a different manner to one in another and no Academy pays unjustifiably higher employer pension contributions to the LGPS compared to maintained schools in the local area. This applies to existing Academies as well as those yet to convert or open, including Free Schools, University Technical Colleges and Studio Schools.

Many LGPS administering authorities have worked hard to help those schools becoming Academies resolve issues but we know that some administering authorities have been uncertain about how to treat Academies in their fund with some Academies being set employer pension contributions significantly more than maintained schools in the local area. Where a maintained school converts to Academy status it is Government's intention that the overall costs for the Academy as a participant in the Scheme should not increase. Like maintained schools, all forms of Academy continue to receive their funding from the public purse and, consequently, should not be treated in the LGPS less favourably than maintained schools.

Some converting Academies have been discussing with their LGPS administering authority the wish to be pooled with the local authority that formerly maintained the school.

Pooling arrangements between employers are permissible within the LGPS regulatory framework and we strongly recommend that where an Academy wishes to be pooled, administering authorities positively consider this. Academies would then pay the same LGPS employer contribution rate as maintained schools in the local area which includes an element for accrued past service liabilities. If it is found that inconsistencies or unjustifiably high employer pension contributions to the LGPS remain, consideration will be given to what other steps, including regulatory changes, would be needed.

MICHAEL GOVE **ERIC PICKLES**

December 2011

Academy arrangements and the Local Government Pension Scheme - pooling of Academy arrangements with local authorities

Legal and financial status of Academy arrangements

1. Academies set up under the Academies Act 2010 are independent schools but they are publicly funded. Governance arrangements are agreed with the Department for Education and the Funding Agreement entered into with the Secretary of State sets out clear and robust financial and accounting requirements. Under the Funding Agreement the Academy Trust (the legal entity that runs the Academy Trust), has to ensure that its accounts are audited annually by independent auditors and it must allow access by the Secretary of State to its accounts and related records.

2. Section 1 of the Academies Act 2010 contains provisions that allow for the Secretary of State for Education to enter into an Academy arrangement with any person to establish and maintain and to carry on, or provide for the carrying on of, an Academy. The Act enables existing maintained schools to convert to Academy status and for Academy arrangements to be entered into with an Academy Trust that is replacing a maintained school. Additionally, the Act allows the creation of new schools (i.e. schools that do not replace a converting or closing maintained school), including Free Schools, University Technical Colleges and Studio Schools. These new schools are also Academies set up under Academy arrangements under Section 1 of the Academies Act 2010.

3. Funding Agreements made between the Secretary of State for Education and the Academy Trust are not signed for a set or limited period of time, rather they are open-ended.

The Local Government Pension Scheme and pooling Academy arrangements with the relevant local authority

4. A proprietor of an Academy[1] who has entered into Academy arrangements, is a Scheme employer in the Local Government Pension Scheme (LGPS) and is listed in paragraph 21 of Part 1 of Schedule 2 to the LGPS (Administration) Regulations 2008 (as amended). This means that the non-teaching staff employed by Academies are automatically eligible for membership of the Scheme and existing members in a maintained school retain eligibility when a school becomes an Academy. The change in legal status, when a former maintained school is replaced by an Academy, means that the Academy Trust becomes an LGPS employing authority in its own right. Academy Trusts for new provision, such as Free Schools, Studio Schools and UTCs will also be LGPS employers.

5. While there is no express regulatory provision in the LGPS for the pooling of employers in the Scheme, Regulation 36 of the LGPS (Administration) Regulations 2008 is considered a sufficiently broad power to enable employers (if they wish) to enter into joint arrangements with the Scheme funds, as already happens in some cases, that will

[1] Commonly referred to as an "Academy Trust": A qualifying Academy Trust proprietor is a charity under section 12 of the Academies Act 2010. This includes Academies that opened prior to the 2010 Act.

facilitate the setting of harmonised employer contribution rates under pooled arrangements.

6. Where an Academy pools with the local authority it is intended that this should result in the Academy Trust having the same employer contribution rate as the local authority would have in respect of its maintained schools. This is because the assumptions used to set the rate will be common to the Academy and local authority. Actuarial assumptions are shared across the pool and all participants in the pool are responsible for meeting the cost of the full past service deficit relating to those in the pool and share the same deficit recovery period.

7. It is recognised that consideration has to be given about the risk to the fund should a school or Academy fail. Should a maintained school ever be wound up it will be the function of the local authority to transfer pupils to another educational institution. Pension liabilities would be managed within the local authority's employer contribution rate.

8. Equally, if the Secretary of State for Education considered that an Academy was performing poorly, he would review the position, broker support and, where necessary, take steps either to replace the Academy Trust sponsors (the members of the Academy Trust) or the Academy Trust. If either party to the Academy arrangements ever decided that those arrangements should be brought to an end, it would have to give notice to the other party. The education provision for the affected children and young people would need to continue in an appropriate educational establishment.

9. The Government would be bound to consider all available options for dealing with an Academy's outstanding LGPS pension liabilities including, but not limited to, the assignment of assets and liabilities to a new or an existing educational establishment where this was the desired outcome.

10. This note is intended to clarify the position regarding Academy funding and the Secretary of State for Education's role should there be any question about the performance or continued operation of an Academy. This clarification has been provided to remove the uncertainty for administering authorities about the treatment of Academies in their fund and also allow requests, from an Academy to be pooled with the local authority for LGPS purposes, to be positively considered. The clear aim is that there is a consistency of approach across LGPS administering authorities so that an Academy in one part of the country is not treated in a different manner to one in another and no Academy pays unjustifiably high employer pension contributions to the LGPS compared to maintained schools in the local area. If it is found that inconsistencies or high employer pension contributions remain, consideration will be given to what other steps, including regulatory changes, would be needed following discussions with LGPS experts, including Scheme actuaries.

11. The preferred approach in this note is recommended to apply to all Academies, including existing Academies as well as those yet to convert or open, including Free Schools, University Technical Colleges and Studio Schools.

12. To help practitioners in both educational establishments and LGPS administering authorities, supporting guidance is being developed and will be issued shortly covering

Academy arrangements and the LGPS both for existing Academies and those schools considering conversion to Academy status. It will also cover how to manage an existing Academy's employer contributions for those who wish to join a pooling arrangement but have not been treated this way previously.

13. Communications about this note should be addressed to either:

Department for Education
Claire de Charmant
Academies Policy & School Organisation Group
Sanctuary Buildings
Great Smith Street
London SW!P 3BT

Department for Communications and Local Government
Robert Ellis
Workforce, Pay & Pensions
Local Government Finance Directorate
5/F5
Eland House
Bressenden Place
London
SW1E 5DU

From: the Department for Education and Department for Communities and Local Government

Date: December 2011

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HYMANS ROBERTSON

Contribution Rate Assessment for an Academy - Method, Assumptions & Limitations

To be read in conjunction with the "Schedule of Results" for:

Fund	London Borough of Tower Hamlets Pension Fund
Administering authority	London Borough of Tower Hamlets
Ceding Employer	London Borough of Tower Hamlets
Name of Academy	Old Ford/Culloden Schools Academy Trust
Date	25 January 2013

Barry McKay

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

Contents

1 Introduction and background

Under the Academies Act 2010 schools can apply for academy status, allowing them to operate independently from Local Authority control, and assume responsibility for managing their own finances. Whilst academies can set pay and conditions for staff, my understanding is that non-teaching staff must have access to the LGPS.

I understand that the employer named in the accompanying Schedule of Results ("the Academy") is considering assuming or will assume academy status on the date shown in the accompanying Schedule of Results. Employees of the Academy are eligible to join the Fund under Regulation 4 (2) of The Local Government Pension Scheme (Administration) Regulations 2008 as a body listed in Schedule 2 Part 1.

I have been asked by the Administering Authority to the London Borough of Tower Hamlets Pension Fund to provide actuarial advice on the initial contribution rate payable and opening funding position of the new Academy.

To date there has been no clear guidance on the approach to allocating LGPS assets and liabilities for academies, nor to calculating their contribution rate. However, a briefing note issued by the Department for Education states that each academy should have its own contribution rate calculated and will be responsible for a share of the LGPS deficit. There are no provisions under the Regulations[1] ("the Regulations") or in any regulations or guidance relating to the establishment of academies of which we are aware, for staff previously employed in an education function, who are now deferred or pensioner members of the Fund, to be transferred to the academy (irrespective of whether or not they are identifiable as former education employees). We therefore assume that responsibility for these members will fall back to (or remain with) the relevant Local Education Authority. If we have been advised of any alternative arrangements which are in place in respect of deferred and pensioner members this will be set out in the Schedule of Results.

In addition, a joint letter of understanding has been issued by Communities and Local Government (CLG) and the Department for Education (DfE) which recommended pooling Academies with the local authority that formerly maintained the school for contribution rate purposes. There is currently no legal requirement to pool Academies with other Scheme Employers for contribution rate purposes and therefore our approach has been to calculate an individual contribution rate based on the cost of pension accrual for the Academy's own membership plus an adjustment for any deficit transferred to the new Academy.

The Local Education Authority (LEA) or grant maintained school, as the existing employer in the Fund from whom staff will transfer to the Academy, is referred to as the "ceding employer".

[1] The Local Government Pension Scheme (Administration) Regulations 2008

2 Scope, reliances and limitations

Addressee

This report is addressed to the Administering Authority to the Fund. It has been prepared in my capacity as an Actuary to the Fund and is solely for the purpose outlined below. It has not been prepared for any other purpose and should not be so used.

Purpose of report

This report is provided solely for the purposes of providing a planning exercise to assess the following:

- the contribution rate or rates payable by the Academy to the Fund until 31 March 2014 or date of earlier revision of the Rates and Adjustments Certificate; and
- the value of Fund assets notionally transferred from the ceding employer to the Academy

Where it has been specifically requested, I have also assessed the impact of the transfer of staff on the funding position and contribution rate of the ceding employer, as set out in the Schedule of Results.

The Administering Authority can share this report with the ceding employer and the Academy as users of this report. Neither I nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing. The report or any part of it must not be disclosed or released in any medium to any other third party without our prior written consent. In circumstances where disclosure is permitted, the report (and accompanying Results Schedule) may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

Status of results

The results shown in the Schedule will be either **estimates** or a **final assessment** as indicated in the Schedule.

Estimates: Estimates may be provided in cases where, for example, the final transfer date or date of commencement in the Fund has not yet been confirmed, finalised data is not yet available or an estimate is required in advance of the actual transfer date. If the results are estimates, they should be considered indicative only. The calculations described in this report and the results set out in the accompanying Schedule are therefore valid only for the calculation date shown. If the calculation date is prior to the transfer date, the calculations will need to be reviewed and updated to reflect market conditions and confirmed transferring membership data on the date the Academy joins the Fund.

The final figures should be assessed at a later date and may differ, possibly materially, from the estimates given due to differences in regulations, membership data, assumptions and investment market conditions (including gilt yields and the value of the Fund's assets). In particular, the initial asset allocation would need to be updated to reflect market conditions and the funding level of the ceding Employer at the transfer date.

Final assessment: If the assessment has been based on finalised assumptions and data (including some, or all of, membership data, investment returns and cash flow information) and calculated as at the actual date of commencement in the Fund, the results shown represent the final assessment of the contribution rate and asset allocation for the new Academy (and the impact on the ceding employer's contribution rate if requested) rather than indicative estimates. It is the responsibility of the Administering Authority to request a revised calculation if subsequently any of the information used in the final assessment changes.

Post calculation events: If there have been any material changes in either the membership data or the financial conditions on which any calculations have been based since the effective date of the calculations, then the estimated effect on the Academy contribution rate payable or assets to be transferred will be illustrated in the Results Schedule.

Quality of data

As far as I can reasonably determine the membership is materially complete and accurate, and has been checked insofar as we are able based on the information available to us. However, I am not in a position to verify whether the membership data provided in respect of the transferring employees is an accurate representation of the staff who will transfer to the new Academy. In this regard I have therefore relied upon the data provided by the Administering Authority in my calculations. Hymans Robertson LLP accepts no liability for errors or omissions due to inaccurate or incomplete data.

Actuarial standards

The following Technical Actuarial Standards[2] are applicable in relation to this report:

- TAS R – Reporting;
- TAS D – Data;
- TAS M – Modelling; and
- Pensions TAS

The advice and information given in this report and accompanying Schedule of Results (which together with any covering emails, the formal valuation report dated 31 March 2011 and the LGPS 2010 Actuarial Valuations Briefing Note: Demographic Assumptions dated February 2010 comprise the aggregate report for this advice for the purpose of TAS R) comply with the above Standards.

Exclusions

Nothing in this report is intended to provide advice to the Employer named in the Schedule of Results in relation to its application for academy status or its participation in the Local Government Pension Scheme (LGPS).

This report contains comments from an actuarial perspective. It should be noted that we at Hymans Robertson LLP are not lawyers and are therefore not qualified to provide legal advice. If there is any doubt about the legal position of the Fund or other parties in relation to the transfer of pension obligations in the Fund from the ceding employer to the Academy, or in respect of any other aspect of this report, the parties concerned should seek independent legal advice.

[2] Technical Actuarial Standards (TASs) are issued by the Board for Actuarial Standards (BAS) and set standards for certain items of actuarial work, including the information and advice contained in this report.

3 Underlying principles

The calculations are based on the following key principles:

- Responsibility for the accrued pension liabilities in the Fund of all transferred employees, as summarised in the Schedule of Results, will automatically transfer from the ceding employer to the Academy.
- The Academy will be responsible for a share of the ceding employer's ongoing pensions deficit in the Fund (based on my understanding of guidance issued by the Department for Education). This means that as at the date of membership transfer, assets are notionally transferred within the Fund from the ceding employer to the new Academy on a share of deficit basis. This deficit has been calculated using the funding level as shown in the Schedule of Results. The method of calculation of the funding level is detailed below.
- The contribution rate for the new Academy is based on the assessed cost of future service benefits for its Fund membership plus an adjustment to make good the past service deficit allocated to the new Academy over an appropriate period.
- The benefits valued and the assumptions adopted are consistent with the most recent funding valuation, unless otherwise stated in the Schedule of Results.
- The investment strategy for the Academy is the same as for the Fund as a whole. This means that the Academy benefits from a lower assessed cost of the benefits than would be the case if a lower risk strategy were followed. However, it also means that the Academy's contribution rate and funding level may be volatile, due to the predominance of equity investments within the Fund's asset allocation.

Allocation of assets

Guidance issued by the Department for Education states that Academies should assume responsibility for a share of the deficit attributable to employees transferring to the new Academy. The share of the deficit, and initial funding level of the Academy, can be calculated using different methodologies. I have taken the approach to determining the initial funding level and subsequent asset allocation described below, as agreed by the Administering Authority.

The amount of assets notionally transferred is based on the ongoing funding level of active members of the London Borough of Tower Hamlets Pool on the calculation date. The funding level is calculated as the ratio of the active liabilities to the remaining assets after sufficient assets have been retained to meet the deferred and pensioner liabilities of the London Borough of Tower Hamlets Pool in full.

To determine the funding position of the ceding employer at the date of the transfer to the new Academy, I have rolled forward the ceding employer's funding position as determined at the latest formal valuation date. The financial assumptions for the ongoing funding basis used in this projection are derived in a manner similar to the previous formal valuation, but updated for market conditions at the date or dates shown in the Schedule of Results.

By using a rollforward approach, I have implicitly assumed that the actual experience of the ceding employer has moved in line with our assumptions at the latest formal valuation. This may not be the case and as such the accuracy of the projection decreases over time. It is not possible to fully assess the accuracy of these projections without carrying out a full funding valuation.

In particular the projection of the funding position does not allow for:

- changes in the mix of assets held since the last valuation;
- variations in liabilities arising from salary rises, deferred pension revaluation or pension increases differing from those assumed in the valuation;
- changes in the salary roll of employee members; and
- variations between actual and expected demographic experience (e.g. on withdrawals or mortality).

Initial academy contribution rate

- The Employer's contribution rate on entry to the Fund is set to cover the expected cost of accrual of pension benefits with an adjustment for any surplus or deficit based on a spreading period not exceeding that set out in the Funding Strategy Statement for this type of employer. The contribution rate is re-assessed periodically, usually at each triennial valuation.
- The financial assumptions used for setting contribution rates are normally the financial assumptions adopted for the previous formal valuation of the Fund but updated to reflect market conditions at the date shown in the Schedule of Results.

Future academy contribution rate

- In future assessments of the Academy's funding position at triennial valuations allowance will be made for the experience of its LGPS employees during the intervening period. This will include for example, the effect of how salary increases, turnover of staff, early retirements etc compared with the actuarial assumptions. Investment experience will apply across the Fund as a whole, and any surpluses or deficiencies arising from investment experience will effectively be allocated on a pro rata basis.
- The effect of any differences between actual experience and the assumptions on benefits earned both since and prior to the Academy joining the Fund (i.e. including benefits accrued up to the transfer date which are assumed to transfer to the Academy from the ceding employer in the Fund) will be evaluated and contribution rates adjusted accordingly.
- The overriding assumption is that, as for all employers in the Fund for whom an individual contribution rate is calculated, the Academy should pay for the benefits earned by its LGPS members, both those transferred from a ceding employer in the Fund and for any new entrants permitted to join the scheme.

Open contribution rate

As employees of Scheduled Bodies are automatically eligible for membership of the LGPS and hence, as I understand it, the Academy cannot close the Scheme to new entrants, I have calculated the contribution rate assuming that new employees will join the Fund. Accordingly, I have used the projected unit method to determine the future contribution rate payable. The projected unit method estimates the cost of benefits accruing to existing employee members over the year following the valuation date allowing for all expected future pay and pension increases.

This method of assessing the future contribution requirement is applied only to the membership at the calculation date. If new entrants are admitted to the Fund to the extent that the membership profile remains broadly unchanged (and if the actuarial assumptions are unchanged) then the future service contribution rate assessed at a future date should be reasonably stable.

Termination

- As far as I am aware, there is no guidance on what will happen should an Academy close down or be wound up. Under the Regulations, a Scheduled Body is unable to choose to cease participation within the Fund. However, in the event of insolvency or ceasing participation in the Fund for any other reason, the Administering Authority can require a termination valuation calculation to be carried out under Regulation 38. We understand that the Department for Education has guaranteed funding for academies for a period of seven years but that some administering authorities have expressed concern over the financial position of Academies thereafter.
- I would note the following:
  - If an Academy becomes insolvent and no other employer takes over responsibility for the Fund liabilities in respect of its current and former employees then the Administering Authority will seek to recover any existing and future funding shortfall in the Fund from the Academy.
  - The failure of the Academy *may* precipitate the immediate payment of pension benefits if there are any employees aged 55 or over, who are deemed to have been made redundant, thereby causing a further funding strain. This strain will be included in the calculation of any termination deficit.
  - If the Local Education Authority retains an obligation to provide education services (and it should be noted that it is not clear to us whether this is the case or not once an Academy has been established), then it may be possible to argue that the assets and liabilities in the Fund in respect of the Academy's current and former employees should transfer back to that LEA rather than being spread over all the employers in the Fund. The Administering Authority should consider what provisions, if any, should be put in place to cover this possibility.

Other considerations

- The Administering Authority's principal role is to look after the interests of the Fund. We usually interpret this to mean the interests of all the employers in the Fund (since the members' benefits are set out in Regulations and are generally assumed to have a statutory guarantee). With this in mind the Administering Authority should consider what protections are required for the Fund and ensure that it does not confuse these with the protections which might be helpful for the ceding employer, where these might conflict with the best interests of the Fund as a whole.
- In setting the contribution rates for the academies, the Administering Authority may wish to consider its approach to other scheduled bodies, such as further and higher education colleges. The approach taken need not be identical, but the Administering Authority may wish to consider how it would justify any differences in approach.

4 Data and assumptions

Data

A summary of the membership data for the new Academy used in my calculations is set out in the Schedule of Results. I have included the transferring employees' total membership in the Fund in my calculations, including that prior to the transfer date.

To determine the funding position of the ceding employer at the date of transfer to the new Academy, I have also used data provided for the ceding employer for the purposes of the most recent formal valuation. This is summarised in the Schedule of Results. Any actual or estimated cashflows, and investment returns used to determine the funding position of the new Academy are also shown in the Schedule of Results.

In practice, the final membership that is transferred to the Academy and new members who join the Fund may be different to that on which my calculations are based. If the actual final membership is different from that assumed for the purpose of this report, I may have to revisit my calculations.

Assumptions

For the purpose of my calculations I have assumed that the Academy joined the Fund on the date shown in the Schedule of Results.

The financial assumptions used are shown in the Schedule of Results.

Demographic assumptions i.e. assumed incidence of ill health early retirement, members leaving early with a deferred pension, proportions exchanging pension for tax-free cash at retirement and longevity assumptions etc, are normally those used at the most recent formal valuation, unless stated otherwise in the Schedule of Results. Assumptions regarding scheme benefits, retirement age, any uptake of additional tax-free cash permitted by Regulations, mortality and other key assumptions are shown in the Schedule of Results. Any departure from the previous formal valuation assumptions will be shown in the Schedule of Results.

Full information on the derivation of the financial and demographic assumptions for the 2010 formal valuation is set out in the formal valuation report dated 31 March 2011 and the LGPS 2010 Actuarial Valuations Briefing Note: Demographic Assumptions dated February 2010.

5 Risk assessment

The results of the calculations set out in Section 3 (new Academy contribution rate and initial allocation of assets) depend on the actuarial assumptions made for those calculations. The Schedule of Results illustrates the sensitivity of the results to those assumptions made, and illustrates the effect of a change to those assumptions. However, over time the funding position of the new Academy and ceding employer (if any) will depend on the extent to which future experience matches the assumptions made. The main risks in respect of the participation of the new Academy are set out under 'Termination' and 'Other Considerations' within Section 3. This section considers the potential implications of the actuarial assumptions used in the calculations not being met in the future.

Risk of a general shortfall arising due to differences between experience and assumptions used

The risk that the liabilities and assets do not move in line, resulting in a shortfall arising in the future, depends separately on the financial and demographic assumptions made:

- ***Financial risks*** include the risk that the Fund assets fail to deliver investment returns in line with the anticipated returns underpinning the valuation of liabilities; or returns on Government bonds fall, leading to a rise in the value placed on liabilities; or actual pay and price inflation are significantly more than assumed. These financial risks have a direct impact on the funding level and hence on the risk of the Academy's share of the Fund being underfunded on ceasing to participate in the Fund.

  The salary increase assumption adopted for the 2010 formal valuation of the Fund was set allowing for the Chancellor's Budget Statement announcement of public sector pay freezes with some protection for the low paid. It has been assumed that pensionable pay will increase at 1% p.a. in the 3 years following the 2010 formal valuation date and then revert to the long term assumption at 1.5 percentage points above the rate of increase in RPI. Since such increases are under the control of the Academy, it would seem appropriate to make an allowance for this risk at the outset if the Academy expects that pay rises will be higher. I therefore recommend that the Academy undertakes to advise the Administering Authority if pay increases are to be granted above the valuation assumption described above.

- ***Demographic risks*** include the risk of pensioners living longer than expected; or the emergence of further evidence that they are likely to live longer; or that there are significantly more early retirements on ill-health or redundancy/efficiency grounds than expected. Again, these risks would have an impact on the amount of any shortfall in the Academy's share of the Fund on ceasing to participate in the Fund.

As mentioned above, the sensitivity of the calculations to the main financial and demographic assumptions used are set out in the Schedule of Results.

Other risks

The other main risks are:

- ***Regulatory risks*** include the risk of changes to regulations or practice which increase the cost of the scheme, for example through increasing the benefits or by permitting retrospective membership of the scheme such as occurred with part-time employees. These risks could lead to unanticipated costs and hence underfunding on the Academy ceasing to participate in the Fund. Regulatory risks are usually entirely outside the control of both the Administering Authority and the employers. They should not be connected with termination of an employer's participation in the Fund.

- ***Governance risks*** include the risk that the Administering Authority is not aware of structural changes in an employer's membership which affect the liabilities such as a large fall in employee members or large number of retirements, or the Administering Authority is not advised of an employer closing to new entrants and hence this is not taken into account in setting employer contributions.

  It is not possible to assess the likely impact of governance risks on the amount of any underfunding which may arise over the period of participation. In order to mitigate these risks, the terms of participation should require the Academy to inform the Administering Authority of any material changes to its membership or other changes which could affect its liabilities or participation in the Fund.

Barry McKay

Barry McKay FFA
For and on behalf of Hymans Robertson LLP

25 January 2013

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Schedule of Results - Contribution Rate

The advice in this schedule is intended for London Borough of Tower Hamlets as the Administering Authority to London Borough of Tower Hamlets Pension Fund (the 'Fund'). The Administering Authority may share this report with the ceding employer and the Scheduled Body. The report has been prepared in my capacity as an Actuary to the Fund and is solely for the purpose outlined below. It has not been prepared for any other purpose and should not be so used. It must not be shared with any third party without our prior written consent. This document should be read in conjunction with the report entitled "Contribution Rate Assessment for an Academy – Method, Assumptions & Limitations".

The calculations of the results summarised in this paper are valid only for the calculation date shown. If the date of financial assumptions shown below is prior to the transfer date, the calculations will need to be reviewed and updated to reflect market conditions and confirmed transferring membership data on the date the Academy joins the Fund. In particular, the initial asset allocation will need to be updated to reflect market conditions and the funding level of the ceding employer at the transfer date.

Contribution rates exclude any further sums required to meet the cost of non-ill-health early retirements, which will be assessed individually by the Administering Authority using methods and assumptions specified by us from time to time. As there is an allowance for ill-health retirements in the regular employer contribution rate, ill-health early retirements may be monitored and the Academy may be asked to pay additional contributions if it has worse than anticipated experience.

Fund	London Borough of Tower Hamlets Pension Fund
Administering Authority	London Borough of Tower Hamlets
Ceding Employer	London Borough of Tower Hamlets
Name of Employer	Old Ford/Culloden Schools Academy Trust
Type of Employer within Fund	Scheduled Body
Calculation Date	1 April 2013
Results Included:	
Contribution Rate for Employer	Yes
Value of Initial Asset Allocation for Employer	Yes
Assessment of Potential Redundancy Bond Amount	No
Assessment of Additional Risks for Bond Amount	No
Estimate or Final Assessment	Estimate

The following tables summarise the results of our calculations and note some main assumptions. Please refer to the summary of assumptions in this paper and in the accompanying document, "Contribution Rate Assessment for an Academy – Method, Assumptions & Limitations" for full details.

Contribution Rate

Assumptions used for the Assessment of the Contribution Rate	
Date of Financial Assumptions	14 January 2013
Pre-retirement Discount Rate	4.60% p.a.
Post-retirement Discount Rate	4.60% p.a.
Expected Future Salary Increases	4.70% p.a.
Expected Future Pension Increases	2.70% p.a.
Calculation Date	1 April 2013
Assumed Future Life Expectancy	2010 Valuation Assumptions
Assumed Age at Retirement for any Past Service at Date of Commencement	Rule of 85 for those born prior to 31 March 1960 and protected under current regulations, 65 for all other members.
Assumed Proportion of Members Giving Up Pension to Take Maximum Tax-Free Cash	50% Pre April 08 and 75% Post April 08
Other Demographic Assumptions	2010 Valuation Assumptions
Scheme Benefits for Future Benefit Accrual	2008 Scheme
Deficit spread period	14 years
Expenses	0.6% of Payroll

For further details of the Fund's funding approach, please see the report on the actuarial valuation as at 31 March 2010 and the Funding Strategy Statement.

Employer contribution rates exclude employee contributions, but include an allowance of 0.6% of payroll for expenses.

Open rates are applicable if the Employer permits new entrants to join the Fund. Contribution rates exclude employee contributions. The average open employee contribution rate is 6.5%.

Open Contribution Rate (Ceding Employer's Deferreds and Pensioners Left Fully Funded)	
Funding Method	Projected Unit Method
Funding Basis at Commencement	Share of Ceding Employer's Deficit Once Ceding Employer's Deferreds and Pensioners are Fully Funded
Employer Initial Future Service Rate	20.0%
Past Service Adjustment	12.9%
Total Initial Contribution Rate	**32.9%**

The past service adjustment may be expressed as a monetary amount of £65,067 p.a. This assumes a 14 year deficit spread period. The employer would therefore pay 20.0% of payroll plus £65,067 p.a. with the monetary amount increasing by 4.7% each year.

The contribution rate will apply until 31 March 2014 and will be reassessed at the next formal valuation of the Fund as at 31 March 2013.

Initial Asset Allocation for New Employer

Details of the calculation of the initial funding level and subsequent asset allocation are set out in the accompanying document, "Contribution Rate Assessment for an Academy – Method, Assumptions & Limitations".

Assumptions used for the Assessment of Initial Asset Allocation	
Date of Financial Assumptions	14 January 2013
Pre-retirement Discount Rate	4.60% p.a.
Post-retirement Discount Rate	4.60% p.a.
Expected Future Salary Increases	4.70% p.a.
Expected Future Pension Increases	2.70% p.a.
Assumed Date of Commencement of New Employer	1 April 2013
Assumed Future Life Expectancy	2010 Valuation Assumptions
Assumed Age at Retirement for any Past Service at Date of Commencement	Rule of 85 for those born prior to 31 March 1960 and protected under current regulations, 65 for all other members.
Assumed Proportion of Members Giving Up Pension to Take Maximum Tax-Free Cash	50% Pre April 08 and 75% Post April 08
Other Demographic Assumptions	2010 Valuation Assumptions
Scheme Benefits for Future Benefit Accrual	2008 Scheme
Expenses	0.6% of Payroll

Note: The figures below are based on financial assumptions as at "Date of Financial Assumptions" given above. Where the "Date of Financial Assumptions" is prior to the transfer date the final assessment of the actual initial allocation of assets will depend on the final transferring membership at the date of transfer and on financial assumptions at that date.

Initial Asset Allocation for New Employer (Ceding Employer's Deferreds and Pensioners Left Fully Funded)	
Funding Basis at Commencement	Share of Ceding Employer's Deficit Once Ceding Employer's Deferreds and Pensioners are Fully Funded
Estimated Initial Funding Level of New Employer	7%
Estimated Amount of Liability in Respect of LGPS Past Service of Transferring Members at Commencement Date if All Members Transferred	**£986,000**
Estimated Amount of Assets Notionally Allocated to the New Employer at Commencement	**£69,000**
Estimated Surplus/ (Deficit) at Commencement	(£917,000)
Transferring Membership	All members summarised in data below

The liability shown above is for funding purposes only. The initial liability assessed for accounting purposes may be different from that shown above.

Effect on the Ceding Employer

We have not been asked to undertake an assessment of the effect of the creation of the Academy on the ceding employer. However, given the small number of members transferring relative to the membership of the ceding employer it is not expected that this transfer will materially affect the funding position of the ceding employer.

If the number of members transferring to Academies becomes significant, we would recommend that the Administering Authority considers the potential implications of the transfers on the ceding employer.

Data

Data and Information Provided	
Individual Membership Data	Provided on 14 January 2013, see summary below
Eligible Retirement Date	Estimated from entitlement service
Deficit Spread Period (Years)	14

Data used to calculate future service rate and initial liabilities

Summary of Active Membership Data as at Calculation Date							
Category	Number	Actual Pensionable Pay	Full Time Equivalent Pensionable Pay	Average Full Time Equivalent Pay	Average Age[1]	Weighted Average 80ths Service[2]	Weighted Average 60ths Service[2]
Male	5	£69,315	£109,782	£21,956	42.3	4.0	2.3
Female	38	£435,790	£757,917	£19,945	42.2	1.8	2.1
Total	**43**	**£505,105**	**£867,699**	**£20,179**	**42.2**	**2.1**	**2.1**

[1] These average ages are unweighted. The total average age weighted by liability is 51.5 and the total average age weighted by salary is 40.4

[2] Service is weighted by full-time equivalent salary

Data used to calculate funding level of ceding employer

Summary of Membership Data as at 31 March 2010	Number 31 Mar 2010	Average Age 31 Mar 2010	Actual Pay / (£000) 31 Mar 2010	Average Pay / (£) 31 Mar 2010
Actives	5,107	50.8	125,570	24,588
Deferred Pensioners	5,637	50.2	13,214	2,344
Pensioners	4,742	66.2	28,729	6,058

	FTE Pay (£000) 31 Mar 2010	Average Service 80ths 31 Mar 2010	Average Service 60ths 31 Mar 2010
Active Males	48,751	14.3	1.7
Active Females	99,453	9.4	1.4
Total	148,204	11.0	1.5

Cashflows from 1 April 2010 to 14 January 2013 used to determine funding level of ceding employer (£000s)	
Estimated employer contributions	£83,000
Estimated employee contributions	£24,000
Estimated benefits paid	£106,000

Investment returns	
Actual investment return from 31 March 2010 to 30 June 2010	-7.8%
Actual investment return from 30 June 2010 to 30 September 2010	8.1%
Actual investment return from 30 September 2010 to 31 December 2010	5.9%
Actual investment return from 31 December 2010 to 31 March 2011	1.3%
Actual investment return from 31 March 2011 to 30 June 2011	1.5%
Actual investment return from 30 June 2011 to 30 September 2011	-9.2%
Actual investment return from 30 September 2011 to 31 December 2011	5.1%
Actual investment return from 31 December 2011 to 31 March 2012	4.7%
Actual investment return from 31 March 2012 to 30 June 2012	-2.6%
Index return from 30 June 2012 to 14 January 2013	8.9%
Total return from 31 March 2010 to 14 January 2013	**15.0%**

Risk Assessment

Post calculation events

Since the calculations were carried out, there have been no events that would materially affect the calculations.

Sensitivity of results to assumptions

The results are particularly sensitive to the real discount rate (the discount rate net of inflation) adopted and the assumptions made for future longevity.

If the real discount rate used to value the transferred accrued liabilities decreases then the value placed on those liabilities will increase. If the real discount rate reduced by 0.1% per annum the value of the non-pensioner liabilities would increase by around 2-3%. This would serve to increase the overall value of transferred accrued liabilities by around 2-3%. The initial assets to be allocated to the new academy would also change. The change in the assets would depend on the revised funding level of the ceding employer. The future service part of the contribution rate would also increase by around 0.7% of payroll.

In addition, the results are also sensitive to unexpected changes in the rate of future mortality improvements. If longevity improves at a faster rate than allowed for in the assumptions then, again, a higher value would be placed on the transferred accrued liabilities. An increase in life expectancy of 1 year would increase the transferred accrued liabilities by around 3%. The initial assets to be allocated to the new academy would also change. The change in the assets would depend on the revised funding level of the ceding employer. The future service part of the contribution rate would also increase by around 0.8%.

If you have any queries relating to this schedule, please contact Mark Samuels in the first instance.

Barry McKay

Barry McKay FFA

25 January 2013

For and on behalf of Hymans Robertson LLP

Appendix - 2010 Valuation Assumptions

Mortality assumptions

The standard mortality tables used for the previous formal valuation were the "SAPS" tables. These tables were published by the actuarial profession and are based on the longevity experience of occupational pension funds.

The table below summarises our longevity assumptions for the Fund as at 31 March 2010.

Longevity Assumptions	
Longevity – Baseline	S1NMA / S1NFA
Longevity – Improvements	Medium Cohort with 1% p.a. minimum improvements from 2007

Further details about these assumptions are available on request.

Other demographic valuation assumptions	
Retirement in ill-health	Allowance has been made for ill-health retirements before Normal Pension Age (see table below).
Withdrawals	Allowance has been made for withdrawals from service (see table below).
Family details	A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Husbands are assumed to be 3 years older than wives.
Commutation	Future retirements are assumed to commute pension into tax-free cash up to 50% of HMRC limits for service to 31 March 2008 and 75% for service thereafter.
Age Retirements	It is assumed that actives and deferred pensioners will retire at age 60 or when they satisfy the *Rule of 85* if later, subject to no later than age 65, with the exception of those who reach age 60 after 31 March 2020 who will take all of their benefits at age 65.

The tables below show details of the assumptions actually used for specimen ages. The promotional pay scale is an annual average for all employees at each age. It is in addition to the allowance for general pay inflation described above. For membership movements, the percentages represent the probability that an individual at each age leaves service within the following twelve months.

Death in service

Age	Incidence per 1000 active members per annum			
	Male Officers & Post 98	Male Manuals	Female Officers & Post 98	Female Manuals
	Death	Death	Death	Death
20	0.30	0.38	0.16	0.20
25	0.30	0.38	0.16	0.20
30	0.36	0.45	0.24	0.30
35	0.42	0.53	0.40	0.50
40	0.72	0.90	0.64	0.80
45	1.20	1.50	1.04	1.30
50	1.92	2.40	1.52	1.90
55	3.00	3.75	2.00	2.50
60	5.40	6.75	2.56	3.20

Promotional Salary Scales

Age	Promotional Salary Scales							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	FT	PT	FT	PT	FT	PT	FT	PT
20	100	100	100	100	100	100	100	100
25	135	116	100	100	118	105	100	100
30	169	134	100	100	137	111	100	100
35	192	146	100	100	151	116	100	100
40	208	153	100	100	163	121	100	100
45	222	154	100	100	166	122	100	100
50	236	154	100	100	166	122	100	100
55	239	154	100	100	166	122	100	100
60	239	154	100	100	166	122	100	100

Ill health

Tier 1

Age	Incidence per 1000 active members per annum							
	Male Officers & Post 98		Male Manuals		Female Officers & Post 98		Female Manuals	
	Ill Health		Ill Health		Ill Health		Ill Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25	0.00	0.00	0.34	0.27	0.06	0.05	0.39	0.31
30	0.06	0.05	0.55	0.44	0.11	0.08	0.54	0.43
35	0.08	0.07	0.82	0.66	0.21	0.17	0.78	0.62
40	0.15	0.12	1.13	0.91	0.27	0.22	1.08	0.86
45	0.34	0.27	1.64	1.31	0.44	0.35	1.38	1.10
50	0.92	0.74	2.39	1.92	0.86	0.69	2.04	1.63
55	5.10	4.08	10.43	8.35	6.12	4.90	10.37	8.29
60	20.92	16.73	40.67	32.54	24.18	19.35	40.67	32.54

Tier 2

Age	Incidence per 1000 active members per annum							
	Male Officers & Post 98		Male Manuals		Female Officers & Post		Female Manuals	
	Ill Health		Ill Health		Ill Health		Ill Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25	0.00	0.00	1.43	1.14	0.27	0.21	1.66	1.33
30	0.27	0.21	2.32	1.86	0.45	0.36	2.30	1.84
35	0.36	0.29	3.48	2.78	0.89	0.71	3.32	2.65
40	0.62	0.50	4.82	3.86	1.16	0.93	4.59	3.67
45	1.43	1.14	6.96	5.57	1.87	1.50	5.87	4.69
50	4.97	3.98	12.89	10.31	4.64	3.71	10.98	8.79
55	7.12	5.70	14.56	11.65	8.55	6.84	14.47	11.58
60	4.07	3.26	7.91	6.33	4.71	3.76	7.91	6.33

Tier 3

Age	Incidence per 1000 active members per annum							
	Male Officers & Post 98		Male Manuals		Female Officers & Post		Female Manuals	
	Ill Health		Ill Health		Ill Health		Ill Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25	0.00	0.00	0.48	0.38	0.09	0.07	0.55	0.44
30	0.09	0.05	0.77	0.62	0.15	0.12	0.77	0.61
35	0.12	0.07	1.16	0.93	0.30	0.24	1.11	0.88
40	0.21	0.12	1.61	1.29	0.39	0.31	1.53	1.22
45	0.48	0.29	2.32	1.86	0.62	0.50	1.96	1.56
50	0.26	0.16	0.68	0.54	0.24	0.20	0.58	0.46
55	0.37	0.22	0.77	0.61	0.45	0.36	0.76	0.61
60	0.21	0.13	0.42	0.33	0.25	0.20	0.42	0.33

Withdrawals

Members with less than 2 years service

Age	Incidence for 1000 active members per annum											
	Male Officers		Male Manuals		Female Officers		Female Manuals		Post 98 Males		Post 98 Females	
	Withdrawals		Withdrawals		Withdrawals		Withdrawals		Withdrawals		Withdrawals	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
20	202.69	337.82	202.69	337.82	192.26	267.03	192.26	267.03	371.61	743.21	256.35	427.25
25	133.89	223.15	133.89	223.15	129.33	179.63	129.33	179.63	245.46	490.92	172.44	287.41
30	94.97	158.29	94.97	158.29	108.39	150.54	108.39	150.54	174.11	348.23	144.51	240.86
35	74.19	123.65	74.19	123.65	93.48	129.84	93.48	129.84	136.01	272.03	124.64	207.74
40	59.70	99.50	59.70	99.50	77.75	107.99	77.75	107.99	109.45	218.90	103.67	172.78
45	48.85	81.42	48.85	81.42	64.00	88.90	64.00	88.90	89.56	179.12	85.34	142.23
50	37.84	63.07	37.84	63.07	48.77	67.74	48.77	67.74	69.37	138.75	65.03	108.38
55	32.79	54.65	32.79	54.65	37.59	52.21	37.59	52.21	60.11	120.23	50.12	83.54
60	19.87	33.12	19.87	33.12	17.47	24.27	17.47	24.27	36.43	72.86	23.29	38.82

Members with more than 2 years service

Age	Incidence for 1000 active members per annum											
	Male Officers		Male Manuals		Female Officers		Female Manuals		Post 98 Males		Post 98 Females	
	Withdrawals		Withdrawals		Withdrawals		Withdrawals		Withdrawals		Withdrawals	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
20	149.82	249.70	149.82	249.70	142.11	197.37	142.11	197.37	274.67	549.33	189.48	315.79
25	98.96	164.93	98.96	164.93	95.59	132.77	95.59	132.77	181.43	362.85	127.46	212.43
30	70.20	116.99	70.20	116.99	80.11	111.27	80.11	111.27	128.69	257.39	106.81	178.02
35	54.84	91.39	54.84	91.39	69.09	95.97	69.09	95.97	100.53	201.06	92.13	153.54
40	44.13	73.54	44.13	73.54	57.47	79.82	57.47	79.82	80.90	161.79	76.62	127.70
45	36.11	60.18	36.11	60.18	47.31	65.71	47.31	65.71	66.20	132.40	63.08	105.13
50	27.97	46.61	27.97	46.61	36.05	50.07	36.05	50.07	51.28	102.55	48.06	80.10
55	24.24	40.39	24.24	40.39	27.78	38.59	27.78	38.59	44.43	88.86	37.05	61.74
60	14.69	24.48	14.69	24.48	12.91	17.94	12.91	17.94	26.93	53.86	17.22	28.70

Changing lives through excellence and inclusion

Councillor Zenith Rahman
London Borough of Tower Hamlets
Mulberry Place
5 Clove Crescent
London, E14 2BG

21st February 2013

Dear Councillor Rahman,

Re: Culloden Primary School - Recovery of Pension Fund Deficit Contribution

I am writing on behalf of the Governing Body of Culloden Primary School in connection with the report to your Pensions Committee which will be considered on 21 February (Agenda item 4.5).

We have reviewed the report and would like to make some representations for you to take into consideration when making your decision.

We support the view that circumstances have changed since the decision was taken by the committee on 17 November 2011, and the matter should be looked at afresh. New Guidance has been issued in December 2011, and the Pensions Committee need to carefully consider that Guidance and in our view only depart from it if there is good reason.

We note in particular that any decision of the Committee to agree a period of less than 20 years for the deficit recovery period would be contrary to the prevailing trend of decisions made by other funds, as the evidence at para 8.8 is that 18 out of the 27 Local Authorities surveyed had periods of 20 years or more. We disagree with para 8.9 that we have to have a recovery period of 14 years as that is what is set out in the

CULLODENPRIMARY SCHOOL
Dee Street, London E14 0PT. Telephone: 020 7364 1010. Fax: 020 7364 1022. Email: admin@culloden.towerhamlets.sch.uk

Executive headteacher: Amanda Phillips

Strategy Report- it is for the Committee to look at the individual circumstances and form an assessment taking into account Guidance which has been issued to it.

We note in particular that at para 8.10 that Community Admission Bodies are to be given a period equivalent to the expected future working lifetime. We consider by analogy that Culloden Primary School and Old Ford Primary School are very strong, and both well established and will outlive us all. We consider that it is extremely remote that the academy trust would become insolvent. There are over 2800 academies established, and since the first academy opened in 2002 no academy trust has become insolvent. The Secretary of State has considerable intervention powers to intervene and take or require specific actions be taken to address issues at a school which is struggling either educationally or financially. We note that the report does not address in any way the actual risk of this academy trust becoming insolvent.

We refer to para 9.2 and the analogy of an academy trust to the private sector. This is incorrect. A private company is subject to the vagaries of the market and its source of income remains subject to free competition. The academy trust is a state funded institution, regulated by the state and cannot be compared to a private sector company.

At para 9.4 there is reference to a "rolling 7 year period". This is incorrect and misleading. The funding agreement is of an indefinite period. Whilst the Secretary can give a 7 year notice to terminate the agreement, no such notices have been given to any academy trust since their inception in 2002. You should also compare this to the position of a maintained foundation school, also a scheduled employer in the scheme, where the local authority can at any time close the school on statutory notice usually in a period of between 18 months and 2 years.

At para 9.5, there is reference to the right of intervention if things go wrong. The Secretary of State enjoys considerable rights in the funding agreement to intervene in a failing academy, and it both wrong and misleading to refer to the academy trust as "a stand-alone business". As an academy trustit is not a business. It is a state funded charitable entity controlled and regulated by the State. The Minister for Education has a direct responsibility for the provision of education in academy schools, and the political reality is that academy schools are not going to be allowed to become insolvent without any provision made by the Secretary of State to meet the liabilities. The Secretary of State will intervene to fix the problem which has the case in the last 10 years and will continue to be the case. Also the report does not highlight the commitment given in the December 2011 Guidance (at para 9) which we have set out below:

"The Government would be bound to consider all available options for dealing with an academy's outstanding LGPS pensions liabilities including, but not limited to, the assignment of assets and liabilities to a new or existing education establishment where this was the desired outcome"

At para 9.6 again the report ignores the overriding political reality is that the Secretary of State will not allow academy trusts to become insolvent, and there are ample powers which he has to change the management of the school if there has been a failure to manage the school properly. Also the Guidance makes it clear what steps will be taken to avoid unmet liabilities.

The report does not address the actual risk of the academy trust being allowed by the Secretary of State to fall into insolvency with no provision made to have its liabilities met. This is a fundamental flaw in the report. We are also disappointed that the report does not address the alternative approaches which Hyman Robertson has referred to the penultimate paragraph of their report. The Committee is asked to positively consider these approaches with a view to mitigating the adverse impact the 32.9% rate will have on the school budget.

Finally,if the decision is made to set the period at 14 years, which we consider an arbitrary figure not based on any actual risk analysis which has been carried out, we would like to be advised of what the contribution amount would be if we were given a 20 year deficit recovery period in line with the maintained schools. We can then assess the financial impact of any such decision on the school's budget.

Yours sincerely

Dr. Denise SyndercombeCourt

Chair of governors

Culloden Primary School

National Teaching School

Old Ford PRIMARY SCHOOL

Wrights Road, London E3 5LD.

Telephone: 020 8980 1503
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Headteacher: Amanda Phillips
head@oldford-pri.towerhamlets.sch.uk

Councillor Zenith Rahman
London Borough of Tower Hamlets
Mulberry Place
5 Clove Crescent
London, E14 2BG

21st February 2013

Dear Councillor Rahman,

Re: Old Ford Primary School- Recovery of Pension Fund Deficit Contribution

I am writing on behalf of the Governing Body of Old Ford Primary School in connection with the report to your Pensions Committee which will be considered on 21 February (Agenda item 4.5).

We have reviewed the report and would like to make some representations for you to take into consideration when making your decision.

We support the view that circumstances have changed since the decision was taken by the committee on 17 November 2011, and the matter should be looked at afresh. New Guidance has been issued in December 2011, and the Pensions Committee need to carefully consider that Guidance and in our view only depart from it if there is good reason.

We note in particular that any decision of the Committee to agree a period of less than 20 years for the deficit recovery period would be contrary to the prevailing trend of decisions made by other funds, as the evidence at para 8.8 is that 18 out of the 27 Local Authorities surveyed had periods of 20 years or more. We disagree with para 8.9 that we have to have a recovery period of 14 years as that is what is set out in the Strategy Report- it is for the Committee to look at the individual circumstances and form an assessment taking into account Guidance which has been issued to it.

We note in particular that at para 8.10 that Community Admission Bodies are to be given a period equivalent to the expected future working lifetime. We consider by analogy that Old Ford Primary School and CullodenPrimary School are very strong, and both well established and will outlive us all. We consider that it is extremely remote that the academy trust would become insolvent. There are over 2800 academies established, and since the first academy opened in 2002 no academy trust has become insolvent. The Secretary of State has considerable intervention powers to intervene and take or require specific actions be taken to address issues at a school which is struggling either educationally or financially. We note that the report does not address in any way the actual risk of this academy trust becoming insolvent.

We refer to para 9.2 and the analogy of an academy trust to the private sector. This is incorrect. A private company is subject to the vagaries of the market and its source of income remains subject to free competition. The academy trust is a state funded institution, regulated by the state and cannot be compared to a private sector company.

At para 9.4 there is reference to a “rolling 7 year period”. This is incorrect and misleading. The funding agreement is of an indefinite period. Whilst the Secretary can give a 7 year notice to terminate the agreement, no such notices have been given to any academy trust since their inception in 2002. You should also compare this to the position of a maintained foundation school, also a scheduled employer in the scheme, where the local authority can at any time close the school on statutory notice usually in a period of between 18 months and 2 years.

At para 9.5, there is reference to the right of intervention if things go wrong. The Secretary of State enjoys considerable rights in the funding agreement to intervene in a failing academy, and it both wrong and misleading to refer to the academy trust as “a stand-alone business”. As an academy trust is not a business. It is a state funded charitable entity controlled and regulated by the State. The Minister for Education has a direct responsibility for the provision of education in academy schools, and the political reality is that academy schools are not going to be allowed to become insolvent without any provision made by the Secretary of State to meet the liabilities. The Secretary of State will intervene to fix the problem which has the case in the last 10 years and will continue to be the case. Also the report does not highlight the commitment given in the December 2011 Guidance (at para 9) which we have set out below:

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The report does not address the actual risk of the academy trust being allowed by the Secretary of State to fall into insolvency with no provision made to have its liabilities met. This is a fundamental flaw in the report. We are also disappointed that the report does not address the alternative approaches which Hyman Robertson has referred to the penultimate paragraph of their report. The Committee is asked to positively consider these approaches with a view to mitigating the adverse impact the 32.9% rate will have on the school budget.

Finally,if the decision is made to set the period at 14 years, which we consider an arbitrary figure not based on any actual risk analysis which has been carried out, we would like to be advised of what the contribution amount would be if we were given a 20 year deficit recovery period in line with the maintained schools. We can then assess the financial impact of any such decision on the school’s budget.

Yours sincerely

Christopher Crozier

Chair of governors

Old Ford Primary School

Date& Time	Event Title	Brief Description	Location (Nearest Stations)	Online Booking
28 Feb 2013 8.30 – 12.30 **(Lunch)**	Trustee Seminar (Introduction)	Training will cover the following: • Pension Scheme Strategy • Portfolio Management / Asset Mix • Alternative Asset Classes • Fund Liabilities	**LONDON - Legal & General Investment Management** One Coleman Street, London EC2R 5AA. Please click here to view directions.	https://www.events-lgim.com/lgim/frontend/reg/tRegisterEmailNew.csp?pageID=29193&eventID=130&tempPersonID=25608&eventID=130
28 Feb 2013 12.30 – 17.00 **(Lunch before session)**	Trustee Seminar (Advanced)	Training will cover the following: • Role of independent trustee • Derivatives • Building better benchmarks • Impact of economic condition on pension fund	**LONDON - Legal & General Investment Management** One Coleman Street, London EC2R 5AA. Please click here to view directions.	https://www.events-lgim.com/lgim/frontend/reg/tRegisterEmailNew.csp?pageID=29193&eventID=130&tempPersonID=25609&eventID=130
1 March 2013 9.00 – 12.45 **(Lunch)**	Master Class on Risk	Training will cover the following: • Design of risk management solutions • New strategies in pension risk management • Trigger for de-risking programme	**LONDON - Legal & General Investment Management** One Coleman Street, London EC2R 5AA. Please click here to view directions.	https://www.events-lgim.com/lgim/frontend/reg/tRegisterEmailNew.csp?pageID=29464&eventID=131&tempPersonID=25610&eventID=131
8 March 2013 9am -12.30pm **(Lunch)**	Trustees Training (Part One)	Training will cover the following: • Equity Investment • Fixed Income • Alternative Assets • Performance Attribution	**Schroders** 31 Gresham Street London, EC2V 7QA Map	https://www.schrodersevents.co.uk/schroders/frontend/reg/tOtherPage.csp?pageID=189835&ef_sel_menu=3199&eventID=584&eventID=584
22 March 2013 9am -12.30pm **(Lunch)**	Trustees Training (Part Two)	Training will be provided on the following: • Equity Investment • Fixed Income • Alternative Assets • Performance Attribution	**Schroders** 31 Gresham Street London, EC2V 7QA Map	https://www.schrodersevents.co.uk/schroders/frontend/reg/tOtherPage.csp?pageID=189835&ef_sel_menu=3199&eventID=584&eventID=584