TOWER HAMLETS

Meeting of the

PENSIONS COMMITTEE

Thursday, 14 November 2013 at 7.30 p.m.

A G E N D A

VENUE
COMMITTEE ROOM C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, LONDON E14 2BG

Members:	Deputies (if any):
Chair: Councillor Zenith Rahman Vice – Chair: Councillor Ann Jackson	
Councillor Judith Gardiner Councillor Craig Aston Councillor Oliur Rahman 2 Vacancies Frank West - Non-Voting Member (Trade Union) John Gray - Non-Voting Member (Admitted Body)	Councillor Marc Francis, (Designated Deputy representing Councillors Zenith Rahman, Judith Gardiner, Ann Jackson and Shiria Khatun) Councillor David Snowdon, (Designated Deputy representing Councillor Craig Aston) Councillor Tim Archer, (Designated Deputy representing Councillor Craig Aston) Councillor David Edgar, (Designated Deputy representing Councillors Zenith Rahman, Judith Gardiner, Ann Jackson and Shiria Khatun) Councillor John Pierce, (Designated Deputy representing Councillors Zenith Rahman, Judith Gardiner, Ann Jackson and Shiria Khatun)
[Note: The quorum for this body is 3 Members].	

Committee Services Contact:
Antonella Burgio, Democratic Services.
Tel: 020 7364 4881 E-mail: antonella.burgio@towerhamlets.gov.uk
Web: www.towerhamlets.gov.uk/committee

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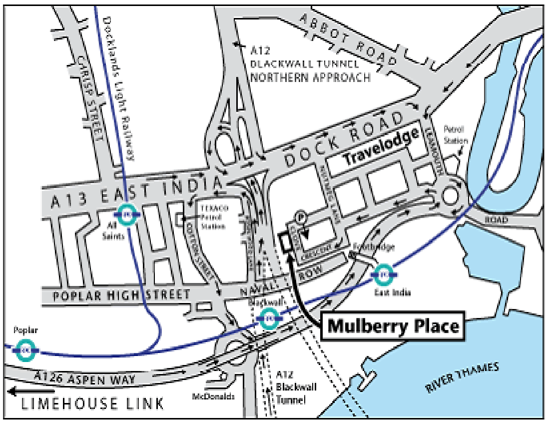

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LONDON BOROUGH OF TOWER HAMLETS

PENSIONS COMMITTEE

Thursday, 14 November 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 Monitoring Officer.

3. UNRESTRICTED MINUTES (Pages 5 - 14)

To confirm as a correct record of the proceedings the unrestricted minutes of the ordinary meetings of the held on 19 September 2013.

4. UNRESTRICTED REPORTS FOR CONSIDERATION

4 .1 2012/13 Local Government Pension Fund Annual Report (Pages 15 - 102)

To approve the Pension Fund Annual Report, the Statement of Investment Principles and the Pension Fund Statement of Accounts; and to note the Funding Strategy Statement and the Governance Compliance Statement.

4 .2 Update on Government Guarantee of Academies Pension Liabilities (Pages 103 - 132)

To note the report and consider the representations from the admitted academies in the LBTH Pension Fund in regard to the original decision to set deficit recovery periods at 14 years;

4 .3 Workforce Pension Reform: Automatic Enrolment Update (Pages 133 - 138)

To receive an update on the progress of the Council's Automatic Enrolment experience following its implementation on 1 June 2013.

4 .4 Report of Investment Panel for Quarter Ending 30 June 2013 (Pages 139 - 144)

To note the report of the Investment Panel.

5. TRAINING EVENTS (Pages 145 - 152)

To consider opportunities for training relating to the administration of the Pension Funds of Public Sector Bodies.

6. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

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:-

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, 19 SEPTEMBER 2013

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

Members Present:

Councillor Zenith Rahman (Chair)
Councillor Judith Gardiner
Councillor Ann Jackson
Councillor Craig Aston

Admitted Bodies, Non-Voting Members Present:

Frank West - Non-Voting – Non-voting Member Representing Trade Unions
John Gray - Non-Voting – - Non-Voting Member (Admitted Body)

Others Present:

Raymond Haines (Chair of Pensions Fund Investment Panel)

Matt Woodman Hymans Robertson

Lynn Coventry WM - State Strret

Officers Present:

Anant Dodia – (Pensions Manager)
Chris Holme – (Acting Corporate Director - Resources)
Oladapo Shonola – (Chief Financial Strategy Officer, Resources)
Antonella Burgio – (Democratic Services)

COUNCILLOR ZENITH RAHMAN IN THE CHAIR

INTRODUCTIONS

The Chair welcome in Coventry of The WM Company who was in attendance to speak to the committee on the annual performance of the pension fund.

ORDER OF BUSINESS

To facilitate the discussion of the report, the Chair moved that the order of business be varied. The Committee approved the motion and accordingly Item 5.1 Annual Update from WM was taken as the first item of business. Following discussion of this item, the Chair moved that the order of business be resumed. The Committee approved and consideration of business resumed, as printed in the agenda, from item 1.

1. APOLOGIES FOR ABSENCE

No apologies for absence were received.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interests were made.

3. UNRESTRICTED MINUTES

The minutes of the meeting held on 25 June were approved as a correct record. The minutes of the meeting held on 25 June were approved, without amendment, as a correct record of proceedings.

4. DEPUTATIONS & PETITIONS

No requests to address the Committee without prior notice (deputations) or to present petitions were received by the Chair

5. UNRESTRICTED REPORTS FOR CONSIDERATION

5.1 Annual Update from W M

Ms Coventry of The WM Company tabled the report "London Borough of Tower Hamlets performance review period ending 31 March 2013." She introduced herself and advised that The WM Company tracked the performance of 90% of local authority pension funds. She advised that her presentation would comprise the following elements:

- financial returns, strategies and trends
- the annual performance of Tower Hamlets pension fund,
- the performance of Tower Hamlets pension fund compared with other local authorities

Financial returns, strategies and trends:
Ms Coventry advised that returns on equities in the period 2012 – 13 had been favourable. Active managers had done well against benchmark and there had been above index return in all markets except USA. She advised that equities performance had been volatile (page 5) but returns were above average over 3, 5, 10 and 20 years. Performance of bonds had been less volatile but returns were lower especially over 10 and 20 years.

She advised that:

- annual returns in respect of alternatives (page 6) were 9.2% over 20 years but this did not apply to all categories of alternatives
- average returns in both cash and alternatives categories were below equities

- annual returns for property were in line with quoted levels but presently still negative
- average total assets returns for local authorities had achieved benchmark

Therefore returns had been achieved but liabilities were higher.

Asset allocation performance (page 8) tended towards reducing risks and, to achieve this, portfolios were more diversified. As funds were restructuring there was a move towards global markets; UK equities comprising 30% and the remainder comprised of overseas equities. Mr Woodman enquired and Ms Coventry confirmed that Investec were an absolute return category of fund. She noted that the Council's decision to invest in these funds was ahead of trend.

The Chart 'Performance Range Relative to Benchmark' (page 9) indicated the performance range over 1, 3, 5 and 10 years compared to its own benchmarks. Ms Coventry advised that most returns had exceeded their benchmark and that some benchmarks are being measured against cash which had rendered it easier to outperform benchmark. However, most 5-year investments had underperformed. Mr Gray enquired and Ms Coventry confirmed that the performance reported was gross of fees.

Annual performance of Tower Hamlets pension fund:
Ms Coventry provided the following information in relation to total fund performance against strategic benchmark:

- The total Fund value summary (page 11) indicated the fund composition across the fund managers and was valued at £929 million at 29 March 2013, 63% of this was allocated to equities.
- Relative fund returns (page 12) were 11.8% in 2013; these were ahead of benchmark within the year. Performance over 20 years was 0.5% below the benchmark. This low return was due to exposure to UK equities.
- Mr Shonola advised that manager, Martin Currie and Aberdeen Asset Management had been dismissed two years ago and the Fund moved to a passive mandate for UK equities.
- The Fund had underperformed over the last five years, however other local authorities funds had performed similarly
- Tower Hamlets' performance was in the middle of the range compared to other authorities with lower risk and with lower risk than other authorities. It was noted that the lower risk was due to the fund structure which contained passive strategies.

Ms Coventry provided the following information concerning manager performance (section 3):

- Tower Hamlets fund was 0.6% ahead of benchmark and the following manager performance was noted:
    - GMO performance was below the benchmark
    - Legal and General was a passive manager and matched benchmark as expected
    - Baillie Gifford had delivered good returns above benchmark

Performance of Tower Hamlets pension fund compared with other local authorities:
Ms Coventry provided the following information (section 4):

- the Fund had outperformed against its own strategy. It was noted that this would drive performance more than managers performance
- comparison with other local authorities' performance needed recognise that each of them operated different funding strategies. Mr Shonola noted that the Tower Hamlets strategy reflected its present position and its strategic aims
- in the last year and in the longer term Tower Hamlets was 1.8% below average. Asset allocation only added 1% therefore stock selection was the driver
- Bonds return was 4.9% below the local authority average
- in regard to the absolute risk and return percentage over 5 years (page 20), Tower Hamlets' performance was in the lower range of risk and therefore average performance could be expected
- the latest five-year risk and return chart (page 21) also indicated Tower Hamlets fund position in the lower risk return range
- many other authorities were presently engaging a larger number of managers to deal with their investments

Due to time constraints the Chair moved and the Committee agreed to submit written questions concerning the presentation to Ms Coventry.

Ms Coventry left the meeting; the Committee then discussed the presentation and the following matters were raised:

- Cllr Jackson noted that the strategy, while conservative, was not totally risk averse. The Committee was advised that:
    - that the Fund had performed within the local authorities' cluster.
    - the Council had taken a decision against exposure to a lot of risk
    - two years ago a decision had been taken to invest UK equities via a passive mandate.
    - the strategy was the driver of performance rather than the managers engaged
- Cllr Gardner enquired whether benchmarks were sufficiently ambitious within their own categories and whether it may be necessary to change the strategy in order to benefit from greater returns. The Committee was advised that:
    - as the benchmark level indicated the level of exposure of the investment, if risk were higher the benchmark would be also higher correspondingly.
    - Mr Woodman noted that equity markets, since the financial crisis of 2008, had been supported by quantitative easing by the United States Federal reserve and therefore did not recommend that more equity exposure was undertaken at the this time
    - Mr Haynes noted that active equity managers in the UK had not outperformed the market for a long period.

  - Mr Holme suggested that small improvements to the strategy should be considered after the triennial evaluation. It was noted that the funding strategy statement (triennial evaluation) would be available at the end of 2013 and brought to committee in February 2014.

- Cllr Jackson enquired why less complex funds had produced high returns. She was advised that Hymans Robertson had studied this matter and the returns were due to:
  - high levels of diversification which enabled such funds to weather any unfavourable markets and
  - low manager turnover because this action involved costs

  In view of this, Mr Woodman recommended that unnecessary changes to fund structure should be avoided.

- Mr Gray enquired:
  - what cumulative performance would be given if figures were reported net of fees. Mr Woodman illustrated his answer referring to 'total assets' at page 7 of the presentation and advised that total assets reported over 10 years were 9.4, equivalent to a 90% return over the period. This figure was a gross sum and 3% should be removed for fees over the annual period.
  - how net figures could be better reported and Mr Shonola advised that it would be difficult to persuade managers to report these figures since fee structures would likely be disclosed; this contractual information was confidential. Additionally fees were in fact paid at different times and at different rates; therefore for reporting purposes, sums were annualised. He noted that the table also gave indicative costs of running the fund.
- Mr Gray noted that it would be beneficial to quantify fees as they amounted to a sizeable sum when compounded over 10 years. Mr Woodman supported the principle of reporting performance net of fees but felt that WM would not be able to provide these figures as managers' fees would then be disclosed and this was commercially sensitive information.

RESOLVED:

1. That the tabled report and the verbal update be noted
2. That the Committee's question be submitted to Ms Coventry in writing

Action by:
Oladapo Shonola, Chief Financial Strategy Officer – Resources

5.2 2012/13 Local Government Pension Fund Annual Report

Mr Shonola presented the report circulated at agenda item 5.2 which gave an overview of activity of the scheme and of the fund over the year and stated that the report was for noting only. He advised that the auditors have given an unqualified opinion of the accounts following the audit of the statement of accounts.

Referring to paragraph 6.3 the report, he advised that the fund was presently cash flow positive and it was estimated that the fund would become cash flow negative in a two-year range, dependent all the numbers joining and leaving the scheme.

The following issues were discussed:

Impact of auto-enrolment regulations on Pension Scheme membership -
Mr Holme advised it was too early to quantify the effects; however a significant number of staff that were auto-enrolled have already opted out. Mr Dodia suggested that present economic hardships may have led lower paid employees choosing to opt out of the scheme as contributions had a significant impact on available cash in households where income was low. It had been noted also that some members had opted out almost immediately and this had influenced some other longer-term members to opt out also. However the Council still promoted enrolment. Mr Holme advised that a three months analysis would be undertaken to investigate un-enrolment.

Cause of differential performance:
Councillor Jackson noted that the Fund had made better than average returns over 20 years but returns had been less favourable in the latter 10 years, and enquired what had caused the better performance in the earlier part of the period. Mr Woodman advised that equities always outperformed bonds over 20 years; however the differential performance had arisen because equities were very strong in the first part of the 20-year period but weak over the latter part.

RESOLVED:

That the report be noted

5.3 Report of Investment Panel for Quarter Ending 31 March 2013

Mr Shonola presented the report at item 5.3 which informed the Committee of Fund performance in the 4th quarter 2012 – 13.
He advised that:

- equities performance was strong
- seven of the eight managers had outperformed their benchmarks
- GMO had had a good return but had not performed outperformed benchmark
- asset allocation was in line with the funding strategy
- many of the data and matters reported had been discussed by the Committee at agenda item 5.1

Mr Gray noted that the figures at page 28 and 29 of the agenda did not match and was advised by Mr Shonola that the statement of accounting was that of the last actuarial evaluation. Since that time, more bodies had been admitted to the Fund and hence the difference in the figures reported.

RESOLVED:

That the report be noted

5.4 General Update on Emerging and Developing Pension Fund Issues

Mr Shonola presented the report circulated as agenda item 5.4 which advised the Committee of emerging issues affecting the pension fund. He advised that, further to the findings of the Hutton commission on public sector pensions, the Government enacted new legislation to impose changes on Local Government pension schemes. These proposals (Local Government Pension Scheme 2014) were given at paragraph 6 of the report. The following points were also noted:

- Accrued rights would be protected
- A pensions board would be established, although guidance was still awaited on this
- conflicts of powers
- Complaints from academies that contribution rates were too high and the guarantee including caveats offered by the government
- The more admitted bodies admitted into the scheme escalates the risks of failing academies to which the fund might be exposed

In response to Members' questions the following information was provided

Concerning the Academy's pension fund deficit guarantee councillor Gardner stated that the Council should endorse its current approach to admitted bodies because of the level of risk being taken on.

Concerning a likely publication date of Government guidance relating to the powers and constitution of local government pensions boards, the Committee was advised no date had yet been indicated.

Councillor Gardner noted that the administration of an independent board or panel would add costs to the pension fund and suggested that a combined pension body approach would be a preferred option.

Concerning the degree of Fund exposure to bankruptcy risks, Mr Shonola advised that were several admitted bodies to become insolvent, the risks of failure would be borne by the remaining solvent bodies and ultimately by the Council therefore the risk to the Council was the greater. It was noted that these risks related to non-teaching staff as teachers' pensions were covered by other schemes.

Noting the proposed transition to an average contribution arrangement and higher contribution levels, Councillor Jackson argued that these had contributed to the higher opt out rate and suggested that in future the fund will find it more difficult to generate income because the Fund cash or value base would be degraded. Mr Holme advised that the forthcoming actuarial assessment would consider this matter and to counteract decline it was necessary to continue to promote the Fund. Mr Woodman noted that because the accrual rate would be higher, conditions would remain consistent in the main.

Mr Gray noted that, compared to other pension schemes available, local authority schemes still offered better benefits to low paid and part-time workers and was advised that the contribution rate was variable depending on the earnings of each member of the fund.

Concerning future fund structure, Mr Shonola advised that there might be a Government call for merger to form a super fund. In view of this the London Councils undertook a survey of interest in the possibility of setting up a common investment vehicle that would enable London boroughs to pool assets while retaining local accountability. Mr Holme advised that, on the whole, London boroughs were not in favour of pension funds mergers and were working together to investigate the possible advantages of a common investment vehicle.

Councillor Aston requested a report on how the Hutton proposals would work and possible options to address issues around governance and powers, duplication. Mr Holme advised that an update would be provided at the next committee a report would presented once Government guidance had been issued.

RESOLVED:

1. That the report noted
2. That an update on how the Hutton proposals would work and possible options to address issues around governance and powers, duplication be provided at the next committee and a report presented once Government guidance had been issued.

Action by:
Oladapo Shonola, Chief Financial Strategy Officer – Resources

6. TRAINING EVENTS

The following general matters were discussed:

- where possible, training events delivered free of charge should be exploited to avoid costs other than necessary. Noting this recommendation, Mr Shonola advised that the UBS courses notified at 6.2 and 6.3 were free of charge and suitable for members recently appointed to the Committee.

- possible solutions to maximise training including:
  - mandatory requirement to attend training on appointment to the committee
  - bespoke training,
  - incorporating training into the first half hour of each committee

   - use of the on-line pensions regulator trustee training package

Mr Haynes noted that:

- should regulations be changed, training would need to be given greater consideration
- managers were often willing to provide short training for members

6.1 LGPS 2100 Training and Investment Seminar

The training information was noted and Members who wished to attend were asked to contact the clerk to the Committee.

6.2 Introduction to Investments for Trustees

The training information was noted and Members who wished to attend were asked to contact the clerk to the Committee.

6.3 Investing to meet your liabilities

The training information was noted and Members who wished to attend were asked to contact the clerk to the Committee.

6.4 Local Authorities Pension Fund Forum Annual Conference

The training information was noted and Members who wished to attend were asked to contact the clerk to the Committee.

6.5 London Borough of Merton – Learning and Development Agenda

The training information was noted and Members who wished to attend were asked to contact the clerk to the Committee.

Action by:
Antonella Burgio, Democatic Services Officer – Chief Exec's

7. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

Nil items.

The meeting ended at 9.03 p.m.

Chair, Councillor Zenith Rahman
Pensions Committee

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COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.
Pensions Committee	**14 November 2013**	**Unrestricted**	
REPORT OF: **Acting Corporate Director of Resources** ORIGINATING OFFICER(S): **Oladapo Shonola – Chief Financial Strategy Officer**		TITLE: **2012/13 Local Government Pension Fund Annual Report** Ward(s) affected: N/A	

1. SUMMARY

1.1 This report presents the draft Annual Pension Fund Report and Statement of Accounts.

1.2 The Statement of Accounts have been prepared under International Financial Reporting Standards (IFRS) rules and are now presented for consideration by the Pensions Committee.

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2. DECISIONS REQUIRED

2.1 Members are recommended to:

- Approve the Pension Fund Annual Report;
- Approve the Pension Fund Statement of Accounts;
- Note the Funding Strategy Statement;
- Approve the Statement of Investment Principles;
- Note the Governance Compliance Statement.

3. REASONS FOR DECISIONS

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

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

4. ALTERNATIVE OPTIONS

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

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

5. BACKGROUND

5.1 The Council as an administering authority under the Local Government Pension Scheme Regulations is required to produce a separate set of accounts for the scheme's financial activities and assets and liabilities.

5.2 The contents and format of the accounts are determined by statutory requirements and mandatory professional standards as established by the Chartered Institute of Public Finance (CIPFA) in their Service Code of Recommended Practice (SERCOP).

5.3 The Accounts have now been audited and signed off by the Councils auditors, KPMG.

5.4 The Department Communities and Local Government (DCLG) have introduced an additional requirement for Councils to publish before the 1st December an annual report which incorporates elements of the financial accounts.

6. THE ANNUAL REPORT AND STATEMENT OF ACCOUNTS

6.1 The Accounts comprise two main statements with supporting notes. The main statements are:

- Dealings with Members Employers and Others which is essentially the funds revenue account
- The Net assets Statement which can be considered as the funds balance sheet.

6.2 The return on investment section of the Accounts sets out the movement in the net worth of the fund in the year by analysing the relevant financial transactions and movements in the market value of the investment portfolio. The statement has two main sections:

- The financial transactions relating to administration of the fund.
- The transactions relating to its role as an investor.

6.3 The fund income sectionof the Report principally relates to the receipt of contributions from employers and active members and the payment of pensions benefits. The section indicates that the Fund is cash positive in that the receipt of contributions exceeds the pension payments £3.6min 2012/13compared to £3.7m in 2011/12 and £10.6m in 2012/13.

6.4 Whilst the Fund net cashflow position in 2012/13 is similar to the previous year, it expected that the Fund will become cashflow negative over the 2 year - although the exact timing is difficult to predict.

6.5 Overall, fund membership has risen, but the increase in active members is significantly less than the rise in other categories of membership. The number of active members have gone up by46 (0.9%), against increases in deferred, retiredand dependant membership numbersof 232 (3.8%), 84 (2.1%) and 39 (4.1%) respectively. These movements are a consequence of the governmentsausterity measure which has resulted in a drop off in the number of council employees, the major employer in the Fund. Although active membership numbers are lagging at the moment increasing the likelihood of cashflow negativity, a Fund is expected to become cashflow negative over time as fund membership matures.

6.5 The investment performance section of the Report details returns on the investment portfolio and the impact of managers' activities and investment markets on the value of investments.The Fund achieved a return on its investment portfolio of 11.8% in 2011/12 slightly outperforming benchmark of 11.1% by 0.7%. 3 year returns are in line with benchmark at 6.6%, but 10 year returns lag benchmark by 0.6% at 8.7%.

6.6 Overall, fund assets increased by £99.5m. The increase was mostly due to gains made from performance of financial markets in which the Fund held its investments and a net gain between fund income and expenditure.

6.7 The net asset statement represents the net worth (£927m) of the fund as the 31st March 2013. The statement reflects how the transactions outlined in the other statement have impacted on the value of the fund's assets.

6.8 The Annual report also includes three key statements (Funding Strategy Statement, Statement of Investment Principles and Governance Compliance Statement) relating to the management and governance of the scheme and each statement serves a different purpose.

6.9 The Funding Strategy Statement undergoes a detailed review and update prior to each triennial valuation – this work is already underway and a revised statement will be submitted for approval to Committee in February 2014. The 2013 triennial valuation outcome is expected towards the end of this year and will be reported to the February 2014 meeting of the Pensions Committee.

6.10 The purpose of the Funding Strategy statement is threefold:

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

6.11 The Statement of Investment Principles facilitates adherence to best practice in the management of pension schemes as set out by the revised Myners Principles and the Fund is required to state the extent to which it has complied with these principles.

6.12 The Governance Compliance Statement sets out the Council's policy as the administering authority in relation to its governance responsibilities for the Fund.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

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

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

8.2 The report should deal with the following matters:

(a) management and financial performance during the year of the pension;

(b) an explanation of the investment policy for the fund and a review of performance;

(c) a report on arrangements made during the year for administration of the fund;

(d) a statement by an actuary who carried out the most recent valuation of the fund and the level of funding disclosed by that valuation;

(e) a Governance Compliance Statement;

(f) a Fund Account and Net Asset Statement;

(g) an Annual Report dealing with levels of performance and any other appropriate matters;

(h) the Funding Strategy Statement;

(i) the Statement of Investment Principles;

(j) statements of policy concerning communications with members and employing authorities; and

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

9. ONE TOWER HAMLETS CONSIDERATIONS

9.1 The Pension Fund Accounts demonstrate financial stewardship ofthe fund's assets. A financially viable andstable pension fund is a valuable recruitment and retention incentive for the Council.

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

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

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

Brief description of "background papers"	***Name and telephone number of holder And address where open to inspection***
None	

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The London Borough of Tower Hamlets Pension Fund

Annual Report 2012/13

TOWER HAMLETS

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Contents

Foreword by Chris Holme: Acting Corporate Director, Resources

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

The Fund has seen significant positive movement in the year benefiting from continued recovery in the financial markets, especially equities. The overall value of the portfolio of assets grew 11.8% in 2012/13 outperforming benchmark by 0.7%. This performance is reflective of average return on pension fund assets nationally and also average gains in financial markets. This year's performance follows on from good performances in 2010/11 and 2011/12 with average returns of 32% and 11% respectively. Markets continue to be volatile therefore the short to medium term outlook for the performance of the Fund remains uncertain.

The Investment Strategy allocates assets across a range of asset classes and further attempts to minimise exposure to significant movements within each asset class by appointing fund managers that pursue contrasting but complementary investment strategies. This approach ensures a diversified and balanced portfolio that targets steady and sustainable growth. However, asset allocation can drift away from target over time due to market or manager performance. To ensure that strategic asset allocation is in line with target and Fund Strategy objectives, the Fund's swing manager, L&G Investment Management is tasked with rebalancing the portfolio between equities and bonds when allocation significantly varies from target.

The Public Service Pensions Act recently received royal assent. The Act covers issues such as LGPS Scheme Governance, Administration, Design and Cost-Control - all of which will have implications for the Fund. As a consequence of this Act, the Fund faces a number of risks and opportunities going forward. Some of the cost-control changes include moving to Career Average Revalued Earnings (CARE), moving state retirement age from 65 to 68 and a slower rate of benefit accrual and the introduction of employer cost cap. The Act also requires that the Fund sets up a Pension Board, which could mean that the role/constitution of the Pensions Committee needs to change. A review of Fund governance will be undertaken with a view to recommending an approach that complies with the Act.

The Government has been open about its expectation for pension funds to reduce administration and fund management costs and recently launched a consultation into how this could be achieved. The options on the table range from mergers that could create 'super funds' to retaining the current model, although the latter is less likely given Pension Minister's comments. Recent figures show that the cost of managing and administering the LBTH Fund has been on a downward trend. It is expected that costs will continue to fall as a percentage of total portfolio value. Mergers could lead to loss of local accountability without necessarily delivering any savings as some larger funds have been shown to be inefficient compared to some smaller funds.

The reduction in staffing numbers means that the Fund is maturing faster than previously expected as more fund members are now drawing out from the Fund than members (active)/employers are contributing into the Fund. The Pensions Committee recognised this issue and agreed that, if necessary, income from two of the eight mandates can be recalled to ensure the Fund is able to pay its liabilities as they fall due.

The triennial valuation of the Fund has commenced and results are expected later in the year. Previous valuations have identified a funding gap partly created by lower than expected rate of return than what had been assumed by the Fund's actuary. Financial markets underperformance coupled with rising mortality rate have combined to widen the funding gap between the Fund's liabilities and its assets. Although equities have rebounded, bond yields are at record lows potentially raising the valuation of the Fund's liabilities. However, it is worth noting that the Council is a long term investor and has a relatively secure long term income stream. Therefore, the Fund should be able to alter strategy that enables it to ride out periods of market underperformance and should not have to crystallise losses during market downturns.

All pension funds are subject to considerable financial challenges in the future relating to increasing life expectancy and volatile investment returns which will inevitably impact on funding and employers' contribution levels. At the same time, the Council continues to face significant budget pressures as a result of the Coalition Government's austerity measure which may lead to further staff reductions which will in turn lead to further pressure on cash inflow to the Fund.

Chris Holme

Governance of the Pension Scheme

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

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

MANAGEMENT AND ADVISERS TO THE PENSION FUND

Pensions Committee:

Councillors:	Councillor Zenith Rahman (Chair) Councillor Motin Uz-Zaman Councillor Abdal Ullah Councillor Marc Francis Councillor Shiria Khatun Councillor Craig Aston Councillor Oliur Rahman
Trade Union Representative (non-voting):	John Gray (Unison) Frank West (GMB)
Admitted Bodies Representative (non-voting):	John Gray (Circle Anglia Ltd)

Investment Advisers
Hymans Robertson
Raymond Haines (Independent Investment Adviser)

Actuarial Services
Hymans Robertson

Custodian
State Street Bank

Investment Performance
WM Company

Legal Advisors
Mishcon de Reya

Acting Corporate Director
Chris Holme

Auditor
KPMG LLP (UK)

Investment Managers
Baillie Gifford
GMO UK Limited
Investec Asset Management
Legal & General Investment Management
Ruffer LLP
Schroders Investment Management

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

During 2012/13 the members of the Investment Panel were: -

Investment Panel

Raymond Haines, Independent Adviser (Chairman)
Councillor Zenith Rahman (Chair)
Councillor Motin Uz-Zaman
Councillor Abdal Ullah
Councillor Marc Francis
Councillor Shiria Khatun
Councillor Craig Aston
Councillor Oliur Rahman
John Gray (Unison)
Frank West (GMB)

Matt Woodman, Hymans Robertson

Alan Finch, Service Head, Finance, Risk Accountability

Risk Management

The Funding Strategy Statement (appendix 3) explains the fund's key risks and how they are identified, mitigated, managed and reviewed.

The investment managers and custodian are audited separately and at different times. The Council receives AAF01/06 and SSAE16 reports that provides from their independent auditors.

The council is the primary employer in the Fund and the risks of late payment of contributions are with admitted and scheduled bodies who are treated by the Pension Regulations as part of the Council for pension purposes. All contributions received from external payroll providers are reconciled monthly.

The new LGPS Scheme (2014)

On 31st May 2012, proposed changes were announced in respect of a new LGPS pension scheme which will take effect from effective from the 1st April 2014. The changes include:

- A career average revalued earnings (CARE) scheme;
- The retirement age, which is currently 65, to be linked to the state pensionable age;
- The move to an accrual rate of 1/49th compared with 1/60th as at present;
- Pensions to be increased in line with the consumer prices index;
- Pensionable pay to include overtime;
- An increase in the employee’s contribution rate for those earning over £34,000; and
- Introduction of the 50:50 option which will enable new scheme members to pay half contributions for half pension benefits.

The changes are currently being consulted upon with final regulations due to be issued during 2013.

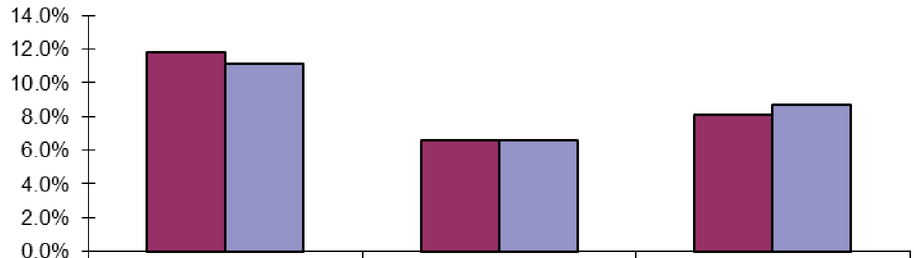
The Fund’s Actuaries are able to take the changes into consideration for the next triennial actuarial valuation due to take place at 31st March 2013.

Investment Performance of the Fund

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

In 2012/13 the fund achieved a return on its investment portfolio of 11.8%, outperforming the benchmark of 11.1%. The three year return matched the benchmark although the ten year return continues to lag slightly by 0.6%. Throughout the three year period the fund's ranking against its peer group remained low reflecting the Fund's relatively low risk strategy.

Fund Performance (One, Three and 10 Years)



	One Year	3 Years	10 Years
Fund	11.8%	6.6%	8.1%
Benchmark	11.1%	6.6%	8.7%
Rank	86	96	84

Performance by asset class is set out in table below.

Asset Class Performance	Annual return		
	One year	3 years	10 years
UK Equities	16.6%	8.6%	9.1%
Overseas Equities	12.8%	5.6%	10.4%
Bonds	4.9%	3.5%	n/a
Cash	1.6%	1.4%	5.7%
Alternatives	10.9%	-5.0%	n/a
Property	0.7%	4.0%	4.5%

Fund Management Activity

The Investment Panel continued to actively review the activities of the Fund in 2012/13. Over the past five years the Fund has experienced a steady shift in its cash flow position and is expected to become cash flow negative within the next eighteen months. The move toward negative cash flow has been accelerated by the rate of staff reductions made by the Council, with more to come in the future as the Council strives to meet its savings targets.

To improve liquidity, and ensure sufficient funds are available to pay out benefits when they fall due for payment, the Pensions Committee agreed the best option is to recall dividend and interest income. The decision was taken to allow income to be recalled from two of the Fund's managers, GMO and Schroders should it become necessary. This will be used as a short term solution pending the 2013 triennial valuation after a comprehensive revaluation of the Funding Strategy can be undertaken and a longer term fix can be agreed.

The upturn in equities in 2012/13 accounts for most of the fund's outperformance in the year. Individual managers' performance was strong in 2012/13 with all but one manager outperforming their benchmark.

Asset Allocation

The asset allocation within the portfolio is in line with or within the agreed tolerance of the benchmark asset allocation as at 31 March 2013 as set out below. The Committee has agreed to take corrective action and rebalance asset allocation where bond to equity allocation moves by +/-5%.

Analysis of Asset Allocation

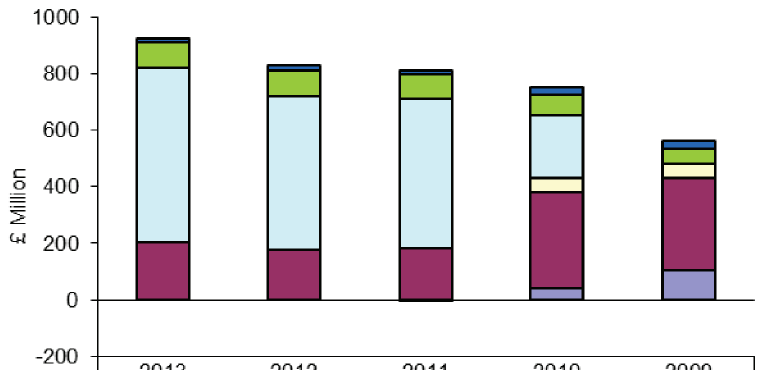
Asset Class	Benchmark	Fund Position	Variance
UK Equities	24.0%	24.6%	0.6%
Global Equities	37.0%	37.8%	0.8%
UK Index Linked	3.0%	5.5%	2.5%
Pooled Bonds	14.0%	10.4%	-3.6%
Property	12.0%	9.9%	-2.1%
Alternatives	10.0%	9.9%	-0.1%
Cash	0.0%	1.9%	1.9%

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

Financial Accounts

During the financial year 2012/13 the value of the Fund increased by £99.6m. This is principally attributable to the performance of the financial markets in which the Fund held its investments. The "cash" sum includes the amount held by fund managers and the Pension Fund bank account.

ANALYSIS OF ASSET CLASS

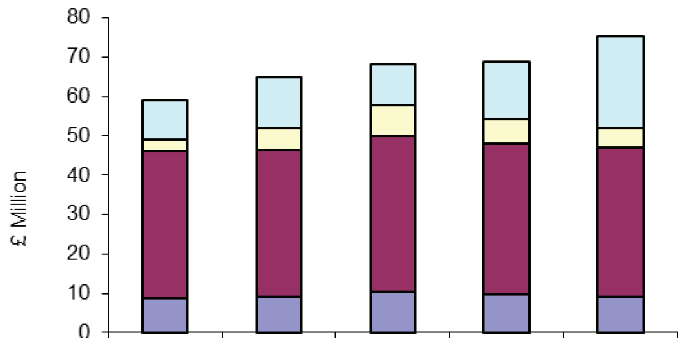


	2013	2012	2011	2010	2009
Cash	15.1	14.2	13.5	26.9	28.6
Derivatives	0.5	0.2	-0.4	0.8	0
Property Units	92.1	92	86.2	73.5	53.7
Unit Trusts	615.2	542.9	532.8	222.6	0
Index Linked	0	0	0	49.9	48.9
Equities	203.9	177.9	180.1	337.2	328.7
Fixed Interest	0	0	0	41.7	102.4

Fund Income

There was an overall decrease in the amount of income received by the Fund in 2012/13 compared to 2011/12. As illustrated by the below chart, all income streams recorded notable reductions other than employer related contributions, which increased slightly.

Fund Income Analysis



	2013	2012	2011	2010	2009
Investment Income	10.2	13	10.6	14.5	23.5
Transfer Values	2.9	5.5	7.7	6.2	4.9
Council Related Contributions	37.5	37.3	39.7	38.5	37.7
Employees Contributions	8.6	9.2	10.3	9.6	9.2

A major contributor to the slight decrease in dividends received on investments which fell by £2.8m (22%). Investment income decreased over the year by £2.8m (22%) due to a fall in dividend income. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) decreased by £2.6m (47.3%) due to a slowdown in recruitment, which also saw a corresponding decrease in transfer values paid out by the Fund. Employee contributions also decreased by £0.6m (6.5%), while the relative reduction in employer contributions was offset by the increase in the deficit repair contribution (£1.3m) which meant Council related contributions rose slightly by £0.2m.

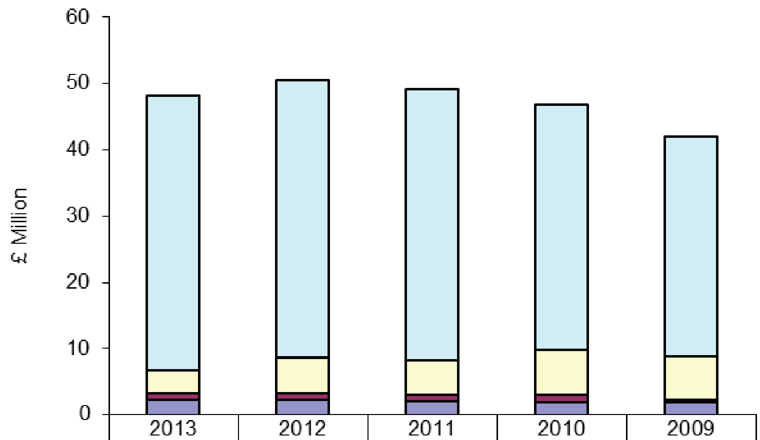
Fund Income Variance Analysis

Type of Income	2013 £m	2012 £m	Variance %
Employees Contributions	8.6	9.2	-6.5%
Council Related Contributior	37.5	37.3	0.5%
Transfer Values	2.9	5.5	-47.3%
Investment Income	10.2	13	-21.5%
Total Fund Income	**59.2**	**65**	**-8.9%**

Fund Expenditure

In 2012/13 the overall Fund expenditure decreased by £2.4m (5%). The major contributor to the decrease was the fall in transfer values of £2m. There was a slight drop in the cost of administering the Fund offset by an increase in the cost of managing the Fund's assets (Investment management).

Fund Expenditure Analysis



	2013	2012	2011	2010	2009
Benefits Payable	41.4	41.8	40.8	37.2	33.2
Transfer Values	3.5	5.5	5.2	6.7	6.7
Administration	0.9	1.0	1.0	1.1	0.3
Investment Management	2.3	2.2	2.1	1.9	1.9

A breakdown of the decrease in overall expenditure shows the primary factor to be the fall in the cost of transfer values which dropped by £2m (36.4%) in the year. The decrease in transfers out is due to a reduction in the number of staff leaving and also in the value of their funds being transferred out. There was a modest decrease in the value of benefits payable (comprising pensions payable and lump sums) of £0.4m and a slight fall in the administration costs which was offset by an increase in investment management costs. There has been a reduction in investment management costs as a result of a fee reduction offered by the fund manager, GMO. This does not show in the table due to an increase in the value of manager's fees, which are performance based and have correspondingly risen in line with the increase in the market value of the funds held.

Fund Expenditure Variance Analysis

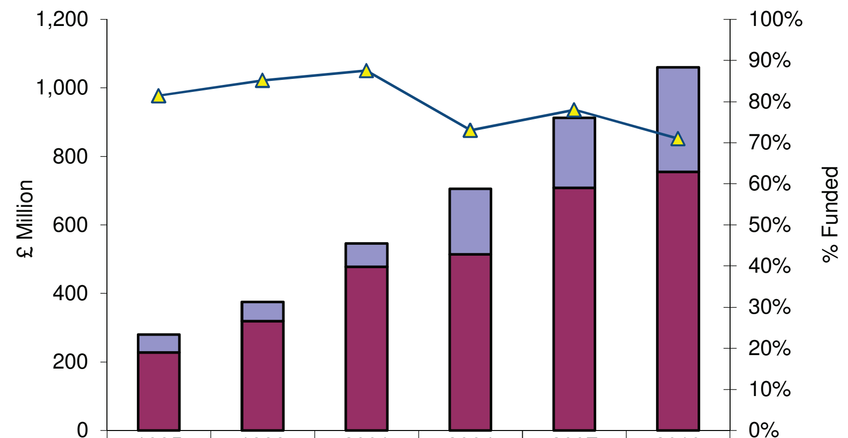
Type of Expenditure	31-Mar-13	31-Mar-12	Variance £m	Variance %
Investment Management	2.3	2.2	0.1	4.5%
Administration	0.9	1.0	-0.1	-10.0%
Transfer Values	3.5	5.5	-2.0	-36.4%
Benefits Payable	41.4	41.8	-0.4	-1.0%
Total Fund Expenditure	48.1	50.5	-2.4	-4.8%

Funding Level

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

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

Movement in Funding Level



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

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

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

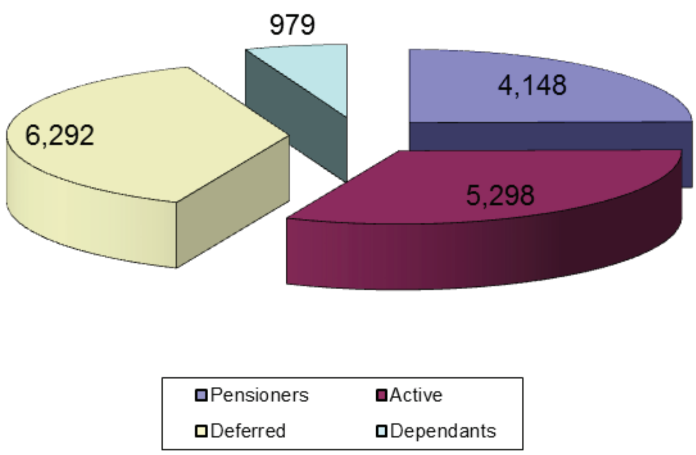
The 2010 valuation exercise identified continuing improvements in the life expectancy of scheme members which is increasing pension fund costs. Although this additional cost has necessitated an increase in the overall monetary amounts payable by the Council, the contribution rate element of this has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

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

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

Scheme Membership

The Fund currently has a membership of 16,717 comprising the following categories as set out in the below chart.



The total pension fund membership has increased by 2.5% between 2011/12 and 2012/13. The deferred membership category (members who have contributed in the past but who have not yet become entitled to their benefits) and the dependants category have seen significant increases of 232 (3.8%) and 39 (4.1%) respectively. Despite a slight increase of 0.9% in the number of active members (members currently contributing to the fund) over the year, the total contributions received from members has fallen. This is due to a reduction in the number of higher graded staff as part of the Council's on-going savings programme. The table below sets out the movement in membership number between the different categories in 2011/12 and 2012/13.

Movement in Fund Membership

Membership Type	31-Mar-13	31-Mar-12	Variance No.	Variance %
Actives	5,298	5,252	46	0.9%
Deferreds	6,292	6,060	232	3.8%
Pensioners	4,148	4,064	84	2.1%
Dependants	979	940	39	4.1%
Total	16,717	16,316	401	2.5%

The membership of the fund over the last five years is as set out below.

Membership Type	31-Mar-13	31-Mar-12	31-Mar-11	31-Mar-10	31-Mar-09
Actives	5,298	5,252	5,686	5669	5,395
Deferreds	6,292	6,060	5,601	5319	4,847
Pensioners	4,148	4,064	3,914	2906	2,709
Dependants	979	940	931	925	930
Total	16,717	16,316	16,132	14,819	13,881

Contributions to the Fund

Employees pay contributions based on the level of pay they receive with rates being set between 5.5% to 7.5% of pensionable pay. The employers contribution rate used during the financial year ranged from 15.8% to 44.1% of pensionable pay.

The following table shows the contributing employers and the contributions received from each during the year.

Contributing Employers	Active Members	Contributions from Members £	Contributions from Employers £
London Borough of Tower Hamlets*	4,789	7,571,082	17,978,611
Agilisys	44	100,672	251,717
Bethnal Green Academy	25	46,413	277,157
Canary Wharf College	3	3,897	9,250
Capita	6	9,062	22,110
Circle Anglia Ltd	3	6,079	41,244
East End Homes	42	105,751	425,827
Ecovert FM Ltd	17	10,411	27,595
Gateway Housing Association	1	3,204	15,182
Greenwich Leisure Limited	4	10,474	30,576
Look Ahead Housing and Care	2	4,152	12,710
One Housing Group	10	15,852	139,955
Redbridge Community Housing Ltd	3	3,646	9,928
Sir William Burrough School	7	15,097	64,140
St.Pauls Way Community School	19	32,166	77,681
Swan Housing Association	1	1,922	17,488
Tower Hamlets Community Housing	302	52,169	254,521
Tower Hamlets Homes Limited	20	645,070	1,601,602
Total	5,298	8,637,119	21,257,294

* The Council contributed an additional £15.25m in respect of deficit funding

The full accounts are as set out in Appendix 1.

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

Appendix 2 Statement of Investment Principles
Appendix 3 Funding Strategy Statement
Appendix 4 Communications Strategy Statement
Appendix 5 Governance Compliance Statement

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

Statement from the Actuary

An actuarial valuation of the London Borough of Tower Hamlets Pension Fund was carried out by Hymans Robertson LLP as at 31 March 2010 to determine the contribution rates that should be paid into the Fund by the employing authorities as from 1 April 2011 to 31 March 2014 in order to maintain the solvency of the Fund.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets represented 71% of the Funding Target and the estimated deficit on the Fund at the valuation date was £305m. The Actuary has determined that the deficit can be recovered over a period of 20 years and the agreed monetary contribution to recover the deficit for the term of the revaluation is £14m (2010-11) rising to £15.25m (2012/13) and £16.5m (2013/14).

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

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

		Minimum Contribution for the year ending				
Employer Name as per 31 March 2010	Year ending 31 March 2012	Additional Monetary Deficit Payment £	Year ending 31 March 2013	Additional Monetary Deficit Payment £	Year ending 31 March 2014	Additional Monetary Deficit Payment £
London Borough of Tower Hamlets	15.8%	14.0m	15.8%	15.25m	15.8%	16.5m
Tower Hamlets Community Housing Limited	33.2%		33.2%		33.2%	
Redbridge Community Housing Limited	17.7%		17.7%		17.7%	
East End Homes Limited	24.5%		27.2%		29.9%	
Greenwich Leisure Limited	15.9%	5k	15.9%	6k	15.9%	6k
Swan Housing Association Limited	22.5%	9k	22.5%	10k	22.5%	10k
Gateway Housing Association (Bethnal Green & Victoria Park)	30.8%		30.8%		30.8%	
One Housing Group (Toynbee Island Homes)	27.5%		27.5%		27.5%	
Circle Anglia Limited	44.1%		44.1%		44.1%	
Tower Hamlets Homes	16.4%		16.4%		16.4%	
Look Ahead Housing & Care Limited	19.9%		19.9%		19.9%	
Ecovert FM Limited	16.0%		16.0%		16.0%	

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

The next triennial valuation of the Fund is due as at 31 March 2014. The contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

APPENDIX 1 - PENSION FUND ACCOUNTS

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2011/12 £'000	2012/13 £'000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions			
From employers	3	37,325	37,466
From members	3	9,180	8,637
Transfers in			
Transfers in from other pension funds	4	5,507	2,939
Benefits			
Pensions	4	(32,129)	(34,271)
Lump sum benefits	4	(9,699)	(7,116)
Payments to and on account of leavers			
Refunds of contributions		(2)	(1)
State scheme premiums		(2)	(1)
Transfers out to other pension funds	4	(5,475)	(3,458)
Administrative expenses	13	(1,002)	(926)
NET ADDITIONS FROM DEALINGS WITH MEMBERS		**3,703**	**3,269**

RETURN ON INVESTMENTS		2011/12 £'000	2012/13 £'000
Investment income	11	13,307	10,586
Taxes on Income		(291)	(396)
Change in market value of investments			
Realised		(204)	4,989
Unrealised	10	844	83,354
Investment management expenses	16	(2,174)	(2,283)
NET RETURN ON INVESTMENTS		**11,482**	**96,250**
Net increase in the Fund during the year		15,185	99,519
Add: Opening net assets of the scheme		812,167	827,352
CLOSING NET ASSETS OF THE SCHEME		**827,352**	**926,871**

NET ASSETS STATEMENT AS AT 31ST MARCH		2012 £'000	2013 £'000
Investments Assets			
Equities		177,932	203,869
Pooled Investment Vehicles			
Unit Trusts		460,149	523,418
Property		92,048	92,128
Other		82,772	91,831
Derivative Contracts			
Forward Foreign Exchange Contracts		510	654
		813,411	911,900
Cash deposits	6	7,187	6,198
Other investment balances	5	1,270	1,001
Investments Liabilities			
Forward Foreign Exchange Contracts	10	(285)	(122)
Other investment balances	5	(443)	(215)
Current Assets	5	7,679	9,752
Current Liabilities	5	(1,467)	(1,643)
TOTAL NET ASSETS		**827,352**	**926,871**

NOTES TO THE PENSION FUND ACCOUNTS

1. INTRODUCTION

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

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

The Fund is operated as a funded, defined benefits scheme which provides for the payment of benefits to former employees of the London Borough of Tower Hamlets and those of bodies admitted to the Fund. These individuals are referred to as "members". The benefits include not only retirement pensions, but also widows' pensions, death grants and lump sum payments in certain circumstances. The Fund is financed by contributions from members, employers and from interest and dividend receipts and gains on the Fund's investments.

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

2. ACCOUNTING POLICIES

(a) **Accounts**

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

The Fund is administered in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended), the LGPS (Administration) Regulations 2008 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009.

(b) **Basis of preparation**

Except where otherwise stated, the accounts have been prepared on an accruals basis, that is income and expenditure are recognised as earned or incurred, not as received or paid.

(c) The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2013. The actuarial present value of promised retirement benefits, valued on an IAS19 basis, is disclosed in note 12 of the Accounts as permitted under IAS26.

Fund account - revenue recognition

Contribution Income

Normal contrbutions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which relate. Any amount due in the year but unpaid will be classed as a current financial asset.

Employer deficit contributions are accounted for in accordance with the agreement under which they are paid.

(d) **Investments**

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

(i) Listed securities are shown by reference to bid price at the close of business on 31st March 2013.

(ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2013.

(iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2013.

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

(v) Investments designated in foreign currencies are valued in sterling at the exchange rates ruling on 31st March 2013. Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

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

(vii) Cash is represented by deposits held with financial institutions repayable on demand without penalty.

(e) **Investment Income**

(i) Interest income is recognised in the Fund account as it accrues.

(ii) Dividend income is recognised in the Fund account on an accruals basis. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.

(iii) Distributions from pooled funds are re-invested and as such are recognised in the change in market value.

(iv) Changes in the net market value of investments held at any time during the year are recognised as income and comprise all realised and unrealised gains/losses.

2. ACCOUNTING POLICIES Cont….

Fund account - expense items

(f) **Management Expenses**

Fund managers' fees are paid in accordance with the terms of each individual management agreement. The fees are based mainly on a percentage of the value of funds under their management and increase or reduce as the value of the investments change.

(g) **Benefits Payable**

Pensions and lump sums payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Net assets statement

(h) **Financial Assets**

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

(i) Market-quoted investments

Market quoted investments – the value of an investment for which there is a readily available market price is determined by the bid price ruling on the final day of the accounting period.

(ii) Fixed interest securities

Fixed Interest Securities – are recorded at net market value based on their bid price.

(iii) Unquoted investments

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

2.a CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 2 the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the statement of accounts are as follows:

The accounts have been prepared on a going concern basis. The concept of a going concern assumes that the pension fund will continue in operational existence for the foreseeable future.

The pension fund liability is calculated every three years by Hymans Robertson, a firm of consulting actuaries, with annual updates provided in the intervening years. The methodology used to calculate this is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 12. The estimate is subject to significant variances based on changes to underlying assumptions.

2.b ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION AND UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from assumptions and estimates.

There is just one item in the authority's net asset statement as at 31st March 2013 for which there which there is a significant risk of material adjustment in the forthcoming financial year.

Pensions Liability - Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund investments. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

The assumptions interact in complex ways. During 2012/13, the Council's actuaries advised that the net pensions liability had increased by £100.4 million to £523.0 million as a result of higher future inflationary forecasts and a lower discount factor for calculating the net present value of liabilities.

3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. Employees pay contributions based on the level of pay they receive, with contribution rates set between 5.5% and 7.5% dependent on pensionable pay. The employer's contributions are made at a rate determined by the Fund's actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rates used during the financial year ending the 31 March 2013 range from 15.8% to 44.1% of pensionable pay. The Council paid an agreed additional monetary contribution of £15.25m to recover the deficit. Contributions shown in the revenue statement may be categorised as follows:-

	2011/12 £'000	2012/13 £'000
Members normal contributions		
Council	8,254	7,571
Admitted bodies	241	223
Scheduled body	685	843
Total members	**9,180**	**8,637**
Employers		
Normal contributions		
Council	18,755	17,979
Admitted bodies	956	997
Scheduled bodies	1,714	2,282
Deficit funding contributions		
Council	14,000	15,250
Other contributions		
Council	1,900	958
Total employers	**37,325**	**37,466**
Total contributions	**46,505**	**46,103**

Note: The Council is required to operate an Additional Voluntary Contribution (AVC) scheme for employees. In 2012/13 employees made contributions of £44,059.40 (£51,533.43 in 2011/12) into the AVC Scheme operated by Aviva (Norwich Union) and £6,444.33 (£8,560.40 in 2011/12) to Equitable Life. The contributions are not included in the Pension Fund Accounts in accordance with regulation 4(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are deducted from salaries and remitted directly to the provider.

4. BENEFITS, REFUNDS OF CONTRIBUTIONS AND TRANSFER VALUES

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year. Benefits are index-linked to keep pace with inflation. In April 2011, the method of indexation changed from the retail prices index to the consumer prices index.

Transfers out/in are those sums paid to, or received from, other pension schemes and relate to the period of previous pensionable employment. Transfer values are brought into the accounts on a cash basis. Benefits payable are analysed below.

	2011/12				2012/13			
	Council £'000	Admitted Bodies £'000	Scheduled Bodies £'000	Total £'000	Council £'000	Admitted Bodies £'000	Scheduled Bodies £'000	Total £'000
Pensions	(30,734)	(810)	(585)	(32,129)	(32,650)	(872)	(749)	(34,271)
Lump sum retirement benefits	(7,143)	(384)	(1,157)	(8,684)	(4,943)	(768)	(392)	(6,103)
Lump sum death benefits	(1,015)	0	0	(1,015)	(1,012)	0	0	(1,012)
Total Pensions and Benefits	**(38,892)**	**(1,194)**	**(1,742)**	**(41,828)**	**(38,605)**	**(1,640)**	**(1,141)**	**(41,386)**
Transfer Values Received	5,507	0	0	5,507	2,939	0	0	2,939
Transfer Values Paid	(5,475)	0	0	(5,475)	(3,458)	0	0	(3,458)
Total	**(38,860)**	**(1,194)**	**(1,742)**	**(41,796)**	**(39,124)**	**(1,640)**	**(1,141)**	**(41,905)**

5. DEBTORS AND CREDITORS

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

	2011/12 £'000	2012/13 £'000
Debtors		
Other Investment Balances		
Dividends receivable	841	691
Tax recoverable	429	310
	1,270	1,001
Current Assets		
Contributions due from admitted bodies	31	87
London Borough of Tower Hamlets Pension Fund	69	340
	100	427
Total Debtors	**1,370**	**1,428**
Creditors		
Other Investment Balances		
Investment purchases	443	215
Current Liabilities		
Unpaid benefits	1,097	1,073
Administrative expenses	370	570
	1,467	1,643
Total Creditors	1,910	1,858
Net Debtors	**(540)**	**(430)**

6. CASH

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

	2011/12 £'000	2012/13 £'000
Aberdeen: Private Equity Portfolio	10	10
GMO	2,893	2,477
Schroders: Multi Asset Portfolio	12	15
Schroders: Property Portfolio	4,272	3,698
London Borough of Tower Hamlets Pension Fund	7,579	9,324
TOTAL CASH	**14,766**	**15,524**

7. TAXATION

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

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

Overseas Tax
Taxation agreements exist between the UK and certain other European countries whereby a proportion of the tax deducted locally from investment earnings may be reclaimed. The proportion reclaimable and the timescale involved varies from country to country.

8. STATEMENT OF INVESTMENT PRINCIPLES

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish a Statement of Investment Principles (SIP) in accordance with the Local Authority Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. The SIP is published as part of the Local Government Pensions Scheme Annual Report which is due to be submitted to the Council's Pensions Committee for agreement on 14th November 2013.

9. MEMBERSHIP OF THE FUND

The following table sets out the membership of the Fund at 31st March 2013

	2012	2013
London Borough of Tower Hamlets		
Active Members	4,780	4,789
Pensioners	3,892	3,957
Deferred Pensioners	5,756	5,970
Dependants	936	965
	15,364	**15,681**
Admitted & Scheduled Bodies		
Active Members	472	509
Pensioners	172	191
Deferred Pensioners	304	322
Dependants	4	14
	952	**1,036**

The following bodies have been admitted into the Fund:

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

Scheduled Bodies
- Bethnal Green Academy
- Canary Wharf College
- Sir William Burrough School
- St. Pauls Way Community School
- Tower Hamlets Homes Limited

10. INVESTMENTS

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

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

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

	2012		2013	
	£ million	%	£ million	%
Baillee Gifford Life Ltd - Diversified Growth	41.7	5.1	46.3	5.0
Baillee Gifford Life Ltd - Equities	137.0	16.7	163.1	17.7
GMO UK Ltd.	200.0	24.4	227.3	24.7
Investec Asset Management	95.5	11.6	97.0	10.6
Legal & General Investment Management - Equities	166.1	20.2	194.1	21.1
Legal & General Investment Management	45.9	5.6	51.3	5.6
Ruffer LLP	41.0	5.0	45.5	5.0
Schroders Asset Management Property Fund	93.8	11.4	94.1	10.3

10. INVESTMENTS (continued)

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

	Market Value as at 1 Apr 2012 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2013 £'000	Transaction Costs £'000
Baillee Gifford Life Ltd - Diversified Growth	41,741	63	0	4,509	46,313	0
Baillee Gifford Life Ltd - Equities	136,998	0	0	26,063	163,061	0
GMO UK Ltd.	196,074	81,865	(69,903)	15,793	223,829	65
Investec Asset Management	95,524	0	0	1,510	97,034	0
Legal & General Investment Management	212,025	0	0	33,365	245,390	0
Ruffer LLP	41,032	0	0	4,486	45,518	0
Schroders Asset Management Property	89,732	5,495	(2,222)	(2,372)	90,633	0
	813,126	**87,423**	**(72,125)**	**83,354**	**911,778**	**65**

Transaction costs incurred during the year total £65,000 (£45,000 in 2011/12). These costs include commissions, stamp duty and other fees.

A further analysis of investments assets is as follows.

	Market Value as at 1 Apr 2012 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2013 £'000
UK Investment Assets					
Quoted	507,200	5,558	(2,222)	67,561	578,097
Overseas Investment Assets					
Quoted	305,701	81,211	(69,781)	16,018	333,149
Unquoted	225	654	(122)	(225)	532
	813,126	**87,423**	**(72,125)**	**83,354**	**911,778**

Derivative Contracts

The fund managers GMO UK Ltd is permitted to use forward foreign exchange contracts to mitigate the effect on returns of appreciation or depreciation of Sterling against the local currencies of the assets held or to adjust the foreign currency exposure of the portfolio. The only derivative contracts held at 31st March 2013 were forward foreign exchange contracts.

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

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

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

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

Forward Foreign Exchange Contracts

	Sterling value of obligation on purchase or sale date £'000	Sterling value of equal and opposite obligation at 31 March 2013 £'000	Gains/(losses) on Contract £'000
Currency contracted to purchase	(42,987)	43,641	654
Currency contracted to sell	48,048	(48,170)	(122)
Net Position	**5,061**	**(4,529)**	**532**

Contract	Manager	Expiration	Gains/(Losses) on Contract £'000
Australian Dollar Foreign Currency	GMO UK Ltd	April 2013	3
Canadian Dollar Foreign Currency	GMO UK Ltd	April 2013	1
Danish Krone	GMO UK Ltd	April 2013	10
Euro Foreign Currency	GMO UK Ltd	April 2013	314
Hong Kong Dollar Foreign Currency	GMO UK Ltd	April 2013	119
Japanese Yen Foreign Currency	GMO UK Ltd	April 2013	(69)
Norwegian Krone Foreign Currency	GMO UK Ltd	April 2013	16
Singapore Dollar Foreign Currency	GMO UK Ltd	April 2013	130
Swedish Krona Foreign Currency	GMO UK Ltd	April 2013	(14)
Swiss Franc Foreign Currency	GMO UK Ltd	April 2013	(4)
US Dollar Forward Currency	GMO UK Ltd	April 2013	26
Unrealised Gain			**532**

Unrealised gains were made on foreign exchange contracts in the year amounting to £0.532 million.

11. INVESTMENT INCOME

Investment income is broken down as follows.

	2011/12 £'000	2012/13 £'000
Dividends from overseas equities	9,455	7,217
Net rents from properties	2,906	3,159
Interest on cash deposits	(88)	51
Foreign tax	151	159
Underwriting costs, etc.	883	0
	13,307	10,586
Taxes on Income	(291)	(396)
TOTAL	**13,016**	**10,190**

12 ACTUARIAL POSITION

The Local Government Pension Scheme Regulations require a triennial revaluation of the Fund to assess the adequacy of the Fund's investments and contributions in relation to its overall and future obligations. The contribution rate required for benefits accruing in the future is assessed by considering the benefits that accrue over the course of the three years to the next valuation. The employer's contribution rate is determined by the Actuary as part of the revaluation exercise.

The common contrinution rate (the rate which all employers pay in the fund) is

Year	Employer's contribution rate
2011/12	30.1%
2012/13	30.1%
2013/14	30.1%

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

The Actuary has determined that the deficit can be recovered over a period of 20 years and the agreed contributions to recover the deficit for the term of the revaluation is as set out below :-

	£m
2011/12	14.00
2012/13	15.25
2013/14	16.50

The FSS requires that the Fund operates the same target funding level of all on-going employers of 100% of its accrued liabilities valued on the on-going basis, to be achieved over a 20 year period (a period equivalent to the expected future working lifetime of the remaining scheme members). The valuation of the Fund as at 31st March 2010 determined that this would require a contribution (additional to the future contribution rate) of 12.9% of members' pensionable pay equivalent to £14.0 million per annum.

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

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

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

12. ACTUARIAL POSITION (continued)

In accordance with the funding policy, the Actuary determines the employer contribution requirement for future service for the Fund as a whole, and for employers who continue to admit new members. The cost of future service benefits is assessed, taking into account expected future salary increases. In order to place a current value on future benefit cashflows the Actuary "discounts" the future cashflows to the valuation date at a suitable rate. The Actuary adopts a "gilt-based" valuation which uses the yield on suitably dated Government bonds as the discount rate. This is then uplifted to the "funding basis discount rate" taking into account the Fund's current and expected future investment strategy to reflect the percentage by which the Fund is anticipated to "outperform" the yield on Government bonds. The contribution rate required to meet the expected cost of future service benefits is derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay. This is known as the "Projected Unit method". The future contribution rate for 2012/13 was 15.8%.

In addition, the Actuary compares the value of the Fund's assets with the estimated cost of members' past service. The ratio of the asset value to the estimated cost of members' past service benefits is known as the "funding level". If the funding level is more than 100% there is a "surplus"; if it less than 100% there is a "shortfall". The next valuation will be as at 31st March 2013 and the recommendations implemented from 1st April 2014.

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

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

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

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

Actuarial Value of Promised Retirement Benefits

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

The valuation is undertaken every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £1,497 million (£1,268 million in 2011/12).

The liabilities above will differ from the results of the 2010 triennial funding valuation as IAS19 stipulates a discount rate rather than a rate which reflects market rates.

TheThe assumptions used by the actuary are those adopted for the IAS19 report as required by the Code of Practice. They are set out below.

Financial Assumptions	2011/12	2012/13
Inflation/pensions increase rate	2.5%	2.8%
Salary increase rate	4.8%	5.1%
Discount rate	4.8%	4.5%

13. ADMINISTRATIVE EXPENSES

	2011/12 £'000	2012/13 £'000
Investment Advice	115	116
Performance Measurement	16	15
Administration	847	806
Audit Fees	35	21
Other Fees/Income	(11)	(32)
	1,002	926

14. RISK MANAGEMENT

Nature and extent of risks arising from financial instruments

Risk and Risk Management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities. The aim of investment risk management is to minimise the risk of a reduction in the value of the fund and to maximise the opportunity for gains across the whole portfolio. The fund achieves this through asset diversification to reduce exposure to market risk and credit risk to an acceptable level.

Credit risk

Credit risk is the risk that a counter party to a financial instrument may fail to pay amounts due to the Pension fund. The market value of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. The fund carries out a review of its investment managers annual internal control reports to ensure that managers are diligent in their selection and use of counterparties and brokers. Deposits are made with banks and financial institutions that are rated independently and meet the Council's credit criteria. The council only invests money with institutions with a minimum credit rating by Fitch rating agency of A+ or higher.

Liquidity risk

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

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

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

Market risk

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

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

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

The Fund's direct exposure to interest rate movements as at 31st March 2012 and 31st March 2013 is set out below.

Interest Rate Risk Asset Type	As At 31st March 2012 £'000	As At 31st March 2013 £'000
Cash and cash equivalents	7,187	6,198
Cash balances	7,679	9,752
Fixed interest securities	141,436	148,287
Total	**156,302**	**164,237**

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2013	Change in year in net assets available to pay benefits	
		+100 BPS	-100 BPS
Asset Type		£'000	£'000
Cash and cash equivalents	15,523	155	(155)
Cash balances	427	4	(4)
Fixed interest securities	148,287	(1,483)	1,483
Total change in net assets available	**164,237**	**(1,324)**	**1,324**

Interest rate risk - sensitivity analysis

Interest rates can vary and can affect both income to the fund and the value of net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The table below shows the effect of a +/- 100 BPS change in interest rates.

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2012	Change in year in net assets available to pay benefits	
		+100 BPS	-100 BPS
Asset Type		£'000	£'000
Cash and cash equivalents	7,187	72	(72)
Cash balances	7,679	77	(77)
Fixed interest securities	141,436	1,414	(1,414)
Total change in net assets available	**156,302**	**1,563**	**(1,563)**

14. RISK MANAGEMENT (continued)

Currency risk

The Fund invests in financial instruments denominated in currencies other than Sterling and as a result is exposed to exchange rate risk. This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. To alleviate this risk the Fund allows investment managers to use derivative contracts, in accordance with the contract conditions:

Following analysis of historical data in consultation with the fund's investment advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 5.7%. This analysis assumes all other variables, in particular interest rates, remain constant.

The following table summarises the Fund's currency exposure as at 31 March 2013 and as at the previous year end.

Currency Exposure - Asset Type	As At 31st March 2012	As At 31st March 2013
Asset Type	£'000	£'000
Overseas quoted securities	174,622	205,044
Overseas unit trusts	7,966	7,384
Cash	2,725	2,300
Total overseas assets	**185,313**	**214,728**

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2013	Change in year in net assets available to pay benefits	
		+5.7%	-5.7%
Asset Type	£'000	£'000	£'000
Overseas quoted securities	205,044	216,732	193,356
Overseas unit trusts	7,384	7,805	6,963
Cash	2,300	2,431	2,169
Total change in net assets available	**214,728**	**226,968**	**202,488**

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2012	Change in year in net assets available to pay benefits	
		+9.9%	-9.9%
Asset Type		£'000	£'000
Overseas quoted securities	174,622	191,910	157,334
Overseas unit trusts	7,966	8,755	7,177
Cash	2,725	2,995	2,455
Total change in net assets available	**185,313**	**203,659**	**166,967**

The percentage change in the year of 5.7% represents the average change in currency exposure, derived by multiplying the weight of each currency by the change in its exchange rate relative to GBP.

Other Price risk

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

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

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

14. RISK MANAGEMENT (continued)

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits in the market price would have been as follows:

Asset Type	Value as at 31 March 2013 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	15,523	0.0%	15,523	15,523
Investment portfolio assets				
UK equities	194,137	13.4%	220,151	168,123
Global equity	386,358	12.8%	435,812	336,904
Total fixed interest	148,287	2.9%	152,587	143,987
Alternatives	91,831	4.7%	96,147	87,515
Pooled Property Investments	90,633	1.4%	91,902	89,364
Net derivative assets	532	0.0%	532	532
Investment income due	1,001	0.0%	1,001	1,001
Amounts receivable for sales			0	0
Amounts payable for purchases	(215)	0.0%	(215)	(215)
Total assets available to pay benefits	**928,087**		**1,013,440**	**842,734**

Had the market price of the Fund's investments increased/decreased in line with the above, the change in net assets available to pay benefits in the market price would have been as follows:

Asset Type	Value as at 31 March 2012 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	7,187	0.0%	7,187	7,187
Investment portfolio assets				
UK equities	166,113	15.6%	192,027	140,199
Global equity	332,848	15.6%	384,772	280,924
Total fixed interest	141,436	4.2%	147,376	135,496
Alternatives	82,773	13.9%	94,278	71,268
Pooled Property Investments	89,732	7.0%	96,013	83,451
Net derivative assets	224	0.0%	224	224
Investment income due	1,270	0.0%	1,270	1,270
Amounts receivable for sales				
Amounts payable for purchases	(443)	0.0%	(443)	(443)
Total assets available to pay benefits	**821,140**		**922,705**	**719,575**

Refinancing risk

The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

15. FINANCIAL INSTRUMENTS DISCLOSURES

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

	Long-term 2011/12 £'000	Long-term 2012/13 £'000	Current 2011/12 £'000	Current 2012/13 £'000
Financial Assets				
Loans and receivables	0	0	8,880	10,411
Financial assets at fair value through profit or loss*	812,902	911,246	7,765	7,194
Total Financial Assets	**812,902**	**911,246**	**16,645**	**17,605**
Financial Liabilities				
Payables	0	0	(1,910)	(1,858)
Financial liabilities at fair value through profit or loss	0	0	(285)	(122)
Total Financial Liabilities	**0**	**0**	**(2,195)**	**(1,980)**

As all investments are disclosed at fair value, carrying value and fair value are therefore the same.

* Equities and pooled funds were previously classified as available for sale financial assets in the 2011/12 accounts, These have been reclassified as financial assets at fair value through profit or loss in line with the Code of Practice.

Fair Value Hierarchy

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

Level 1 - inputs that reflect quoted prices for identical assets or liabilities in active markets. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts

Level 2 - inputs other than quoted prices for identical assets or liabilities in active markets

Level 3 - inputs that are not based on observable data. Such instruments would include unquoted equity investments and hedge fund of funds.

The following sets out the Fund's assets and liabilities according to the fair value hierarchy as at 31st March 2013.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	203,869	0	0	203,869
Pooled Funds				
Unit Trusts	523,418	0	0	523,418
Property Unit Trust	92,128	0	0	92,128
Other	91,831	0	0	91,831
Derivative Contracts				
Forward Foreign Exchange Contracts	0	532	0	532
Cash and bank Deposits	15,864	0	0	15,864
Current Assets	1,087	0	0	1,087
Current Liabilities	(1,858)	0	0	(1,858)
	926,339	**532**	**0**	**926,871**

During the year ended 31st March 2013 there were no transfers between the levels of the fair value hierarchy.

The equivalents at 31st March 2012 were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	177,932	0	0	177,932
Pooled Funds				
Unit Trusts	460,149	0	0	460,149
Property Unit Trust	92,048	0	0	92,048
Other	82,772	0	0	82,772
Derivative Contracts				
Forward Foreign Exchange Contracts	0	224	0	224
Cash and bank Deposits	14,835	0	0	14,835
Current Assets	1,301	0	0	1,301
Current Liabilities	(1,910)	0	0	(1,910)
	827,127	**224**	**0**	**827,351**

15. FINANCIAL INSTRUMENTS DISCLOSURES (continued)

Net gains and losses on financial instruments

	Current	
	2011/12 £'000	2012/13 £'000
Financial Assets		
Loans and receivables		
Financial assets at fair value through profit or loss*	233	88,568
Financial Liabilities		
Payables		
Financial liabilities at fair value through profit or loss	407	(225)
Total Financial Assets	**640**	**88,343**

16. INVESTMENT MANAGEMENT EXPENSES

	2011/12 £'000	Fund Value %	2012/13 £'000	Fund Value %
Payments to Managers	2174	0.26	2,283	0.25

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

17. RELATED PARTY TRANSACTIONS

The London Borough of Tower Hamlets Pension Fund is administered by The London Borough of Tower Hamlets.

In accordance with IAS24 'Related Party Disclosure', material transactions with related parties not disclosed elsewhere in the financial statements are detailed below.

The Council incurred costs of £806k (£850k 2011/12) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. The Council contributed £15.3m (£14.0m 2011/12) to the Fund in respect of back funding. All monies owing to and from the Fund were paid in the year.

During the year no Committee Members or Council Chief Officers with direct responsibility for pension fund issues, have undertaken any declarable transactions with the Pension Fund, other than administrative services undertaken by the Council on behalf of the Pension Fund.

The pension fund cash held by London Borough of Tower Hamlets is invested on the money markets by the treasury management operations of the Council. During the year to 31st March 2013, the Fund held an average investment of £5.5m (£5.9m 31st March 2012), earning interest of £68k, (£94k 2011/12).

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £2.2m (£2.3m 2011/12) from this company.

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

Fund Administration Expenses	2011/12 £'000	2012/13 £'000
Payroll / HR Support	772	478
Corporate Finance	78	328
	850	**806**

Key Management Personnel

Employees holding key positions in the financial management of the fund as at 31st March 2013 include:

Service Head, Finance Risk and Accountability

The financial value of their relationship with the fund is as set out below.

	2011/12 £'000	2012/13 £'000
Short term benefits	21	25
Long term/post retirement benefits	3	3

Governance

Each member of the pension fund committee is required to declare their interests at each meeting of the Committee. These are recorded as part of the public record of each meeting. For 2012/13 there were no Members of the Pension Fund Committee who had involvement with other organisations.

18. CONTINGENT LIABILITIES

The Council has also provided an assurance that it will meet the pension liabilities of Tower Hamlets Homes in the event the ALMO is unable to fund the liabilities arising from its pension obligations.

19. CONTINGENT ASSETS

Admitted body employers in the Fund hold insurance bonds to guard against the possibility of not being able to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in event of employer default.

20. IMPAIRMENT LOSSES

During 2012/13 impairment losses were nil.

Appendix 2 - Statement of Investment Principles

Introduction

This is the Statement of Investment Principles adopted by the London Borough of Tower Hamlets Pension Fund ("the Scheme") as required by the Local Authority Pension Scheme (Management and Investment of Funds) Regulations 2009. It is subject to periodic review by the Pensions Committee which acts on delegated authority of the London Borough of Tower Hamlets. The Pensions Committee receives recommendations and advice from the Investment Panel which oversees the investment management of the Scheme on a day to day basis. The terms of reference for the Pensions Committee within the Council's Constitution (3.1.1.10 1) are:

- 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.

The Pensions Committee has responsibility for:

- Determining an overall investment strategy

- Appointing the investment managers, an independent custodian, an investment advisor, the actuary and any other external consultants where considered necessary

- Reviewing on a regular basis the investment managers' performance and the quality of their internal controls systems

- Reviewing the Statement of Investment Principles, the Governance Compliance Statement and the Funding Strategy Statement at regular intervals

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

The Myners Code of Investment Principles

The Government commissioned a report in 2000 entitled "Review of Institutional Investment in the UK". The Review, which was undertaken by Paul Myners was published in March 2001 and is referred to as The Myners Review. The Pensions Committee of the London Borough of Tower Hamlets believes the Myners Report constitutes an important guide to best practice in the management of pension schemes. Following a review in October 2008 the Treasury published a revised set of six principles. Local authorities are required to state the extent to which the administering authority Compliant with the six principles set out in a document published by the Chartered Institute of Public Finance and Accountancy entitled "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme Investment in the United Kingdom".

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

The extent to which the Scheme complies with these principles is outlined in the table at the end of this document.

Fund Objective

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

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

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

Investment Strategy

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

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

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

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

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

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

Current Managers and Mandates		
Manager	**Mandate**	**Target**
Baillie Gifford	Global Equities Diversified Growth	Outperform benchmark by 2-3% over a rolling 3 year period 3.5 above UK Base Rate
GMO	Overseas Equities	Outperform benchmark by 1.5% over a rolling 3 year period
Investec	Pooled Bonds	3 month LIBOR +2% pa
Legal & General	UK Equities UK Index Linked	FTSE All share FTSE A Gov Index Linked >5yrs
Ruffer	Diversified Growth	Greater than the expected return on cash
Schroders	Property	Outperform benchmark by 0.75% over a rolling 3 year period

Balance between different kinds of investments: The Scheme's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market the managers will maintain diversified portfolios of investments through direct holdings or pooled vehicles. The asset allocation varies over time due to the impact of changing market conditions and manager performance creating an imbalance between target and actual allocation. When the Fund moves more than 5% away from target then consideration is given to rebalancing.

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

Expected return on investments: Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the Scheme. In the short term returns are measured against a peer group benchmark.

Realisation of investments: The majority of investments held within the Scheme may be realised quickly if required. As the Fund is cash flow positive there will not be a need to realise investments quickly at least in the medium term.

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

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

Stock Lending

The Fund does not currently participate in a stock lending arrangement.

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

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

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

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

Principle	Compliance	Compliance
Principle 6: Transparency and reporting Administering authorities act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives. Provide regular communication to scheme members in the form they consider most appropriate.	The Fund publishes a Governance Policy Statement, a Communications Strategy, a Funding Strategy Statement, and a Statement of Investment Principles. The statements are reviewed and updated when required and are approved by the Pensions Committee. Fund manager performance data is included in the Fund's Annual Report and Accounts. The statements form part of a suite of annual report documentation which may be found on the website http://www.towerhamlets.gov.uk An Annual Benefits Statement is sent hard copy to active and deferred members of the Fund. Pensioner members receive an annual newsletter detailing any information affecting pensions in payment.	Compliant

Appendix 3 - FUNDING STRATEGY STATEMENT

1. Introduction

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser and is effective from 31 March 2011.

1.1 Regulatory Framework

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

1.1.2 The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Regulations 1997 (Regulations 76A and 77 are particularly relevant); replaced from 1 April 2008 with the Local Government Pension Scheme (Administration) Regulations 2008, regulations 35 and 36;

- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary's triennial valuation report;

- actuarial factors for valuing early retirement costs and the cost of buying extra service; and

- the Statement of Investment Principles.

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

1.1.4 The key requirements relating to the FSS are that:

- After consultation with all relevant interested parties involved with the Fund, the administering authority will prepare and publish their funding strategy.
- In preparing the FSS, the Administering Authority must have regard to:
    - FSS guidance produced by CIPFA

- Its statement of investment principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

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

1.2 **Reviews of FSS**

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

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

2. Purpose

2.1 Purpose of FSS

2.1.1 The department for Communities and Local Government (CLG), formally the Office of the Deputy prime Minister, has stated that the purpose of the FSS is:

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

These objectives are desirable individually, but may be mutually conflicting. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

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

2.2 Purpose of the Fund

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

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

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

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

2.3 Aims of the Funding Policy

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

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

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

3.1.1 Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "*future service rate"* plus

b) an adjustment for the funding position (or "solvency") of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period (see 3.3.3 below for deficit recovery periods).

3.1.2 The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1]*,* for all employers collectively at each triennial valuation. It combines

[1] See Regulation 77(4)

items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years.

3.1.3 The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

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

3.1.5 For some employers it may be agreed to pool contributions, see Section 3.7.8.

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

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

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

3.2 Solvency and Target Funding Levels

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

3.2.2 "Solvency" for ongoing employers is defined to be the ratio of the current market value of assets on the value placed on accrued benefits on the Fund Actuary's *ongoing funding basis*. This quantity is known as a funding level.

3.2.3 The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority. The ongoing funding basis assumes employers in the Fund are an ongoing concern and is described in the next section.

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

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

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

rate that has no allowance for potential investment outperformance relative to gilts). The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the agreement terminates or the last active member leaves in order to protect other employers in the fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

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

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

The Fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. The time horizon of the funding target for Community and Transferee Admission bodies will vary depending on the expected duration of their participation in the Fund. Please refer to Section 3.10 for the treatment of departing employers.

3.3 Ongoing Funding Basis

3.3.1 The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds advised by the Fund actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Employers should be aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profiles of employers

3.3.2 The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

3.3.3 In the light of the statutory requirement for the Actuary to consider the stability of employer contributions it is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

3.3.4 Given the very long-term nature of the liabilities, a long-term view of prospective returns from equities is taken. For the 2010 valuation, it is assumed that the Fund's equity investments will deliver an average additional real return of 1.4% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation.

The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation.

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

3.4 **Future Service Contribution Rates**

3.4.1 The future service element of the employer contribution rate is traditionally calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The future service rate has been calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. Where it is considered appropriate to do so then the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a gilts basis (most usually for admission bodies that are not a Transferee Admission Body and that have no guarantor in place).The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admitted Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.2 ***Employers that admit new entrants***

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

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

3.4.3 ***Employers that do not admit new entrants***

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

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

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

Future service rates calculated under both funding methods will include related administration expenses, to the extent that they are borne by the Fund, and will include an allowance for benefits payable on death in service and ill health retirement.

3.5 **Adjustments for Individual Employers**

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

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

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

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

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

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

- the actual timing of employer contributions within any financial year;
- the effect of refunds of contributions or individual transfers to other Funds;

- the effect of the premature payment of any deferred pensions on grounds of incapacity.

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

3.6 **Asset Share Calculations for Individual Employers**

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

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

3.7 **Stability of Employer Contributions**

3.7.1 Solvency Issues and target Funding Levels

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

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

3.7.2 Stabilisation

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

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

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

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

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

3.7.3 Deficit Recovery Periods

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

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

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

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

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

3.7.4 Surplus Spreading Periods

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

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

3.7.5 Phasing in of Contribution Rises

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

3.7.6 Phasing in of Contribution Reductions

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

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

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

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

3.7.8 Pooled Contributions

3.7.8.1 **Smaller Employers** –

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

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

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

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

3.7.8.2 **Other Contribution Pools** –

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

3.8 **Admission Bodies Ceasing**

3.8.1 Admission Agreements for Transferee Admission Bodies are assumed to expire at the end of the contract.

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

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

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

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

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

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

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

(2) For admission bodies that are not Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or which triggers a cessation event, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. Where there is a guarantor, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. Where a

guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis" with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required.

(3) For admission bodies with guarantors, it is possible that any deficit could be transferred to the guarantors in which case it may be possible to simply transfer the assets and liabilities relating to the former admission bodies to the respective guarantors, without needing to crystallise any deficit.

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

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

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

b) In the case of admission bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date.

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

3.9 Early Retirement Costs

3.9.1 Non Ill-Health Retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable. The current cost of these are specified in the latest early retirement manual from Hymans Robertson.

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

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

3.9.2 **Ill Health Monitoring**

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

4. Links to Investment Strategy

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

4.1 Investment Strategy

4.1.1 The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

4.1.2 The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property.

4.1.3 The investment strategy of lowest risk – but not necessarily the most cost-effective in the long-term – would be 100% investment in index-linked government bonds.

4.1.4 The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns, than from index-linked bonds. The Administering Authority's strategy recognises the secure nature of most employers' covenants.

4.1.5 The same investment strategy is currently followed for all employers. The Administering Authority does not have the facility to operate different investment strategies for different employers.

4.2 Consistency with Funding Basis

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

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

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

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

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

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

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

4.3 Balance between Risk and Reward

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

4.4 Intervaluation Monitoring of Funding Position

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

5. Key Risks and Controls

5.1 Types of Risks

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

- financial
- demographic;
- regulatory; and
- governance

5.2 Financial Risks

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

5.3 **Demographic Risks**

Risk		Summary of Control Mechanisms
5.3.1	Ill-health retirements significantly more than anticipated.	*Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill-health assumptions built into the triennial valuation.*
5.3.2	Pensioners living longer	*Set mortality assumptions with some allowance for future increase in life expectancy.* *Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.* *Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.*
5.3.3	Deteriorating patterns of early retirements	*Employers are charged the extra capital cost of non ill-health retirements following each individual decision.* *Employer ill-health retirement experience is monitored.*

5.4 **Regulatory**

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

5.5 **Governance**

Risk		Summary of Control Mechanisms
5.5.1	Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements)	*The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.*
5.5.2	Administering Authority not advised of an employer closing to new entrants	*The Actuary may be instructed to consider revising the Rates and Adjustments Certificate to increase an employer's contributions (under Regulation 78 of the 1997 Regulations; 38 of the 2008 Regulations)) between triennial valuations.* *Deficit contributions are expressed as monetary amounts (see Annex A).*
5.5.3	Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt	*In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with Best Value contractors to inform it of forthcoming changes.* *It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements.*
5.5.4	An employer ceasing to exist with insufficient funding or adequacy of a bond	*The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.* *The risk is mitigated by:* • *Seeking a funding guarantee from another scheme employer, or external body, wherever possible.* • *Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.* • *Vetting prospective employers before admission.* • *When permitted under the regulations requiring a band to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.*

ANNEX A – EMPLOYERS' CONTRIBUTIONS, SPREADING AND PHASING PERIODS

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

Employer Code	Employer name	Contributions currently being paid in 2010/11	Minimum contribution for the year ending		
			31 March 2012	31 March 2013	31 March 2014
1	London Borough of Tower Hamlets 1	15.8%	15.8% plus £14m	15.8% plus £15.25m	15.8% plus £16.5m
3	Tower Hamlets Community Housing Limited	30.3%	33.2%	33.2%	33.2%
4	Redbridge Community Housing Limited	17.7%	17.7%	17.7%	17.7%
6	East End Homes Limited	21.8%	24.5%	27.2%	29.9%
7	Greenwich Leisure Limited	15.9%	15.9% plus £5k	15.9% plus £6k	15.9% plus £6k
9	Swan Housing Association Limited	24.0%	22.5% plus £9k	22.5% plus £10k	22.5% plus £10k
10	Gateway Housing Association (Bethnal Green & victoria Park)	20.5%	30.8%	30.8%	30.8%
11	One Housing group (Toynbee Island Homes)	20.6%	27.5%	27.5%	27.5%
12	Circle Anglia Limited	18.1%	44.1%	44.1%	44.1%
13	Tower Hamlets Homes	16.4%	16.4%	16.4%	16.4%
15	Look Ahead Housing & Care Limited	17.9%	19.9%	19.9%	19.9%
16	Ecovert FM Limited	15.8%	16.0%	16.0%	16.0%

ANNEX B – RESPONSIBILITIES OF KEY PARTIES

The Administering Authority should:

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

The Individual employer should:

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

The Fund actuary should:

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

Appendix 4 - Communications Strategy Statement

CONTENTS

Introduction
This is the Communications Strategy Statement of London Borough of Tower Hamlets Pension Fund.
The Fund liaises with over 12 employers and approximately 15,000 scheme members in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

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

London Borough of Tower Hamlets
Town Hall
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Regulatory Framework
This Policy Statement is required by the provisions of Regulation 106B of the Local Government Pension Scheme (LGPS) Regulations 1997. The provision requires us to:
"….prepare, maintain and publish a written statement setting out their policy concerning communications with:
(a) members.
(b) representatives of members.
(c) prospective members.
(d) employing authorities."

In addition it specifies that the Statement must include information relating to:
"(a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;
(b) the format, frequency and method of distributing such information or publicity; and
(c) the promotion of the Scheme to prospective members and their employing authorities."

As a provider of an occupational pension scheme, we are already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act 2004. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more generalised disclosure requirements are to be introduced, supported by a Code of Practice. The type of information that pension schemes are required to disclose will remains very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a *"reasonable period"*.

The draft Code of Practice[3] issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Management section of this document, alongside those proposed by the Pension Regulator in the draft Code of Practice.

Responsibilities and Resources

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

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

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

Communication with key audience groups

Our audience

We communicate with a number of stakeholders. For the purposes of this Communication Policy Statement, we are considering our communications with the following audience groups:

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

In addition there are a number of other stakeholders with whom we communicate on a regular basis, such as Her Majesty's Revenue and Customs, the Department for Communities and Local Government, solicitors, the Pensions Advisory Service, and other pension providers. We also consider as part of this policy how we communicate with these interested parties.

How we communicate

General communication

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

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

use of electronic means such as our intranet. We will accept communications electronically, for example by e-mail and, where we do so, we will respond electronically where possible.

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

Branding

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

Accessibility

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

Policy on Communication with Active, Deferred and Pensioner Members

Our objectives with regard to communication with members are:

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

Our objectives will be met by providing the following communications, which are over and above individual communications with members (for example, the notifications of scheme benefits or responses to individual queries). The communications are explained in more detail beneath the table:

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

Explanation of communications

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

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

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

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

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

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

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

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

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

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

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

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

Our objectives with regard to communication with prospective members are:

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

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

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

Explanation of communications

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

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

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

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

Policy on communication with Employing Authorities

Our objectives with regard to communication with employers are:

- to improve relationships.
- to assist them in understanding costs/funding issues.
- to work together to maintain accurate data.
- to ensure smooth transfers of staff.
- to ensure they understand the benefits of being an LGPS employer.

- to assist them in making the most of the discretionary areas within the LGPS.

Our objectives will be met by providing the following communications:

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

Explanation of communications

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

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

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

Pensions Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.
Adviser meeting – Gives employers the opportunity to discuss their involvement in the Scheme with advisers.

Policy on communication with senior managers
Our objectives with regard to communication with senior managers are:

- to ensure they are fully aware of developments within the LGPS
- to ensure that they understand costs/funding issues
- to promote the benefits of the Scheme as a recruitment/retention tool.

Our objectives will be met by providing the following communications:

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

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

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

Policy on communication with union representatives
Our objectives with regard to communication with union representatives are:

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

Our objectives will be met by providing the following communications:

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

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

Face to face education sessions – these are education sessions that are available on request for union representatives and activists, for example to improve their understanding of the basic principles of the Scheme, or to explain possible changes to policies.

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

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

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

Our objectives will be met by providing the following communications:

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

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

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

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

Policy on communication with pension section staff
Our objectives with regard to communication with Pension Section's staff are:

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

Our objectives will be met by providing the following communications:

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

Explanation of communications

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

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

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

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

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

Policy on communication with tax payers

Our objectives with regard to communication with tax payers are:

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

Our objectives will be met by providing the following communications:

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

Explanation of communications

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

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

Policy on communication with other stakeholders/interested parties

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

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

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Pension Fund valuation reports • Rates and Adjustments (R&A) certificates • Revised R&A certificates • Cessation valuations	Electronic	Every three years	Via email	Government Departments)/ Her Majesty's Revenue and Customs HMRC)/all Scheme employers
Details of new employers entered into the Fund	Hard copy	As new employers are entered into the Fund	Post	Government Departments /HMRC
Formal resolution of pension disputes	Hard copy or electronic	As and when a dispute requires resolution	Via email or post	Scheme member or their representative s, the Pensions Advisory Service/the Pensions Ombudsman
Completion of questionnaires	Electronic or hard copy	As and when required	Via email or post	Government Departments /HMRC/the Pensions Regulator

Explanation of communications

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

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

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

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

Performance Measurement

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

Timeliness

We will measure against the following target delivery timescales:

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

	members, as required	coming into effect	into effect
Annual Pension Fund Report and Accounts	All	Within two months of request	Within ten working days

Quality

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

Results

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

Review Process

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

Appendix 5- Governance Compliance Statement

1. Background

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

2. Governance Structure

2.1 The Council delegates its responsibility for administering the Fund to the Pensions Committee. The terms of this delegation are as set out in the Council Constitution and provide that the Committee is responsible for consideration of all pension matters and discharging the obligations and duties of the Council under the Superannuation Act 1972 and various statutory matters relating to investment issues.

2.2 The governance structure is supported by:

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

Pensions Committee

2.3 The terms of reference of the Pensions Committee encompass: -

- Determination of investment policy objectives
- Appointment of investment managers
- Monitoring investment performance and
- Making representations to Government on any proposed changes to the LGPS.

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

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

3. Investment Panel

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

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

4. Officer Delegation

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

5. Professional Advisors

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

6. Overall Power

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

6.2 Committee retain responsibility for all policy decisions relating to the investment portfolio. Responsibility for the day to day operation of the management arrangements and administration of the portfolio is delegated to the Corporate Director, Resources.

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
STRUCTURE	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council	Compliant	The Council's Constitution states that the Pensions Committee is responsible for the management of the Pension Fund
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	Trade union representatives and representatives of admitted bodies sit on the Pension Committee.
	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	A report of the Investment Panel is presented at the following Pensions Committee. All key recommendations of the Investment Panel are ratified by the Pensions Committee.
	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Compliant	All members of the Investment Panel are also members of the Pensions Committee.
REPRESENTATION	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :- • employing authorities (including non-scheme employers, e.g. admitted bodies), • scheme members (including deferred and pensioner scheme members), • independent professional observers, • expert advisors (on an ad-hoc basis).	Compliant	Trade unions and admitted bodies are represented on the Pensions Committee. An independent professional observer has also been appointed to chair the Investment Panel.

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Compliant	Papers for Committee and the Investment Panel are made available to all members of both bodies at the same time and are published well in advance of the meetings in line with the council's committee agenda publication framework.
SELECTION & ROLE OF LAY MEMBERS	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	Members of the Pensions Committee/ Investment Panel have access to the terms of reference of each body and are aware of their roles and responsibilities as members of these bodies/ Panel.
VOTING	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	The Pensions Committee/ Investment Panel does not currently confer voting rights on non-Councillors in line with common practice across the local government sector.
TRAINING/FACILITY TIME/EXPENSES	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Compliant	Regular training is arranged for members of the Pensions Committee. In addition members are encouraged to attend external training courses. The cost of any such courses attended will be met by the Fund.
	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	The rule on training provision is applied equally across all members of the Pensions Committee.
MEETINGS	That an administering authority's main committee or	Compliant	Meetings of the Pensions Committee

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PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
	committees meet at least quarterly.		are arranged to take place quarterly.
(FREQUENCY/ QUORUM)	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	Meetings of the Investment Panel are arranged to take place quarterly.
	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	Union representatives on the Pensions Committee are lay members. Other stakeholders of the Fund are able to make representations at the Annual General Meeting of the Pension Fund.
ACCESS	That subject to any rules in the Council's Constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Compliant	Panel meeting papers are circulated at the same time to all members of the Pensions Committee/ Investment Panel.
SCOPE	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	Pensions Committee considers are range of issues at its meetings and therefore has taken steps to bring wider scheme issues within the scope of the governance arrangements.
PUBLICITY	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Compliant	This Governance Compliance Statement is a public document that is attached as an appendix to the annual pension fund report.

Membership of Pensions Committee and Investment Panel 2012/13

Attendances at Pensions Committee 2012/13

Attendees	Voting Rights	Meetings Scheduled 14-Jun	20-Sep	15-Nov	16-Feb
Members					
Cllr Zenith Rahman	√	Present	Present	Present	
Cllr Craig Aston	√	Present	Present	Present	
Cllr Shiria Khatun	√				
Cllr Abdal Ullah	√	Present	Present	Present	Present
Cllr Oliur Rahman	√				
Cllr Motin Uz-Zaman	√	Present	Present		Present
Cllr Marc Francis	√	Present		Present	Present
Cllr Peter Golds	√				Present
John Gray (Non-voting)	x	Present	Present	Present	Present
Frank West (Non-voting)	x		Present	Present	
Officers					
Alan Finch	x	Present		Present	Present
Oladapo Shonola	x	Present	Present	Present	Present
Anant Dodia	x		Present	Present	Present
Jill Bell	x		Present		Present
Simon Kilbey	x			Present	
Lisa Stone	x			Present	
Antonella Burgio	x		Present	Present	Present
Barry McKay	x				Present
Evelyn Akoto	x	Present			
Guest					
Raymond Haines	x		Present		

Training is provided to members of the Pensions Committee to enable them to discharge their duties in a responsible manner. A training session was offered to members of the Committee, on 20th September 2012. The session provided an introduction to the Local Government Pension Scheme and covered governance, investment strategy and actuarial valuation. The attendance at the training session is set out in the table below:

Attendance at Training Sessions 2012/13

Attendees	**20-Sep**
Cllr Zenith Rahman	Present
Cllr Craig Aston	Present
Cllr Abdal Ullah	Present
Cllr Motin Uz-Zaman	Present

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COMMITTEE:	DATE:	CLASSIFICATION:	AGENDA NO.
Pensions Committee	**14 November 2013**	**Unrestricted**	

REPORT OF:	TITLE:
Interim Corporate Director of Resources ORIGINATING OFFICER(S): Oladapo Shonola – Chief Financial Strategy Officer	**Update on Government Guarantee of Academies Pension Liabilities** Ward(s) affected: N/A

1. SUMMARY

1.1 This report provides a further update on the Department of Education backed guarantee to cover pension fund liabilities that arise if an academy closes down. The report sets out the conditions attached to the government guarantee and assesses whether the guarantee is sufficient to mitigate Fund risks to, and therefore, lead to a reduction in deficit recovery periods for academies in the Fund.

1.2 The report also presents to the Committee representations received from four academies seeking a review of their recovery period and, consequently, a reduction in their current assessed contribution rates. Finally, the report sets out details of a recently published consultation that proposes to impose pooling arrangements for academies and local authorities in the LGPS.

2. DECISIONS REQUIRED

2.1 Members are recommended to:

- Note the content of this report;
- Consider the representations from the admitted academies in the LBTH Pension Fund and review original decision to set deficit recovery periods at 14 years;

3. REASONS FOR DECISIONS

3.1 Members had agreed to recover pension fund deficit from academies over a 14 year period. A review of this decision is required following the statement by the Secretary of State for Education in Parliament that stated that a guarantee is now in place which will make good any losses relating outstanding pension fund liabilities that arise from an academy closing down.

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 and the Committee has been delegated decision making powers to ensure that the Fund is properly managed. The Committee's responsibility extends to deciding deficit recovery periods in line with the Fund's risk management process.

4.2 The Committee in discharging its delegated duties, as trustees of the Fund, need to be informed of developing and emerging issues as they relate to the LGPS, so that the Committee has all available information when making decisions. Therefore, it is appropriate that Members are made aware of recent developments including the representations submitted by employer members of the Fund following guarantee issued by government.

4.3 Although directed by government, the Pensions Committee is not bound by legislation to review the deficit recovery period that it has already set for admitted academy employer in the Fund at this time. However, the Committee should be mindful that government has threatened to bring forward legislation that would enforce equitability and has published a consultation that is geared toward achieving this goal.

5. BACKGROUND

5.1 Academies came to being under the Academies Act 2010. As well as allowing new schools to be formed, the Act allows current LEA maintained schools to convert to academies. The legislation automatically allows converting/new academy trusts to be admitted to the LGPS. This enables the trusts non-teaching staff to join/retain their membership of the LGPS.

5.2 Government had previously recommended that an application by an academy to join the LGPS should be viewed favourably and that the terms of admittance should also be similar to those of the admitting body.

5.3 The Committee has, over the past two years, admitted a number of Academies into the LBTH Pension Fund with deficit funding recovery period set at 14 years for each of the admitted academies. The Committee admitted Sir William Burrough and Bethnal Green Academy to the Fund at its meeting of 17 November 2011, and Old Ford and Culloden Primary schools on 21 March 2013. This was deemed a reasonable recovery period having weighed up the fact that government legislation only guarantees academy funding for 7 years and the likelihood that government would seek to minimise any negative outcomes from one of its major programmes.

5.4 In setting the deficit recovery periods for the admitted academies, the Committee took the view that a shorter recovery period of 7 years, may bring about extremely difficult financial challenges for a converting school, but, on the other hand, a 20 year period was deemed too risky for the Fund in the absence of any express guarantee that any funding shortfall will be met by the Government.

5.5 The Secretary of State for Education announced in July 2013 that his department will now provide a guarantee to meet the outstanding pension liabilities should an academy be forced to close down – the full statement is attached at Appendix 2. However, the guarantee is subject to certain conditions being met and also sets out instances that could lead to the guarantee being withdrawn, these include:

- Estimated contingent liability ceilings being exceeded;
- Projected costs are no longer affordable from within Department for Education’s existing budget;
- Projected costs are not approved by HM Treasury; and
- HM Treasury reserve the right to remove the guarantee due to spending considerations or policy development.

5.6 In October, the Government started consulting on pooling arrangements for Academies within the LGPS – the consultation is attached at Appendix 3. The consultation proposes the following options for Academy and Local Authority pooling arrangements:

a) Requiring that pension arrangements for an academy and local authority are pooled should an academy want this;
b) Providing that the academy and local authority pensions arrangements are pooled without any choice from either parties;
c) Providing that the pensions arrangements for the schools sector – academies and local authority maintained schools are pooled together; and
d) Providing pooling arrangements for academies only.

5.7 Three out of the four options proposed will transfer financial risk away from central government to local authorities and the other option will introduce risk sharing between academies – although the consultation does not state whether the last option will be implemented on a voluntary or enforced basis.

5.8 The Pension Fund will be exposed to additional financial risk if pooling is introduced through legislation without a full guarantee that any financial loss that arises from the closure of an academy will be fully mitigated. It is clear that the language used in the ministerial statement to Parliament in July 2013 limits governments liability in many different ways as set out in 5.5, but it is also clear that government is keen to persuade the parties involved, especially academies, that the guarantee is 'cast-iron' regardless of the fact that it carries, with it, many caveats.

6 ACADEMIES REPRESENTATION

6.1 Following the ministerial statement to Parliament in July 2013, academies were advised to make representations to their administering authority with a view to having their deficit recovery period reviewed and reset to match that of the local authority.

6.2 LBTH Pension Fund has received representations from all the academies currently admitted as employers in the scheme asking for a review of their deficit recovery period and, consequently, their contribution rates. The representations are attached at Appendix 1 and the Committee is asked to formally review these representations.

6.3 The representations from Old Ford and Culloden wrongly assume that their contribution rate ought to come down to 15.8%. The 15.8% referred to relates to the future service rate, which forms part of the overall contribution rate for an employer in the Fund. Culloden and Old Ford are also now responsible for the payment of any funding deficit on top of the future service rate contribution – the school would have been responsible for this payment in the past, but paid as part of the £16.5m (2013/14) deficit payment by the Council in relation to its pension pool within the overall Fund.

7 POOLING ARRANGEMENTS FOR ACADEMIES WITHIN LGPS

7.1 It appears that academies have accepted the government's position that the guarantee to make good any pension fund liability that arises from the closure of an academy is sufficient to facilitate a similar recovery period to local authorities. However, local authorities including officers of LBTH Pension Fund, based on the Fund's risk management principles, are generally not persuaded that the guarantee is full enough to justify academies having the same recovery period as councils. The failure of government to persuade local authorities on this point has led to the proposed enforcement of government'swish for equity to be attained through legislation(i.e. pooling arrangement for academies within LGPS).

7.2 In reviewing the proposal in the consultation, the threat of pooling for academies appears to be encouraging disparate treatment of employers within the LGPS. Academies programme would be subject to government directed arrangements due to the support from the present day government, whilst the Council continues to set policies for the remainder of employers in the Fund under current risk management processes. There is a suggestion that government is demanding that local authorities abandon proper risk management of their Funds for political expediency and this carries many risks including the long term impact such an approach could have on the council’s finances and also the potential for other employers in the Fund to challenge what they would likely consider to be inequitable/discriminatory.

7.3 It is also worth noting that, same as all employers in the Fund, academies are independent entities and are allowed to make decisions to further the goals of their governing bodies. Any risks arising from such decisions should largely be borne by the academy and not shared around other members who would not have derived any benefit from a decision that was made solely for the advancement of an academy’s goals. Enforcing pooling of academies pension with local authorities pension in the manner proposed contradicts the principle that academies are independent from local authorities and as such the existence of one should not be detrimental or create a burden on the other.

7.4 The current government has made their view on the importance of the academy programme very clear, but continued commitment/funding is not 100% guaranteed beyond what has been set out in legislation. A fresh/extended mandate will be required after the expiry of the current 7 year funding agreement and in the absence of a full guarantee, Committee must be consistent in its application of existing risk management principles in determining the deficit recovery period for academies in order to protect the Fund and prevent challenge from other employers in the Fund.

7.5 The decision by Committee to set a 14 year deficit recovery period was balanced and had considered, and took into consideration, the likelihood of government intervention in minimising any negative fallout from the closure of an academy when deficit recovery periods for the academies were set for admitted employer members of the Fund. Having weighed up all factors, a deficit recovery period of 14 years was approved in each case by the Committee. This is more than the 7 year funding guarantee, but less than the 20 years recovery period for the Council.

7.6 The Committee could chose to extend the recovery period for academies further up to 20 years, but it is important that this is weighed up against the potential additional risk that such a decision would pose to the Fund and the possibility of challenge from other employers in the Fund. Although, there is no indication at this time that the latter would happen.

7.7 The triennial valuation is being finalised by the Fund’s actuary and it is expected that revised contribution rate for each employer member of the Fund, including academies, will be known. For academies, the deficit recovery element of the contribution rate will be based on the current agreed recovery period of 14 years -although, estimates for a 20 year recovery period can also be provided.

8. COMMENTS OF THE CHIEF FINANCIAL OFFICER

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

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

9.1 A person is entitled to membership of the local government pension scheme (LGPS) if he or she is employed by a body listed in Schedule 2 to the LGPS (Administration) Regulations 2008 (a scheduled body). A proprietor of an academy who has entered into Academy arrangements within the meaning of section 1 of the Academies Act 2010 is relevantly a scheduled body and thus an employing authority under the LGPS.

9.2 An employing authority must contribute to the fund each year in accordance with a rates and adjustment certificate obtained by the Council from an actuary. The Council is required to obtain such a certificate every three years which sets out the common rate of employer's contribution and any individual adjustments. An individual adjustment is any percentage or amount by which, in the actuary's opinion, contributions at the common rate should be increased or reduced for a particular body by reason of the circumstances peculiar to that body. The actuary is required to specify the assumptions relied upon in determining an employer's contribution. It is understood that one of the relevant assumptions concerns the appropriate recovery period for any deficit, which is a matter on which the Council as the administering authority may express a preference. There is material in the report on which the committee may reasonably take a view about what the recovery period should be.

10. ONE TOWER HAMLETS CONSIDERATIONS

10.1 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.

11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

12. RISK MANAGEMENT IMPLICATIONS

12.1 The Committee must be mindful of the risk management principles that guide the management of the Fund and any deviation from such agreed principles could increase financial risk to the Fund.

12.2 There is a risk that extending the deficit recovery period for academies would lead to irrecoverable debt/liabilities were one of the academies currently in the Fund to close. Whilst the government guarantee may mitigate some of this risk, the absence of a full guarantee means there are risks to the Fund offering a similar deficit recovery period to the Council and the proposed pooling arrangement.

13. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

14. EFFICIENCY STATEMENT

14.1 The Committee is not required to make a decision on any of the matters in this report, so there are no efficiency implications arising from this report.

LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D

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

Brief description of "background papers"	***Name and telephone number of holder And address where open to inspection***
None	N/A

APPENDIX 1A

Culloden Primary School an Academy

Changing lives through excellence and inclusion

Kate Bingham
Service Head (Resources)
Education Social Care and Wellbeing
London Borough of Tower Hamlets
Mulberry Place
5 Clove Crescent
London
E14 2BG

26th September 2013

Dear Kate,

I am writing to you in respect of the recent guarantee to LGPS Administering Authorities by Central Government; in the event of the closure of the Academy Trust any outstanding LGPS liabilities will not revert to the fund, but would be met by the DfE. These assurances should now give the Council the confidence to treat the Academy equitably when setting employer contribution rates. In the light of the Government guarantee, the school ought to be paying the same contribution as it was paying when a maintained school i.e. 15.8% and not 32.9%.
In view of this change in circumstance, we request the Council to review the risk assessment for the Academy, and to take into account the new Guidance so that our contribution rate is reduced accordingly.

I look forward to hearing from you.

Yours sincerely,

Amanda Phillips
Executive principal

APPENDIX 1B

Old Ford
PRIMARY SCHOOL - an Academy

Kate Bingham
Service Head (Resources)
Education Social Care and Wellbeing
London Borough of Tower Hamlets
Mulberry Place
5 Clove Crescent
London
E14 2BG

26th September 2013

Dear Kate,

I am writing to you in respect of the recent guarantee to LGPS Administering Authorities by Central Government; in the event of the closure of the Academy Trust any outstanding LGPS liabilities will not revert to the fund, but would be met by the DfE. These assurances should now give the Council the confidence to treat the Academy equitably when setting employer contribution rates. In the light of the Government guarantee, the school ought to be paying the same contribution as it was paying when a maintained school i.e. 15.8% and not 32.9%.
In view of this change in circumstance, we request the Council to review the risk assessment for the Academy, and to take into account the new Guidance so that our contribution rate is reduced accordingly.

I look forward to hearing from you.

Yours sincerely,

Amanda Phillips
Executive principal

APPENDIX 1C

From: Sandra Black [mailto:xxxxxxxxxxxxxxxxxorg]
Sent: 19 September 2013 10:52
To: Anant Dodia
Subject: Pension Liabilities

Dear Anant,

In July this year the Department gave a guarantee that it would pick up any outstanding pension liabilities on academy closure. This is what pension fund managers have asked for in order for them to be able to treat academies in the same way as maintained schools. Details of the guarantee, which was set out in a written ministerial statement, can be found here **http://www.education.gov.uk/schools/leadership/typesofschools/academies/la/a00204881/lgps**.

In light of this decision, can we ask you to revaluate the risk assessment of Sir William Burrough School in light of the guarantee with the view of giving us the same repayment period as maintained schools.

I look forward to hearing from you,

Sandra

Sandra Black
School Business Manager
Sir William Burrough School

APPENDIX 1D

From: Paul Doel [mailto:xxxxxxxxxxxxxxxxxxx.co.uk]
Sent: 05 July 2013 16:28
To: Anant Dodia
Subject: Academies and LGPS liabilities

Dear Anant

In light of the ministerial announcement this week (see link below) that the Department for Education will underwrite the pension related liabilities for any academy that closes, can you please advise Bethnal Green Academy (BGA) the date of the next LBTH pensions risk group meeting. Also, can you confirm the agenda for that meeting will include an item to review and revise the risk level for BGA's pension deficit. I'm anticipating that, as a result of the announcement, the employer contribution rate will reduce significantly from the current rate of 39% .

In addition, I'm also keen to participate in the consultation process proposed by the Department for Communities and Local Government with regards to academies being given the choice to pool their LGPS assets and liabilities with their pension authority's.

I look forward to your response.

Kind regards

Paul

http://www.education.gov.uk/aboutdfe/executiveagencies/efa/efaebulletins/h00226492/issue-32/lgps-liabilities

Paul Doel
Director of Finance & Income
Bethnal Green Academy, Gosset Street, London, E2 6NW
Tel:xxxxxxxxxxx | **Mob**: xxxxxxxxxxx
Email:xxxxx@xxxxxxxxxxxxxxxxx.uk
Website:www.bethnalgreenacademy.co.uk

Department for Education

Local Government Pension Scheme (LGPS) liabilities

Parliamentary Minute

July 2013

Rt Hon Michael Gove MP
Secretary of State

Sanctuary Buildings Great Smith Street Westminster London SW1P 3BT
tel: 0370 000 2288 www.education.gov.uk/help/contactus

2nd July 2013

PARLIAMENTARY MINUTE

Provision of a DfE guarantee that the Department will meet any outstanding Local Government Pension Scheme liabilities on Academy Trust closure

1. *It is normal practice, when a government department proposes to undertake a contingent liability in excess of £250,000 for which there is no specific statutory authority, for the department concerned to present to Parliament a Minute giving particulars of the liability created and explaining the circumstances; and to refrain from incurring the liability until fourteen parliamentary sitting days after the issue of the Minute, except in cases of special urgency.*

Background

2. Under the Local Government Pension Scheme (LGPS) Regulations 2008 an academy proprietor (i.e. the company which runs the academy and called an "Academy Trust") is required to offer all of its non-teaching staff membership of the LGPS. In England the scheme is managed locally in 79 different Administering Authorities.

3. Some academies are experiencing significantly higher LGPS employer contribution rates to those set when they were a local authority maintained school. The main reason for this is because academies are not funded through the local authority which previously gave assurance to the Administering Authority that LGPS costs would be met in the long term. We are seeking to regain parity for academies with the maintained school sector regarding the risks that they present to the pension fund in the event of the closure of an Academy Trust, and to encourage equitability of treatment.

4. We are providing a guarantee to LGPS Administering Authorities that in the event of the closure of an Academy Trust any outstanding LGPS liabilities will not revert to the fund. Providing such assurances will give Administering Authorities the confidence they need to treat academies equitably and ensure that there is no significant divergence in employer contribution rates upon academy conversion.

5. In the first instance, where an Academy Trust closes, we will ensure that the closure is effectively managed and would expect the liabilities to be met from the Academy Trust's assets on closure. The Secretary of State has the power to determine how the assets of an Academy Trust are disposed. Any remaining outstanding LGPS deficit would then be met by the Department in full.

6. The annual estimated contingent liability (CL) ceilings (rounded to the nearest £500k) going forward are set out below:

FY	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
CL (£)	6.5m	8.5m	10.5m	11.5m	12m	13m	13.5m	14m

7. The estimated ceiling figures are the maximum level of financial exposure to the Department per annum, if the projected Academy Trust closures, based on academy pension deficit information and maintained school closure data, were to occur. The reason for providing estimated costs only to 2020-21 is that this is the end of the forecast period and does not imply that the guarantee will cease at that point. There is no planned end date. A reassessment will be undertaken at regular intervals to determine whether the guarantee remains affordable.

8. The Department and HM Treasury will reserve the right to withdraw the guarantee at any time following a reasonable notice period. Grounds for the Department withdrawing the guarantee include if the levels set out above are exceeded and projected costs are no longer affordable from within the Department's existing budget or are not approved by HM Treasury. HM Treasury also reserves the option to re-assess the approval of the guarantee at a later date, as appropriate, due to spending considerations or policy developments.

Likelihood of crystallisation

9. The closure of the Academy Trust with the consequential ceasing of employee and employer contributions would result in the LGPS liability crystallising and a payment being immediately made to the fund. However, the likelihood of an Academy Trust closing is extremely low. Where there remains a need for education provision within an area, the Department would seek to appoint a new provider to take over management of an existing Academy Trust and so take on the associated LGPS liabilities. A closure due to falling rolls, resulting in the crystallisation of the liability, would be unlikely to happen immediately and would be managed over a period of years. Furthermore, the power to close an Academy Trust in these circumstances rests with the Secretary of State.

10. Given the low probability that an Academy Trust will close and in view of the Secretary of State's powers to determine how the assets of an Academy Trust should be disposed of, the level of Departmental exposure is such that any remaining liabilities can be met from the Department's programme budget. If the liability is called, provision for any payment will be sought through the normal supply procedure and will be met from within the Department's Spending Review settlement.

Special urgency

11. We are seeking exemption to the fourteen parliamentary sitting days on grounds of special urgency as:

a) DCLG is due to launch a consultation on pooling arrangements in the summer and the guarantee will underpin these proposals;

b) Administering Authorities are unlikely to review their assessments of academy LGPS contribution rates before the guarantee comes into force. This will impact financially on those schools looking to convert in September and may prevent some schools from converting.

12. *The Treasury has approved the proposal in principle. If, during the remaining period of parliamentary sitting days in this session, beginning on the date on which this Minute was laid before Parliament, a Member signifies an objection by giving notice of a Parliamentary Question or by otherwise raising the matter in Parliament, final approval to proceed with incurring the liability will be withheld pending an examination of the objection.*

MICHAEL GOVE

Department for Education

Any enquiries regarding this publication should be sent to us at www.education.gov.uk/contactus.

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Department for Communities and Local Government

Pooling arrangements for Academies within the Local Government Pension Scheme

Consultation

October 2013
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

If you have any enquiries regarding this document/publication, email contactus@communities.gov.uk or write to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
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For all our latest news and updates follow us on Twitter: https://twitter.com/CommunitiesUK

October 2013

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Contents

The Consultation Process and how to Respond

Basic Information

To:	This consultation is aimed at Academies, Local Authorities and Administering Authorities of the Local Government Pension Scheme.
Body responsible for the consultation:	The Department for Communities and Local Government
Duration:	This is a 6 week consultation which will conclude on 15 November 2013
Enquiries:	For enquiries and to respond to this consultation. Please e-mail Robert.ellis@communities.gsi.gov.uk
How to Respond:	When responding, please ensure you have the words Academy and the Local Government Pension Scheme in the email subject line. Alternatively you can write to: Local Government Pension Scheme – Academies and pooling in the Local Government Pension Scheme Department of Communities and Local Government 5/F5 Eland House Bressenden Place LONDON SW1E 5DU For more information, please see https://www.gov.uk/government/organisations/department-for-communities-and-local-government

Freedom of information and data protection applicable to consultation

Representative groups are asked to give a summary of the people and organisations they represent and, where relevant, who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the department.

The Department for Communities and Local Government will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Overview

Topic of this consultation:	Arrangements for Academies to enter into pooling arrangements with the local authority.
Scope of this consultation:	This consultation seeks views on potential pooling arrangements, within the Local Government Pension Scheme Regulations, for Academies and Local Authorities.
Geographical scope:	England.
Impact Assessment:	Not required as there is no specific regulatory change being proposed.

Chapter 1

Introduction

Academies within the Local Government Pension Scheme

1. The Academies Act 2010 sets out the government's policy of improving education provision by encouraging the establishment of Academies that are independent of local authority control. There are more than 3000 Academies and the number will grow year on year.

2. Non teaching staff in Academies are eligible to join the Local Government Pension Scheme (the scheme) and the proprietor of an Academy is listed in Part 1 of Schedule 2 of the Local Government Pension Scheme (Administration) Regulations 2008. An Academy is defined in the Regulations as a proprietor of an Academy within the meaning of section 579 (general interpretation) of the Education Act 1996, who has entered into Academy arrangements within the meaning of section 1 (Academy arrangements) of the Academies Act 2010.

3. Each Academy proprietor is a separate employer within the scheme and is set an individual employer contribution rate by the relevant scheme administering authority to secure sufficient funds to pay pensions to their non teaching staff.

4. In cases where a local authority maintained school converts to Academy status, staff members transfer from local authority employment to employment by the Academy or Multi-Academy Trust. The staff's pension rights are maintained during this transfer process. The Commercial Transfer Agreement between the local authority and the Academy or Multi-Academy Trust sets out responsibilities for Scheme liabilities. These arrangements can vary across local authorities. Commonly the ceding local authority will keep the liability for scheme members who are in receipt of benefits (pensioner members) and those that have deferred rights to benefits (deferred members). Academies will only have the liabilities for those staff transferred to their employment (active members). Under the Commercial Transfer Agreement, the local authority retains sufficient assets in the pension fund to fully meet all the liabilities of the pensioner and deferred members as there is no future local authority funding for these members. The remaining assets associated with the converting school are transferred to the new Academy. An actuary acting for the administering authority calculates the amounts to be transferred according to the standards and codes of practice of the actuarial profession.

5. The employer contribution rate set for the new Academy can be higher or lower than the rate for the ceding local authority and, in some cases the increase can be sufficient to act as a barrier to converting to Academy arrangements or introduce unexpected additional costs. The reasons cited for increased employer contribution rates are:-

    a) Differences in staff demographic between the local authority and the Academy. These variations result from separating the former school from the broader local authority group.

b) A changed forecast of investment returns between the date of the last Fund valuation in 2010 and the date when the Academy joins the scheme ie when its assets and liabilities are assessed as a new separate employer.

c) An Academy is a company limited by guarantee with charitable status and does not have the constitutional permanence of a local authority maintained school. In particular, prior to the Education Secretary's Minute to Parliament (see Chapter 2), administering authorities had concerns about how liabilities would be addressed should it ever have been decided to close an Academy for whatever reason. This has led to some local authorities being reluctant to enter into risk sharing arrangements with Academies. It also deterred some administering authorities from setting deficit recovery periods over a longer period of time which in some cases has led to higher employer contribution rates in the short term.

d) Some administering authorities assumed that Academies only have guaranteed funding for 7 years as this is the period of notice set out in the Funding Agreement between the proprietor of the Academy and the Secretary of State for Education. Academies do, in fact, have an open ended rolling funding agreement with the Education Secretary which includes a 7 year no fault written notice period.

6. The joint letter from the Secretaries of State for Education and Communities issued in December 2011 stated that should it be found that Academy arrangements are not proceeding such that their scheme costs remain stable, consideration will be given to the need for any regulatory measure to achieve this aim. While some administering authorities have implemented practical solutions to changes in the sector, it was considered that insufficient progress had been made to ensure the long term stability of scheme costs, with some Academies suffering, or at risk from, dramatic increases in employer contribution rates.

7. The Academy programme is a major Government policy to raise standards in education and Ministers consider that specific regulatory intervention might provide a more stable solution for the schools and Academies sector. To support any stabilising regulatory solution for Academies and address some concerns that an Academy may be of weaker covenant than a local authority maintained school, a guarantee came into effect from 18 July which means that the Department for Education will meet any outstanding scheme liabilities on the closure of an Academy Trust.

Pooling arrangements that can operate in the Local Government Pension Scheme

8. A pool is a mechanism for two or more employers to share actuarial assumptions and risks relating to participation in the scheme as an employer. The scheme regulations do not expressly provide for pooling pension arrangements but employers can be brought together to share costs and risks For example, if more employees than actuarially assumed receive benefits as a result of ill health retirements, there could be an

additional charge to that employer (see Reg 41 of the LGPS (Administration) Regulations)[1]. This can expose smaller employers to very high increases in pension costs and pooling arrangements that involve similar sized employers, serves to spread this risk across a broader pool and reduce the potential volatility of contribution rates for all those involved.

[1] http://timeline.lge.gov.uk/LGPS2008Regs/SI20121989/20080239.htm#reg41

Chapter 2

Rationale to introduce Academy and Local Authority Pooling Arrangements

9. Local authority maintained schools and Academies are public bodies with state funding. Local authorities retain a duty to provide sufficient school places for children, through maintained schools or academies. There is, therefore, a rationale for linking the two types of bodies for scheme purposes.

10. A more structured regulatory arrangement for creating pooling mechanisms, whereby risks and costs are shared between Academies and the local authority should reduce the volatility of Academies' employer contribution rates but there may be a number of ways to achieve this aim. This consultation offers some options for pooling but invites comments about how best stability of Academy employer contribution rates can be achieved.

11. Options for regulations include:
    a) requiring that pension arrangements for an Academy, or several Academies, and the ceding local authority are pooled together should the Academy want this; or
    b) providing that the Academy, or several Academies, and the ceding local authority should be pooled together without any choice between the parties; or
    c) providing that the schools sector – Academies and local authority maintained schools – are pooled together.
    d) providing pooling arrangements for Academies only.

12. An advantage of any compulsion between the parties is stability across the pool. Frequent dipping into and out of a pooling arrangement alters the profile of the pool membership and scheme actuaries would not be able to have certainty about who would be in a pool at any one time. This then increases risks and costs, not just for Academies, but across the whole pool. Compulsion could, however, increase the costs of some Academies as the pool might generate an employer rate that is higher than that currently set for the individual Academy. However, the benefit of pooling pension arrangements is that there is a sharing of risks eg the additional costs of having more ill health retirements than previously anticipated by the fund actuary. There are various ways that pooling arrangements can be implemented which affect the balance between the cost and risk sharing which the administering authority, with the advice of their fund actuary, needs to consider carefully.

How Academy and local authority pools might operate

13. Any pooling arrangement could have different characteristics and this might include a requirement that:-

a) to join or leave a pool, an Academy would need to notify the administering authority six months before joining and, if leaving the pool, six months before the date of a scheme valuation exercise.

b) An Academy could decide whether to remain in or to opt out of the pool after every second scheme valuation or some such specified period.

c) The fund actuary determines the assets and liabilities as if the pool was a single employer and assets and liabilities are apportioned between the different employers so that each had a proportionate share.

d) Each employer's contribution rate would be set so that, overall, the cost of benefits and any deficit would be recovered over the same period for all employers in the pool.

e) Employers within the pool could retain freedom to use their discretions to manage their workforce but, to ensure costs did not unfairly fall on other employers in the pool, the administering authority could make an extra charge on that employer if;
   - the employer increases pay rates for scheme members above the assumed level;
   - they have used their discretion to increase the total service of a member or award additional pension (Administration Regulation 40[2]);
   - if members becomes entitled to benefits on the grounds of ill health, redundancy, efficiency or flexible retirement (Administration Regulation 41[3]);
   - a contribution towards the administration of the pension fund is due under Administration Regulation 42[4];
   - if the administering authority has incurred additional costs resulting from the level of performance of the employer (Administration Regulation 43[5]);
   - if due to late payment interest is due under Administration Regulation 44[6].

14. It should be noted that Academies would still be bound by the requirements of the Education Funding Authority, including the need to provide Financial Reporting Standards 17 statements each year. Individual employers would still be responsible for the appropriate proportion of the pooled deficits.

Department for Education guarantee for the management of pension liabilities should an Academy be wound up.

15. It is important that all the parties in the pool should be aware of their responsibilities should they leave the pool or, indeed, cease participation in the scheme. It would not be acceptable to leave unmet pension liabilities in the pool for other members of that pool to pay for through their employer contribution rate.

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[2] http://timeline.lge.gov.uk/LGPS2008Regs/SI20121989/20080239.htm#reg40;
[3] http://timeline.lge.gov.uk/LGPS2008Regs/SI20121989/20080239.htm#reg41 ;
[4] http://timeline.lge.gov.uk/LGPS2008Regs/SI20121989/20080239.htm#reg42 ;
[5] http://timeline.lge.gov.uk/LGPS2008Regs/SI20121989/20080239.htm#reg43
[6] http://timeline.lge.gov.uk/LGPS2008Regs/SI20121989/20080239.htm#reg44

16. The Department for Education has provided a guarantee[7] to scheme administering authorities that, in the event of the closure of an Academy Trust,[8] any outstanding scheme liabilities will not revert to the relevant scheme administering authority. Providing these assurances will give administering authorities the confidence they need to treat academies equitably and ensure that there is no significant divergence in employer contribution rates upon academy conversion.

17. Where an Academy Trust closes, the Department for Education will ensure that the closure is effectively managed and would in the first instance expect the liabilities to be met from the Academy Trust's available assets on closure. The Secretary of State for Education has the power to determine how the remaining assets of an Academy Trust are disposed of which means that any outstanding Scheme deficit would then be met by the Department in full.

18. A Frequently Asked Questions document explain more about the guarantee is attached at Annex A.

Managing liabilities should a local authority maintained school close

19. If it was ever decided that a local authority maintained school should close, it would be the responsibility of the relevant local authority to manage the transfer of students and staff and defray any property, rights and liabilities (including scheme assets and liabilities) to a successor body where there is one. If there is no successor school where, for example, falling rolls means that there is no need for the school in the locality, the local authority remains responsible for any unmet pension liabilities in respect of that former local authority maintained school.

Next Steps

20. Depending on responses to this consultation and Ministerial decisions, any regulatory solution may impact on arrangements made to date for existing converted Academies i.e. how scheme assets and liabilities were apportioned at the point of transfer. There will need to be an assessment of how this would be managed under any pooling arrangement and officials in the Departments for Education and Communities will continue to work together on what, if any, changes might be needed to any Academy documentation including the Commercial Transfer Agreement and how pensions deficits are dealt with.

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[7] Minute to Parliament dated 2 July 2013 - http://www.education.gov.uk/schools/leadership/typesofschools/academies/la/a00204881/lgps

[8] the company which runs the academy and called an "Academy Trust"

Chapter 3

Questions for Consultation

Taking into consideration the issues and options set out above, the Department would be particularly interested in your views in response to the following questions.

The practical considerations of a pool

1. The proposal for this consultation is that stability of a converted Academy's scheme employer contributions will be best achieved by pooling the scheme arrangements of Academies and the ceding local authority. Is this the best way to achieve the stability needed? And, if not, what are the other solutions?

2. What bodies should be included in the pool: Academies and local authorities, Academies and local authority maintained schools, or only Academies? Please say what other arrangements would achieve this aim.

3. If pooling regulations are introduced, should an organisation have a choice about membership of the pool, and should this choice be permanent?

4. Should actuarial assumptions used for all employers in the pool be agreed at local level with expert advice from the fund actuary? Or should expert guidance be developed for use by each fund?

Effect of introducing a pooling regulation when many maintained schools have already converted to an Academy

5. What provisions might be needed to avoid any additional costs where transfers of assets and liabilities have already been made as a result of academy conversions?

6. If any administering authority has satisfactory arrangements already in place, or is in the process of implementing solutions that satisfy all parties, please could you provide a brief description of them? It is not the intention to disrupt successful local solutions, but rather to encourage the sharing of best practise which might best meet Ministers' aims of similar and stable employer rates when a maintained school converts to academy arrangements.

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COMMITTEE:	DATE:	CLASSIFICATION:	REPORT NO.
Pensions Committee	**14November2013**	**Unrestricted**	
REPORT OF: **Acting Corporate Director of Resources** ORIGINATING OFFICER(S): **Simon Kilbey** **Service Head – Human Resources & Workforce Development**	TITLE: **Workforce Pension Reform: Automatic Enrolment Update** Ward(s) affected: N/A		

1. SUMMARY

1.1. The Government has introduced workplace pension reforms in order to encourage people into pension saving through the process of auto-enrolment.

1.2. This report updates the Committee on the progress of the Council's Automatic Enrolment experience following the implementation on 1 June 2013.

2. DECISIONS REQUIRED

2.1 Members are recommended to note the report.

3. REASONS FOR DECISIONS

3.1 The report is for information.

4. ALTERNATIVE OPTIONS

4.1 The report is for information.

5. BACKGROUND

5.1 The Government was concerned that too many people were not making any retirement provisions beyond relying on the State pension. Legislation was introduced to encourage people to start paying into a pension scheme. The new legislative requirements were reported to this Committee in November 2012.

5.2 The Council's staging date was 1 June 2013.

5.3 This report provides an update on the Council's automatic enrolment experience.

6. COUNCIL'S AUTOMATIC ENROLMENT EXPERIENCE

6.1 There are two schemes involved, the Local Government Pension Scheme (LGPS) and the Teachers' Pension Scheme (TPS).

6.2 The table below provides an overview of the membership just before and immediately after the staging date of 1 June 2013. The figure for active membership includes employees who joined the authority since this date and hence were enrolled into the LGPS, although not part of the automatic enrolment exercise. These figures are provisional totals and are based on the following eligibility criteria:

- Employee earning over £787.00 per month in each job,
- Employee must be 22 years of age and over, and have not yet reached state pension age

LGPS	Total numbers in scheme at end of month	Totals opted out
May	5304	N/A
June	6533	1402
July	6595	14
August	6611	4
September	6795	41

6.3 From the available information for the month of June 2013 the opt-out rate for the authority was 53%.There was an increase of 1229 members from the month of May to June. Some analysis is being undertaken regarding the 53% opted out staff.

6.4 The table below similarly provides an overview of the membership details for the Teachers' Pension Scheme.

TP	Total numbers in scheme at end of month	Totals opted out
May	2536	N/A
June	2734	169
July	2773	25
August	2991	5
September	3026	34

6.5 The opt-out rate was 46%.There was an increase of 198 members from the month of May to June. Some analysis is being undertaken regarding the 46% opted out staff.

6.6 For automatic enrolment purposes it is necessary to assess the workforce by each job held by an employee as the rules applies for each individual contract. Our payroll workforce data indicates that there are 3484 total jobs not currently within a pension scheme. All of these job holders have already however taken the decision to opt out of the scheme.

6.7 These staff nevertheless, will continue to be monitored on a monthly basis for automatic enrolment purposes and the whole automatic enrolment exercise will need to be repeated again every three years.

6.8 The increase in the membership of the scheme through our range of communication processes including, SMT briefing, headteacher, manager, and team briefing, intranet articles, posters, individual letters to employees and a setup of pensions helpline together with a set of FAQs, is to be welcomed as it maximises contribution income which will aid the long term sustainability of the Scheme.

6.9 For those staff access to the benefits available through membership of the scheme will go some way to providing financial security in the future and will contribute to their well-being.

6.10 Therefore, by this measure, the exercise has been successful.

6.11 Building on from the automatic enrolment exercise and the introduction of the new LGPS 2014 on the 1 April 2014. The aim of the plan is to further strengthen our membership of the scheme through a range of communication processes to be achieved by working in partnership with the Trade Unions in the run up to April 2014.

7. COMMENTS OF THE CHIEF FINANCIAL OFFICER

7.1 As the report points out, the fact of auto-enrolment will increase the cash flow of the Pension Fund in a positive direction (income will increase and initially expenditure will not), which will increase the short term liquidity of the Fund. It will also increase the assets available for investment in the Fund over time which provided other assumed economic and financial factors in the Funding Strategy are borne out, should match the increase in long term liabilities.

7.2 A provision of £1.2m was set aside in the 2013/14 budget to mitigate the financial impact of auto-enrolment. This was based on a forecast opt-out rate of 80%, but the observed opt-out rate is currently 53%. Whilst the lower opt-out rate is beneficial to the Pension Fund in a number of ways including improving liquidity in the Fund, the additional employer contributions required to fund new scheme members that have opted to remain in the fund after being auto-enrolled creates added pressure for the General Fund.

7.3 Given that it appears that membership numbers seem to have stabilised following the sharp fall in numbers between May and June 2013, a review of current provision is necessary to ensure that the financial implication of auto-enrolment is fully reflected in the Council's medium term financial plans. In order to better understand the outcome of auto-enrolment, it would be useful if a more detailed review is undertaken.

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

8.1 Section 3 of the Pensions Act 2008 requires the Council, as an employer, to make arrangements by which each specified jobholder becomes an active member of an automatic enrolment scheme with effect from the automatic enrolment date. The relevant date for automatic enrolment was varied by reference to staging dates specified for each employer (generally by reference to the employer's size).

8.2 A jobholder within the meaning of the Pensions Act 2008 is a worker –

- who is working or ordinarily works in Great Britain;
- who is aged at least 22 and under 75; and
- to whom qualifying earnings are paid.

8.3 The automatic enrolment obligation applies in respect of a jobholder who –

- who is aged at least 22,
- who has not reached pensionable age, and
- to whom earnings of more than £9,440 are payable by the employer in the relevant pay reference period.

8.4 Section 8 of the Pensions Act 2008 provides that a jobholder may give notice to opt out from an automatic enrolment scheme.

The local government pension scheme (LGPS) is a qualifying scheme within the meaning of the Pensions Act 2008 and is thus also an automatic enrolment scheme within the meaning of that Act. As the Pensions Committee carries out functions in relation to pensions matters and related investments, which particularly relate to the LGPS, it is reasonable for the Committee to consider information about the progress of the Council's automatic enrolment arrangements.

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

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

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

Brief description of "background papers"	Name and telephone number of holder And address where open to inspection
None	*Simon Kilbey Service Head – HR & WD* *Tel: 020 7364 4922*

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COMMITTEE:	DATE:	CLASSIFICATION:	AGENDA NO.
Pensions Committee	**14 November 2013**	**Unrestricted**	

REPORT OF:	TITLE:
Interim Corporate Director of Resources ORIGINATING OFFICER(S): Paul Thorogood –Interim Service Head, Finance and HR Development Oladapo Shonola – Chief Financial Strategy Officer	**Report of Investment Panel for Quarter Ending 30 June 2013.** Ward(s) affected: N/A

1. SUMMARY

1.1 This report informs Members of the activities of the Investment Panel and the performance of the Fund and its investment managers for the period ending 30 June 2013.

1.2 In the quarter to the end ofJune 2013the Fund achieved a return of 0.1% which is0.4% above the benchmark-0.3%. The twelve month Fund return of 15.0% exceeds thebenchmark by 2.0% at 13.0%. Over the longer term, performance is ahead of the benchmark with three year returns of 9.8% being 0.9% above the benchmark and five year returns matches benchmark of 6.0%.

1.3 The latest performance figures show that performance is heading in the right direction and the Fund matches or ahead of benchmark over all reported time periods.This is as a result of a combination of market recovery, especially equities, and strategic decisions made by the Investment Panel on new allocations and investment manager appointments.

1.4 Five out of eight managers matched or achieved returns abovethe benchmark in this quarter. It was a relatively good month for global equity with both GMO and Baillie Gifford returning significant relative outperformance over benchmark.Both of the absolute return managers, Ballie Gifford Diversified Growth and Ruffer, underperformed benchmark along with the property mandate holder, Schroders.

1.5 The Fund isstill in line with its long term strategic equity asset allocation and the distribution of the Fund's assets amongst the different asset classes is 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.

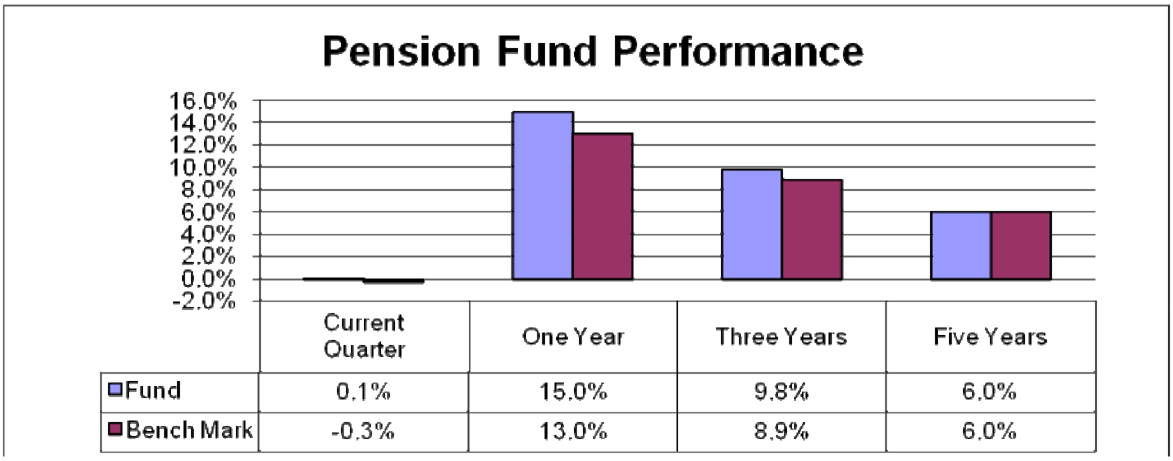
5.4 This report informs Members of the activities of the Investment Panel and performance of the Fund and its investment managers for the period ending30 June 2013.

6INVESTMENT PERFORMANCE

6.1 The Fund achieved a return of 0.1%in the quarter which is0.4%above the benchmark of -0.3%.

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

Table 1 – Pension Fund Performance



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 pension 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	232.6	25.0%	25.0%	0.0%	29 Apr 2005

Baillie Gifford	Global Equity	165.9	16.0%	17.8%	1.8%	5 Jul 2007
L & G UK Equity	UK Equity	191.5	20.0%	20.6%	0.6%	2 Aug 2010
Baillie Gifford Div Growth	Absolute Return	45.0	5.0%	4.8%	-0.2%	22 Feb 2011
Ruffer Total Return Fund	Absolute Return	45.0	5.0%	4.8%	-0.2%	8 Mar 2011
L & G Index Linked-Gilts	UK Index Linked	47.6	3.0%	5.1%	2.1%	2 Aug 2010
Investec Bonds	Bonds	97.2	14.0%	10.4%	-3.6%	26 Apr 2010
Schroder	Property	96.8	12.0%	10.4%	-1.6%	30 Sep 2004
Cash	Currency	9.4	0.0%	1.0%	1.0%	
Total		**931.0**	**100.0%**	**100.0%**	**0.0%**	

7.2 The fund value of £931 million as at 30 June 2013, which includes cash held, has remained stable 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	2.00%	-1.50%	-0.50%	-0.40%
Baillie Gifford	2.00%	5.70%	2.80%	2.10%
L & G UK Equity	0.00%	0.10%	0.20%	N/A
Baillie Gifford Diversified Growth	-2.80%	7.20%	5.10%	N/A
Ruffer Total Return Fund	-1.30%	12.50%	4.30%	N/A
L & G Index Linked-Gilts	0.00%	0.00%	0.00%	N/A
Investec Bonds	0.00%	1.70%	0.40%	-1.10%
Schroder	-0.30%	0.20%	-0.70%	-0.90%
Total Variance (Relative)	**0.10%**	**0.00%**	**-0.30%**	**-0.40%**

7.4 **GMO**made absolute return of2.3% in the quarter, outperforming benchmark and target by 2% and 0.5% respectively. Although, this quarter's results helps to mitigate recent underperformance, long term performance still lags benchmark/target significantly. The portfolio continues to benefit from the overweight position in Japan, which was the best performing equity market over the quarter. In terms of performance of asset type, the value based stocks in the financial and insurance sectors were the largest contributor to performance in the quarter.

7.5 **Baillie Gifford** returned 1.9% in the quarter against a benchmark of -0.1% resulting in relative outperformance of 2% - over 3 year relative return exceed target by 0.3%. Two notable contributors to outperformance this quarter are Tesla Motors and Ryanair. Tesla stocks benefited from the release of positive quarterly results, whilst Ryanair continues to grow its market share and thus generating strong revenues.

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)** – The fund return matched benchmark of 0.1% this quarter. Although the portfolio has outperformed benchmark by 1.7% over the past 12 months, this falls short of the target of 2% and longer term performance significantly lags benchmark/target. The portfolio's interest rate strategy was the main contributor to outperformance this quarter along with some defensive positioning borne out by debt holdings in developed markets. The manager believes that there are still opportunities in emerging markets going forward and are encouraged by improved valuations of corporate bonds.

7.9 **Schroder (Property)**marginally underperformed benchmark by 0.3% in the quarter. The portfolio of assets continues to suffer from underperformance in Continental Europe, but some of this underperformance was mitigated by outperformance in the UK. In the longer term, performance lags benchmark/target.

7.10 **Baillie Gifford Diversified Growth Fund**underperformed benchmark by 2.7% this quarter.This quarter's performance reverses some of the gains made in the last quarter pegging back year to date returns to 2.3%. Return in the longer term is ahead of benchmark and portfolio volatility is also within target. Underperformance this quarter was mostly as a result of losses relating to gold and emerging market bonds, although some of the losses were mitigated by gains in insurance linked securities and infrastructure holdings.

7.11 **Ruffer Total Return Fund (Absolute Return)**underperformed by 1.3% in the quarter. Similar to Baillie Gifford, the Ruffer portfolio suffered from a fall in the value of gold and gold mining stocks. But the portfolio benefited from its exposure to Japanese equities. The portfolio maintains a high allocation (33%) to index linked holdings an indication of the manager's continued concerns regarding inflation.

8 ASSET ALLOCATION

8.1 The original 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 at the 30 June 2013are as set out below:

Table 4: Asset Allocation

Mandate	Benchmark 30 Jun 2013	Fund Position	Variance as at 30 Jun 2013	Variance as at 31 Mar 2012
UK Equities	20.0%	20.6%	0.6%	0.0%
Global Equities	41.0%	42.8%	1.8%	-0.4%
Total Equities	**61.0%**	**63.4%**	**2.4%**	**-0.4%**
Property	12.0%	10.4%	-1.6%	-0.5%
Bonds	14.0%	10.4%	-3.6%	-2.5%
UK Index Linked	3.0%	5.1%	2.1%	2.5%
Alternatives	10.0%	9.7%	-0.3%	0.0%
Cash	0.0%	1.0%	1.0%	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 Regulation 11(3) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires the Council, as an administering authority, to invest fund money that is not needed immediately to make payments from the Pensions Fund. Regulation 11(1) requires the Council to have a policy in relation to its investments. The investment policy must be formulated with a view –

(a) to the advisability of investing money in a wide variety of investments; and
(b) to the suitability of particular investments and types of investments. The Council is also required to have a Statement of Investment Principles in accordance with regulation 12 (1) which cover the following matters:
(a) the types of investment to be held;
(b) the balance between different types of investments;
(c) risk, including the ways in which risks are to be measured and managed;
(d) the expected return on investments;
(e) the realisation of investments;
(f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
(g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy;and
(h) stock lending.

In accordance with Regulation 11(5), The Council is required to take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.

10.2 Under regulation 8(1), 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*
None	

Agenda Item 5

COMMITTEE:	DATE:	CLASSIFICATION:	AGENDA NO.
Pensions Committee	14 November 2013	Unrestricted	

REPORT OF:	TITLE:
Interim Corporate Director of Resources	Forthcoming Training Events
ORIGINATING OFFICER(S): Oladapo Shonola – Chief Financial Strategy Officer	**WARD(S) AFFECTED:** N/A

1. SUMMARY

1.1 This report informs members of Pensions Committee of forthcoming training events

2. DECISIONS REQUIRED

Members are recommended to:

2.1 Consider whether they wish to take up any of the courses notified in the report.

2.2 To advise the clerk of any courses they wish to attend

3. REASONS FOR DECISIONS

3.1 Members are required to undertake training to fulfil regulatory requirements.

3.2 The training offered will enable Members to understand the duties and responsibilities of a trustee and how best to fulfil these effectively, efficiently and in tune with regulatory requirements

4 FORTHCOMING TRAINING

The following training events have been notified:

4.1 Investec

- **Back to Basics Investment Trustee Training Day**
  Tuesday 26 November 2013, 10am – 4pm

4.2 UBS,

- **Investing to meet your liabilities - *Second Steps***
  27 November 2013 10am-4pm

4.3 Baillie Gifford -

- **Annual LAPFF Conference**
  4,5,6 December 2013 (Bournemouth)

4.4 London Borough of Merton – Learning and Development Agenda

- **Financial markets and products knowledge**
  Friday 13th December, 09.30 – 13.00
- **Investment performance and risk management 4**
  Friday 28th February, 09.30 – 13.00.

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Save the date

Back to basics

We would like to extend a 'save the date' invitation to a 'back to basics' investment Trustee training day at our offices in London. The content for the day is aimed at new Trustees or Trustees that may benefit from a refresher on the basics of understanding a range of investment markets, associated strategies and performance and risk measurement.

Date: Tuesday 26 November 2013

Time: 10:00 – 16:00

Venue: Investec Asset Management
25 Basinghall Street
London
EC2V 5HA

RSVP: Tom Peberdy on 020 7597 1926
or tom.peberdy@investecmail.com

Please advise if you have any special dietary requirements.

Out of the Ordinary®

Investec
Asset Management

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UBS

For professional clients only
27 November 2013

Investing to meet your liabilities.
Second Steps

Aims

This long-running seminar builds on the basic investment areas covered in First Steps. It aims to give a deeper insight into the challenges facing trustees and possible investment solutions.

A summary of what we will cover on the day is shown opposite. If you would like any further information about the seminars we offer, your Client Relationship Manager would be happy to help.

This seminar is free of charge and takes place at our offices.

Date

Wednesday 27 November 2013

How to book

To book your place please complete the attached reply card and return it to
Sasha Powell at UBS Global Asset Management.
You can call Sasha on 020 7901 5160 with any queries.
Confirmation and a venue location map will be sent to all attendees approximately two weeks before each seminar.

First Steps

We also run a First Steps seminar which provides an introduction to investment management. A separate leaflet is available with more details.

Programme

09.30 - 09.45	Registration & coffee
09.45 - 10.00	Welcome & Introduction
10.00 - 10.15	Investment basics – a recap
10.15 - 11.00	Asset allocation
11.00 - 11.15	Coffee
11.15 - 12.15	Managing your portfolio
12.15 - 13.30	Lunch
13.30 - 13.45	Quiz
13.45 - 14.30	Risks facing Pension Schemes
14.30 - 15.15	Topical thinking / Insights
15.15 - 15.30	Summary

Please note, this programme may be subject to change.

Booking Form

Second Steps

Wednesday 27 November 2013

Name

Job title

Organisation

Address for confirmation details

Contact no.

Email address

Name

Job title

Organisation

Address for confirmation details

Contact no.

Email address

Please scan this card and email to sasha.powell@ubs.com

UBS Global Asset Management
21 Lombard Street
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