TOWER HAMLETS

PENSIONS COMMITTEE

Thursday, 16 March 2017 at 7.00 p.m.

Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG

This meeting is open to the public to attend.

Members:

Vice Chair**:** Councillor Clare Harrisson

Councillor Gulam Kibria Choudhury, Councillor Andrew Cregan, Councillor Md. Maium Miah, Councillor Abdul Mukit MBE, Councillor Candida Ronald and Councillor Andrew Wood

Tony Childs (Co-optee Admitted Bodies Representative) and Kehinde Akintunde (Unions Representative)

Substitutes:
Councillor Marc Francis, Councillor Ayas Miah and Councillor Rajib Ahmed

[The quorum for this body is 3 voting Members].

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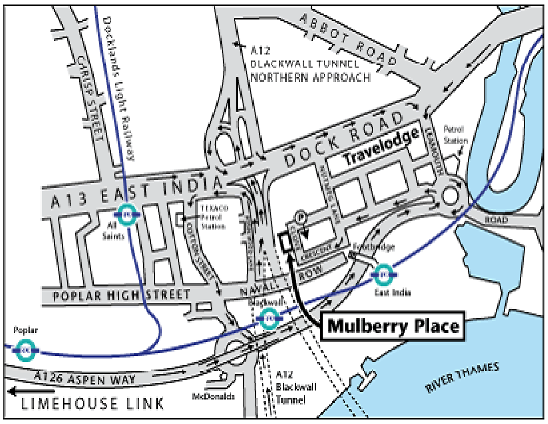

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APOLOGIES FOR ABSENCE

1. ELECTION OF CHAIR FOR THE PENSIONS COMMITTEE

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. MINUTES OF THE PREVIOUS MEETING(S) (Pages 5 - 12)

To confirm as a correct record the minutes of the meeting of the Committee held on 7th December 2016.

4. PETITIONS

To receive any petitions relating to matters for which the Committee is responsible.

4 .1 Presentation from FTSE Russell-John Jarrett & Jennie Barxakis

4 .2 Presentation from LAPFF Tessa Younger & Lara Blecher

5. SUBMISSIONS / REFERRALS FROM PENSION BOARD

6. REPORTS FOR CONSIDERATION

6 .1	**Report update & Pensions Committee discussion on- Fund recommendations and update on ESG, Fossil Fuels and Low Carbon Approach**	13 - 22
6 .2	**Verbal update on Market Outlook and Investment**	
6 .3	**Investment Performance Review for Quarter End 31st December 2016**	23 - 68
6 .4	**Triennial Valuation Outcome & Funding Strategy Statement**	69 - 202
6 .5	**Investment Strategy Statement - To follow**	
6 .6	**Pension Administration Update including Performance Indicators**	203 - 250
6 .7	**Pension Fund Budget Estimate for 2017/18 & Work Plan for 2017/18 - To follow**	

7. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Next Meeting of the Committee:
Date Not Specified at Time Not Specified to be held in the Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG

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:-

Melanie Clay, Corporate Director of Law Probity and Governance 2017 364 4800

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 TIME NOT SPECIFIED ON WEDNESDAY, 7 DECEMBER 2016

IDEA STORE CANARY WHARF, CHURCHILL PLACE, LONDON E14 5RB

Members Present:

Councillor Andrew Cregan (Chair)
Councillor Clare Harrisson (Vice-Chair)
Councillor Candida Ronald
Councillor Andrew Wood

Union and Admitted Bodies, Non-Voting Members Present:

–

Other Councillors Present:

Apologies:

Kehinde Akintunde
Councillor Gulam Kibria Choudhury
Councillor Md. Maium Miah
Councillor Abdul Mukit MBE

Others Present:

–

Officers Present:

Ngozi Adedeji	– (Team Leader Housing Services, Legal Services, Law Probity & Governance)
Kevin Miles	– (Chief Accountant, Resources)
Bola Tobun	– (Investments and Treasury Manager, Resources)
Nishaat Ismail	–

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

None declared.

2. MINUTES OF THE PREVIOUS MEETING(S)

Minutes of the previous meeting held on 22nd September were agreed as a correct record of proceedings with the following amendments;

- Cllr Harrisson requested that the value of projected new funding be reflected in the minutes which is 85%
- Mr Raymond Haines requested that his attendance in the Committee be reflected.

3. PETITIONS

None

4. SUBMISSIONS / REFERRALS FROM PENSION BOARD

5. REPORTS FOR CONSIDERATION

6. PRESENTATION FROM DIVEST TOWER HAMLETS

The Committee received a presentation from Divest Tower Hamlets and the following points were highlighted;

- The campaign to divest from fossil fuels (FF) has grown into a significant global movement.
- Divest Tower Hamlets told the Committee that they believe that the Tower Hamlets Pension Fund's investments in FF companies are not in "the best financial interests of all its stakeholders, "the primary investment objective objective of the Pension Fund.
- The Committee were advised that the Pension Fund should divest the approximately £91 million it reportedly has invested in FF companies.
- The Committee were told about major divestments which include Rockerfeller Brothers Fund, Norges Bank and the University of Oxford.
- Divest Tower Hamlets told the Committee why engagement has not worked; FF companies have not responded to engagement efforts in the past and FF companies actions indicate they are likely to continue to ignore engagement.
- The Committee were presented with the environmental and financial factors for divesting.
- Divest Tower Hamlets recommendations for the Pensions Committee;
    1. Divesting its holdings in the World's top 200 oil, coal and gas companies in full, or at least to the level adopted by the Environment Agency in 2015, that is to a level consistent with keeping below 2 degrees of global warming.
    2. A time frame for doing so (e.g. over the next 5 years)
    3. Refraining from making any new investments in FF companies
    4. Reinvesting a proportion of the divested funds in low carbon solutions.

It was
RESOLVED

- That the presentation be noted.

7. PRESENTATION BY PAUL SPEDDING FROM CARBON TRACKER

The Committee welcomed Paul Spedding from Carbon Tracker to give a presentation to the Committee;

- Carbon Tracker is an independent non-profit financial think tank funded by European and US foundations interested in climate.
- Their vision is to enable a climate secure global energy market by aligning the capital markets with climate reality.
- Their mission is to map the transition for the fossil fuel industry to stay within a two degree budget.
- The Committee were told in order to limit global warming to 2 degrees, CO_2 concentrations need to be limited to 450ppm.
- By 2040, coal demand needs to be 45% below business as usual levels.
- Oil and gas needs to be 30% below.
- The Committee heard that oil poses as a greater threat to institutions than coal does.
- Companies should be willing to share more information with the Local Authority, if they're not then this is a cause for concern.

In response to Members questions the Committee heard that;

- Due to the American election results oil prices had gone up
- Every single oil company at the moment is investing in low cost institutions.
- You have to be cautious with subsidies and tax on capital allowance may not be considered subsidies.

It was
RESOLVED

- that the presentation be noted.

8. PRESENTATION BY CLIFFORD SIMS (PARTNER, SQUIRE, PATTON, BOGGS (LLP)

The Chair welcomed Clifford Sims (Partner, Squire, Patton, Boggs LLP) to give his presentation to the Committee.

The Committee heard that trustees of investment fund should divest only for two reasons. Trustees think scheme members share their outlook. Firstly to divest for purely ethical reasons.

There is a restriction now in terms of divesting due to the Boycott, Divestment & Sanctions movement (BDS)

The Committee were told that the local Pensions Board does not have any powers of investment, it has an advisory role and whilst it is important to take into account its view, they are not fiduciaries.

It was
RESOLVED
That the presentation be noted.

9. PRESENTATION BY IAN WILLIAMS (151 HACKNEY)

Members welcomed Ian Williams from 151 Hackney.

The Committee heard that they have 40 million pounds held in fossil fuels. The Committee were also told that fund investment partners must be used for fund investment, a fund should not seek to impose particular views not shared by members or employers. There is a duty to protect the Fund in financial terms, not based on ethics.

The Committee were told that society at present is highly dependent on fossil fuels.

Other points highlighted;

- Passive funds perform better than active funds
- They have almost completed investing 25 million into low carbon property.

It was
RESOLVED
That the presentation be noted.

10. EXAMINATION OF APPROACHES FOR MANAGING FOSSIL FUELS AND CLIMATE CHANGE ISSUES AS PART OF THE FUND ETHICAL, SOCIAL AND GOVERNANCE (ESG) POLICY

Bola Tobun, the Investment and Treasury Manager introduced this report to the Committee. The report provided the Committee with recommendations to be approved in relation to the Fund's approach to climate change issues and fossil fuel investment in order to formulate the Fund’s Ethical, Social and Governance (ESG) Policy.

In response to Members questions the Committee heard that;

- The recommendations from Divest Tower Hamlets can be included in the 2017 policy statement.
- Changing the portfolio to low carbon will reduce some of the risks, but officers can approach the Fund’s active managers to see how they approach it.
- Divesting from FF companies and moving to renewables is dependent on the size of the funds.
- It is important to get the recommendations of actuaries.
- Only where we have a regular portfolio can we divest.

Members raised concerns that the recommendations are not robust enough and they would like to know the risks before approving the recommendations.

Members requested another meeting in January to discuss the Strategy.

It was
RESOLVED
That the contents of the report be noted.

11. TRIENNIAL VALUATION- INITIAL RESULTS AND PUBLIC SERVICE PENSIONS ACT- SECTION 13 VALUATION

Bola Tobun, the Investment and Treasury Manager introduced the report on the Triennial Valuation. This report provided the Committee with a summary of progress to date on the 2016 actuarial valuation. Full report was not available to distribute but the preliminary work gives a guide to the outcome of the valuation. The result of this preliminary work was presented at the Committee by the Fund's actuary, Hyman's Robertson. The Committee were told that the Actuarial Valuation is undertaken every 3 years and is an assessment of the assets and liabilities of the Pension Fund which then determines the funding level.

Kevin Miles, Chief Account informed the Committee that he is confident the contribution rate will remain relatively stable.

The Pensions Committee was recommended to:

- Agree the assumptions and methodology used by the Actuary to determine the actuarial funding level and a standardised basis for setting employer contribution rates.
- Note the content of this report and the draft results of the triennial valuation of the Fund.

It was
RESOLVED

- That the report be noted
- That the assumptions and methodology used by the Actuary to determine the actuarial funding be agreed.

12. VERBAL UPDATE ON MARKET OUTLOOK AND INVESTMENT BY THE INDEPENDENT ADVISOR

Raymond Haines, the Independent Investment Advisor provided the Committee with an update on the market outlook.

The Committee heard that;

- The UK is stronger post Brexit vote
- The US economy post Trump's election is working well
- The European market is growing at a slower rate.
- There are three major elections in 2017 in Europe, French, Dutch and German elections may put market into disarray.

It was
RESOLVED

- That the verbal update be noted by the Committee.

13. INVESTMENT PERFORMANCE REVIEW FOR QUARTER END 30 SEPTEMBER 2016

The Investment Performance Review Quarter End 30th September was presented by Bola Tobun, the Investment Treasury Manager.

This report informs Members of the performance of the Fund and its investment managers for the quarter ending 30th September 2016.
For the quarter, the Fund outperformed the benchmark by 1.5%, delivering a positive absolute return of 6.9% against benchmark return of 5.4%.

The Committee were told that;

- The Fund is ahead of its benchmark for the last twelve months to end of September 2016.
- The Fund returned 18.1% which was ahead of the benchmark return of 17.6% by 0.5%.
- For longer term performance, the Fund matched the benchmark return of 9.2% for three year returns and outperformed the benchmark marginally by posting five year returns of 10.5%; this is 0.1% above the benchmark return of 10.4%.
- For this quarter end, all the eight mandates matched or achieved returns above the benchmark.
- The Committee also heard that all Managers added something to the Fund.
- Ruffer did particularly well percentage wise.

It was
RESOLVED

- That the report be noted.
- And the current Fund strategic asset allocation be approved.

14. 2015/16 PENSION FUND ANNUAL REPORT AND AUDIT REPORT (ISA 260 REPORT)

The Pension Fund Annual report was presented by Bola Tobun, the Investment and Treasury Manager.

This report presents the Pension Fund Annual Report and Statement of Accounts for 2015/16 and 2015/16 Pension Fund Audit Report (ISA 260 Report) following the audit by KPMG.

The Statement of Accounts has been prepared under International Financial Reporting Standards (IFRS) rules and was presented for consideration at the last meeting of the Pensions Committee. For completeness, this report is included on the December 2016 Pension Committee agenda for noting.

Members thanked officers for completing the report.

It was
RESOLVED

- That the 2015/16 Pension Fund Annual Report and Audit Report be noted.

15. TRAINING EVENTS

None.

16. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

None.

17. EXCLUSION OF THE PRESS AND PUBLIC

18. MAXIMUM DEFICIT RECOVERY PERIOD FOR ACADEMIES (TO FOLLOW)

Members were informed that this report outlines the latest government guidance on Local Government Pension Scheme (LGPS) liabilities for academy conversion, including guidance from the actuary and details the possible risks to the LBTH Local Government Pension Scheme (LGPS) as a consequence of extending the maximum deficit recovery period of academies so that it is the same as the Council's deficit recovery period, which is currently 20 years.

The Committee agreed to leave the decision made during the meeting of 22nd September in regards to Mulberry deficit recovery period to be 14 years from November 2016 to March 2017.

The Committee were told that the report tabled at the meeting was flawed by not advising them of the pension's liability provision by the government, the Committee then indicated this was not enough to vary the length of deficit recovery period from 14 years to a longer period for that valuation cycle.

The Committee agreed a maximum deficit recovery period to be the same as the Council (currently 20 years) for academies from April 2017. This is primarily due to the improved funding position of the Fund as the deficit of the Fund has reduced by £130m from £365m to £235m, this gave the Committee assurance to take on the risk of accepting the pseudo guarantee provision from the government.

It was
RESOLVED

- That the contents of the report be noted.
- that the maximum deficit recovery period for academies be the same as the Council's deficit recovery period (20 years) at a given valuation cycle from 1st April 2017
- that the guidance in the Funding Strategy Statement be amended to reflect the above changes from 1st April 2017.

18.1 London Collective Investment Vehicle (CIV) and FCA MiFID II

The Investment and Treasury Manager, Bola Tobun introduced this report

The Committee were informed that this report provides the Committee with an update on general developments in Local Government Pensions Scheme arena and also the progress of the London Collective Investment Vehicle (CIV).

Over the last three years, the 32 London Boroughs and the City of London have been collaborating through London Councils to establish a route through to reduced costs and overall improved investment returns for the Local Government Pension Scheme funds across the Capital.

The London Collective Investment Vehicle is an (FCA regulated, Authorised Contractual Scheme) through which the Boroughs will be able to invest, achieving economies of scale, providing a platform for significant cost savings, and opening up opportunities to invest in alternative asset classes (e.g. direct investment in infrastructure) that may not be easily achievable for individual funds.

With over £24 billion of assets under management with 87 fund managers, across 253 mandates, and £72.8 million paid in fees in 2012/13, collaboration through the CIV is likely to deliver substantial savings.

Importantly the CIV will open up significant opportunities to invest collaboratively in a range of alternative asset classes.

It was
RESOLVED

- That the contents of this report be noted.

The meeting ended at Time Not Specified

Chair, Councillor Andrew Cregan
Pensions Committee

Non-Executive Report of the: **PENSIONS COMMITTEE** **16 March 2017**	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	**Classification:**
Update on Environmental, Social & Governance (ESG), Fossil Fuels and Low Carbon Approach for Tower hamlets Pension Fund	

Originating Officer(s)	Bola Tobun, Investment and Treasury Manager
Wards affected	All

The purpose of this report is to give update on meetings held December 8th 2016 and 14th February 2017. The meetings were to introduce, update and for the Committee to discuss issues and approaches to mitigate risks posted by climate change, fossil fuels in order to formulate a cost effective Fund's Ethical, Social and Governance (ESG) Policy.

A set of recommendations were provided to the committee for consideration and approval at the meeting of 8 December 2016.

The Pensions Committee is recommended to note this report and to consider and to approve recommendations set below:

a. *Commit to the UK Stewardship Code.*
b. *Develop a policy statement regarding the London Borough of Tower Hamlets' approach to fossil fuel investment with a view to inclusion as a section within the new Investment Strategy Statement (ISS), which is the new name for the current Statement of Investment Principles.*
c. *Review options for switching some of the UK passive mandate into a low carbon target index fund.*
d. *Consider options for an initial **active investment** of approximately 5% of the Fund in a sustainability/low carbon or clean energy fund(s). Given the right risk/return profile, investment in such a fund would demonstrate the Fund's commitment to invest in clean and sustainable companies.*
e. *Monitor carbon risk within the London Borough of Tower Hamlets Pension Fund and to appoint a specialist contractor to conduct a carbon footprint review of the Fund at an estimated cost of between of £5k to £20k.*
f. *Continue engagement activities with the Fund's investment managers on their approach to fossil fuel and to promote consideration of climate change issues with managers when making investment decisions.*
g. *Maintain an active approach to climate change issues with investee companies and look for further opportunities to work with others on issues of ESG importance.*

1. REASONS FOR THE DECISIONS

1.1 The Pensions Committee act in the role of quasi trustees for the Pension Fund and are therefore responsible for the management of £1.31 billion worth of assets and for ensuring the effective and efficient running of the Pension Fund. The management of the Fund's investment portfolio and the investment returns that the Fund is able to deliver have significant financial implications, not just for the Fund itself but also on the Fund's employers in terms of the level of contributions they are required to make to meet the Fund's pension undertakings, which are underwritten by statute.

1.2 The Fund recognises that investment in fossil fuels and the associated exposure to potential 'stranded assets' scenarios may pose material financial risks. These risks apply not only to the Fund's investment portfolio but also, when considered on a wider scale, to long term global economic growth.

1.3 In recognising the risks that climate change and stranded assets scenarios could pose to the Fund, the Committee needs to understand where these risks might apply and how they can best be mitigated within the investment management framework within which LGPS funds operate. The recommendations provided on this report are aimed at developing both a greater understanding of the risks and a set of strategies to help mitigate them.

1.4 The costs involved will very much depend on future decisions made around investment strategy. Climate change risk will be integrated into the forthcoming new Investment Strategy Statement to ensure that it is considered as part of the Committee's asset allocation decisions, rather than in isolation. Potential costs that could be incurred through development of the recommendations above include additional fees for use of low carbon indices; however, any such costs would need to be considered against the potential for risk mitigation and the performance of the mandate as a whole.

2. ALTERNATIVE OPTIONS

2.1 No alternative.

3. DETAILS OF REPORT

3.1 At the December meeting the Committee had an opportunity to discuss issue surrounding the call for disinvestment from fossil fuels (FF). This was done after presentations were received from a representative from Divest Tower Hamlets, Paul Spedding from Carbon Tracker, Clifford Sims a Partner from Squire, Patton, Boggs (LLP) and Ian Williams Group Director, Finance & Corporate Resources for LB Hackney with his Cabinet Member for Finance Cllr Geoff Taylor.

3.2 Divest Tower Hamlets

1) Divest Tower Hamlets told the Committee that they believe that the Tower Hamlets Pension Fund's investments in FF companies are not in the best financial interests of all its stakeholders, "the primary investment objective of the Pension Fund".

2) The Committee were advised that the Pension Fund should divest the approximately £91 million it reportedly has invested in FF companies.

3) The Committee were told about major divestments from funds like Rockefeller Brothers Fund, Norges Bank and the University of Oxford.

4) Divest Tower Hamlets told the Committee why engagement has not worked;

   a) FF companies have not responded to engagement efforts in the past

   b) FF companies' actions indicate they are likely to continue to ignore engagement.

5) The Committee were also presented with the environmental and financial factors for divesting.

3.3 Divest Tower Hamlets recommendations for the Pensions Committee were are as follows:

i. Divesting its holdings in the World's top 200 oil, coal and gas companies in full, or at least to the level adopted by the Environment Agency in 2015, that is to a level consistent with keeping below 2 degrees of global warming.

ii. A time frame for doing so (e.g. over the next 5 years)

iii. Refraining from making any new investments in FF companies

iv. Reinvesting a proportion of the divested funds in low carbon solutions.

3.4 Paul Spedding, Carbon Tracker Initiative, gave a presentation on the valuation implications of climate change. The presentation covered the following areas:

1) What does 450 scenario mean for the FF industry i.e. flat to reduced demand for oil, coal and gas

2) Investment in energy supply is still required under 2 degrees cap scenario

3) Valuation issues – volume, price and risk issues

4) Big oil model already broken – annual returns of oil shares and the return on capital even before the sharp fall in oil prices

3.5 Mr Spedding stated that until 2010 oil had been seen as a sound investment but since then the demand for FF had declined with coal down by 50%, oil by 25% and gas by 10%. Coal had been considered a significant part of the carbon risk and many factors had contributed to the drop in oil prices.

3.6 Mr Spedding indicated that the four relevant questions to ask a company in order to lower climate risk and these were:

1) Where are future developments;

2) Planning assumptions;

3) How sensitive is the business to oil price change; and

4) What is the target risk

3.7 Mr Spedding stated that Members should consider the financial impact and risks involved to the Pension Fund of any decision to disinvest and also whether the oil industry can deliver on target.

3.8 Mr Spedding also indicated that passive investments were growing due to the low fees and stewardship. In addition, carbon passive investment vehicles also reduced carbon footprint and incentivised Fund Managers to engage with investors to reduce climate change risks. And as times go by It is possible for many industries to substitute fossil fuel with more efficient and clean energy.

3.9 Mr Spedding indicated that if the oil and gas industry did not change its approach, the higher risk could lead to price pressure. Engagement by NGOs, Fund Managers and Pensions Funds collectively gave an opportunity for companies to change their strategy in relation to FF.

3.10 Clifford Sims, Squire Patton Boggs, gave a presentation on fiduciary duty of the committee in general in regards to investment decision making and specifically on fossil fuel divestment or investment decision making. He highlighted a section from LGPS (Management and Investment of Funds) 2009 regulations and DCLG consultation paper: 2016 Regulation.

3.11 Committee members were therefore reminded of their fiduciary responsibility and their primary duties including to consider the purpose of the pensions, investing money and act in accordance with the Investment Regulations 2009. Under the proposed 2016 Regulations, members could also take into consideration the non–climate factors.

3.12 Mr Sims said that when setting investment strategy, members should exercise discretion within the parameters of the regulation and any decision to disinvest must take into consideration any financial detriment to the scheme. Mr Sims referred to previous case law relating to breaches of fiduciary responsibility. Mr Sims stated that there was no statutory requirement to consult scheme members but the Committee could consult those appropriate; however there was an expectation to consult and inform the Pensions Board, as Board members had an oversight role and must report any failings it discovered to the regulator.

3.13 Mr Sims added for the Committee to discharge their fiduciary duty trustees must not act contrary to the benefit of scheme members.

3.14 The sentiment expressed by the Committee Members at the meeting is that active engagement will have more effect on corporate behaviour than disposing of investments. Recognising the pressure to be seen to be considering alternatives, there was also a request that additional information be provided on investing via low carbon or no carbon indices, hence the recommendations were approved.

3.15 The Committee decide to have a strategy meeting to further explore item 1.2 and 1.3 of this report on ESG and Fossil Fuels:

The items are as stated below:

a) 1.2 The Fund recognises that investment in fossil fuels and the associated exposure to potential 'stranded assets' scenarios may pose material financial risks. These risks apply not only to the Fund's investment portfolio but also, when considered on a wider scale, to long term global economic growth.

b) 1.3 In recognising the risks that climate change and stranded assets scenarios could pose to the Fund, the Committee needs to understand where these risks might apply and how they can best be mitigated within the investment management framework within which LGPS funds operate. The recommendations provided on this report are aimed at developing both a greater understanding of the risks and a set of strategies to help mitigate them.

3.16 In order for the committee to have better understanding and comfort of the above highlighted points, the following organisations presented to the committee at the 14 February 2017 strategy meeting:

- RBC - Nuts & Bolts of Sustainable Equity

- LGIM - Low Carbon Global Equities and FTSE All World ex CW Climate Balance Factor Index

Further Information and Clarification on Items 1.2 & 1.3

3.17 The Committee will need to consider carefully their duties to beneficiaries and employers before pursuing exclusionary. The proposal to utilise low carbon indices is supported by Funds and investment consultants on the grounds that the expected returns should be consistent long term with the main index.

3.18 The outcome of the international discussions, held in Paris from 30 November to 12 December 2015, involving negotiators from nearly 200 countries that resulted in an international accord to limit greenhouse gas emission clearly indicates that limiting exposure to companies involved in emitting high levels of carbon based emissions is potentially sensible from an investment viewpoint.

3.19 The idea that in future significant levels of fossil fuel reserves may in effect be "stranded" in the ground has become clearly more likely as a result of the 2015 Paris accord. A stranded asset is any asset that has, or has the potential to lose significant permanent economic value well ahead of its anticipated useful life as a result of changes in: legislation, regulation, market forces, disruptive innovation, changes in societal norms and social behaviour, environmental shocks, class actions and litigation, access to insurance and capital.

3.20 The outcome of the 2015 Paris climate management discussions support the view that the Fund amend its approach to Listed Equity investment to include an approach where a third of the Fund's Listed Equities are managed utilising the MSCI Low Carbon Target Index and or FTSE All World ex CW Climate Balance Factor Index.

3.21 L&G currently manage some £200 million from the Environment Agency Pension Fund against the MSCI Low Carbon Target index. The EAPF is at the forefront on sustainable investing and its use of this index provides a degree of re-assurance.

3.22 At the London Collective Investment Vehicles (LCIV) Stewardship seminar in February 2017, FTSE Russell presentation was on FTSE All World ex CW Climate Balance Factor Index, this product is currently being use by HSBC Pension Fund and being managed by LGIM. The presentation generated interests from about six London Funds and a sub working group has been formed by LCIV to explore and modify HSBC strategy into a better fit product for LGPS Funds.

3.23 Listed below are some key facts about FTSE All World ex CW Climate Balance Factor Index:

a) The FTSE All World ex CW Climate Balance Factor Index is a risk aware index.

b) The index methodology is designed to reflect the performance of the global diversified basket of securities.

c) A feature of the index is to target stocks high in factor exposures, but also incorporates climate change considerations.

d) FTSE Russell's LCE (Low Carbon Economy data model), is the database of the future, which the only database which looks at companies we would want to hold in years to come.

e) This index is rules-based constructed, and available via LGIM as the implementer. Quoted by LGIM as being an index of the future which will incorporate the many themes needed.

f) Asset Owners want an index solution that is consistent with its investment objectives.

g) This index looks at how companies operates and has excluded controversial weapons

h) This index looks at how carbon exposure and excludes companies with high fossil fuel reserves.

i) This index will then tilt companies with low operational carbon emissions.

j) The key part of this index is the LCE part, which looks at companies with green revenues and tilts / overweight's these companies. This way you are investing in companies who share price should in time increase.

k) The final part of the index is the factor tilt, which could incorporate value, low volatility, quality and size.

3.24 In conclusion reducing but not eliminating the Fund's exposure to investments in fossil fuels means that the Fund can still seek, from an "owners perspective" to engage in engagement activities to persuade those companies involved in producing significant carbon emissions to consider whether, from a long term investment perspective, they might move away from their current activities towards less potentially environmentally damaging activities.

3.25 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 Pensions Committee will monitor the managers' statements and activities in this regard.

3.26 LAPFF officers are coming to present on their work and engagement to the Committee at this meeting. Explaining the support that the LAPFF has given to resolution seeking companies to develop strategic plans consistent with action being taken to manage climate change.

3.27 Research into actions by other local authority's funds indicates that engagement remains the most common approach to managing carbon risks, with measurement of carbon "footprint" and plans to reduce "footprint" also in use. The Fund is currently getting quotes from service providers to provide the service of measuring carbon foot print of the Fund in order to manage the plans of reducing footprint of the Fund.

3.28 At the end of December 2016, the Fund had investments of some £57.5m in fossil fuels, this represent 4.4% of the Fund total value of £1.312bn. The passive UK Equity portfolio had major share with £32.8m invested in fossil fuels.

4. <u>COMMENTS OF THE CHIEF FINANCE OFFICER</u>

4.1 There are no significant financial impacts of this paper.

5. <u>LEGAL COMMENTS</u>

5.1 The Committee has legal responsibilities for the prudent and effective stewardship of the Pension Fund and a clear fiduciary duty in the performance of its functions. The LGPS (Management and Investment of Funds) Regulations 2016 require Administering Authorities to state the extent to which they comply with the Guidance given by the Secretary of State. In accordance with regulation 7(2)(e) the authority must set out in its Investment Strategy Statement, its policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

5.2 Updated Statutory Guidance on preparing and maintaining an investment strategy statement was published on the 15th September 2016. Having a policy in place covering the authority's approach to ethical, social and governance issues will enable to authority to meet its statutory duties in this regard. The recommendations discussed in this report are in line with both the Committee's terms of reference and legal responsibilities.

5.3 When performing its functions as administrator of the LBTH pension fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 The management of the Fund's investment portfolio and the investment returns that the Fund is able to deliver have significant financial implications, not just for the Fund itself but also on the Fund's employers in terms of the level of contributions they are required to make to meet the Fund's pension undertakings, which are underwritten by statute.

6.2 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.

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

7. BEST VALUE (BV) IMPLICATIONS

7.1 The costs involved will very much depend on future decisions made around investment strategy. Climate change risk will be integrated into the forthcoming new Investment Strategy Statement to ensure that it is considered as part of the Committee's asset allocation decisions, rather than in isolation.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 The Fund through its participation with Local Authority Pension Fund Forum (LAPFF) supported progress towards an orderly transition to a low carbon economy. This is by actively working with other asset owners, fund managers, companies, academia, policy makers and others in investment industry.

9. RISK MANAGEMENT IMPLICATIONS

9.1 The Fund recognises that investment in fossil fuels and the associated exposure to potential 'stranded assets' scenarios may pose material financial risks. These risks apply not only to the Fund's investment portfolio but also, when considered on a wider scale, to long term global economic growth.

9.2 In recognising the risks that climate change and stranded assets scenarios could pose to the Fund, the Committee needs to understand where these risks might apply and how they can best be mitigated within the investment management framework within which LGPS funds operate. The recommendations provided on this report are aimed at developing both a greater understanding of the risks and a set of strategies to help mitigate them.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no crime and disorder reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report - NONE

Appendices - None

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

Officer contact details for documents:
- Bola Tobun - Investment &Treasury Manager x4733
- Mulberry House, 5 Clove Crescent E14 2BG

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Non-Executive Report of the: **Pensions Committee** 16 March 2017	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director, Resources	**Classification:** Unrestricted
Investment Performance Review for Quarter End 31 December 2016	

Originating Officer(s)	Bola Tobun, Investment & Treasury Manager
Wards affected	All wards

Summary

This report informs Members of the performance of the Fund and its investment managers for the quarter ending 31 December 2016.

For the quarter, although the Fund delivered a positive return of 3.1%, this fell by 0.6% below benchmark return of 3.7%. However, for the twelve months to December 2016, the Fund returned 16.9% which is 0.1% better than benchmark return of 16.8%. For longer term performance, the three year return for the Fund was 8.9% which is 0.3% below benchmark return of 9.2% for that period. Over the five years, the Fund posted a return of 10.1% compared to benchmark return of 10.2%.

For this quarter end, five out of the eight mandates matched or achieved returns above the benchmark. Overall for the quarter the Fund performance lagged behind the benchmark as a result of poor returns from LCIV (Baillie Gifford) Global Equity, Schroder, and GMO.

The Fund is still 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 the strategic benchmark weight.

Recommendations:

Members are recommended to:

1) note the contents of this report and
2) approve the current Fund strategic asset allocation as set out at table 4 of section 3.22.

1. REASONS FOR THE DECISIONS

1.1 The report informs the Pension Committee of the performance of pension fund managers and the overall performance of the Tower Hamlets Pension Fund.

2. ALTERNATIVE OPTIONS

2.1 The Pension Fund Regulations require that the Council establishes arrangements for monitoring the investments of the Pension Fund so there is no alternative but to report the performance of the Fund to the Pension Committee on a regular basis,

3. DETAILS OF REPORT

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

3.2 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 Pensions Committee.

3.3 This report informs Members of the performance of the Fund and its investment managers for the quarter ended 31 December 2016.

3.4 London Common Investment Vehicle (LCIV)

3.4.1 The London CIV was formed as a voluntary collaborative venture by the London Local Authorities in 2014 and has led the way in pooling of investments in the Local Government Pension Scheme (LGPS). London CIV aims to be the investment vehicle of choice for Local Authority Pension Funds through successful collaboration and delivery of compelling performance. LCIV was launched in December 2015, as a fully authorised and regulated investment management company. The founding members are London boroughs and the City of London Corporation. The LCIV has been established as a collective investment vehicle for their Local Government Pension Scheme funds. The current regulatory permission allows the London CIV to operate an Authorised Contractual Scheme Fund (the UK's version of a Tax Transparent Fund).

3.4.2 The London CIV currently manages three investment portfolios of LBTH fund as listed below:

a) **The Baillie Gifford diversified growth fund (DGF)** mandate was opened in February 2011 with contract value of £40m. £6.409m was added to this portfolio in the month of June 2015. The performance target for this mandate is to outperform the benchmark (UK base rate) net of fees over rolling 5 years with annual volatility of less than 10%. This mandate was transferred to LCIV on 15 February 2016 at market value of £54.177m. The market value of assets as at 31 December 2016 was £60.461m. This portfolio is now named LCIV (BG) DGF.

b) **The Baillie Gifford global equity fund** had a value of £118.9m at the start of the mandate in July 2007. The performance target for this mandate is 2% to 3% above the benchmark MSCI AC World Index gross of fees over a rolling 3-5 year period. This mandate was transferred to LCIV on 22 April 2016 at market value of £214.1m. The market value of the assets as of 31 December 2016 was £261.368m. The portfolio is now named LCIV (BG) GA

c) **Ruffer LLP** manages an Absolute Return Fund; the value of this contract on the 28 February 2011 was £40m. £6.474m was added to this portfolio on 02 June 2015. Their overall objective is firstly to preserve the capital over rolling 12 month periods and secondly to grow portfolio at a higher rate after fees than could reasonably be expected from the alternative of depositing the cash value of the portfolio in a reputable UK bank. The management of this portfolio was transferred to the LCIV on 20 June 2016 at market value of £54m. The value of assets under management as of 31 December 2016 was £61.834m. The portfolio is now named LCIV Ruffer

3.5 GMO

3.5.1 GMO manages a Global Equity Mandate, the initial value of assets taken on at the commencement (29 April 2005) of the contract was £201.8m. On 25 November 2014, £20.8m was redeemed from the portfolio; a further £10.674 was redeemed from the portfolio on 29 May 2015 in order to keep the strategic asset allocation weight in line with the investment policy. The portfolio had a market value of £305.947m at 31 December 2016.

3.5.2 The performance target is to outperform a balanced global equity benchmark by 1.5% per annum net of fees over a rolling three year period.

3.6 Goldman Sachs Asset Management

3.6.1 On 4th April 2016, the fund invested £75m in Goldman Sachs Strategic Absolute Return Bond II (STRAT II). The portfolio had a market value of £77.562m at 31 December 2016.

3.6.2 The performance target is to outperform the benchmark (3 Month LIBOR) by 2.0% per annum net of fees over a rolling three year period.

3.7 Insight Investment Management

3.7.1 On 1st July 2016, the fund invested £70m with Insight Investment Management in BNY Mellon Global Funds. The portfolio had a market value of £71.180m at 31 December 2016.

3.7.2 The performance target is to outperform the benchmark (3 Month LIBOR) by 2.0% per annum net of fees over a rolling three year period.

3.8 Legal & General Investment Management

3.8.1 Legal & General was appointed (2 August 2010) to manage passively UK Equity and UK Index-Linked Mandates. At 31 December 2016, the UK Equity portfolio had a market value of £255.225m, and the UK Index linked portfolio was £72.587m.

3.8.2 The performance target is to track the FTSE All Share index for the UK Equity mandate and FTSE A Gov Index-Linked > 5 years benchmark for the UK Index-Linked Mandates.

3.9 <u>Schroder's Investment Management</u>

3.9.1 Schroder manages a property mandate. The value of this mandate on 20 September 2004 was £90m. The market value of assets at 31 December 2016 was £137.017m.

3.9.2 The performance target for this mandate is to outperform the IPD UK Pooled Property Fund Indices All Balanced Funds Median by 0.75% net of fees over a rolling three year period.

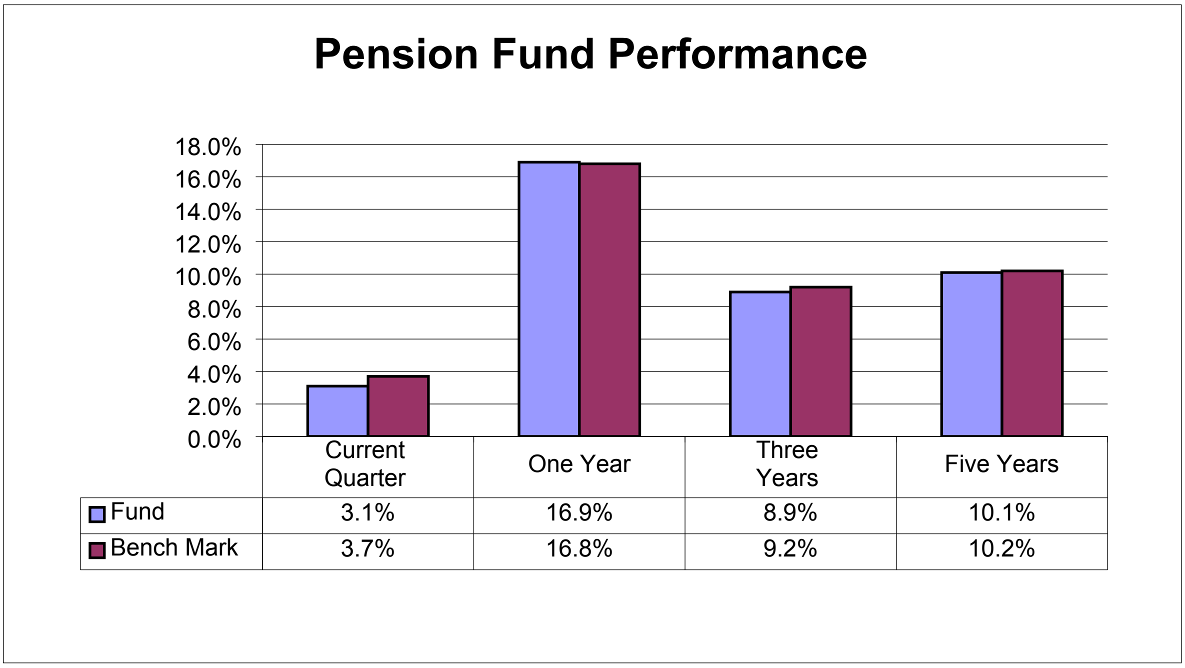
3.10 <u>INVESTMENT PERFORMANCE</u>

I. The Fund's overall value appreciated by £84.994m from £1,270.564m as of 30 September 2016 to £1,312.568m as of 31 December 2016.

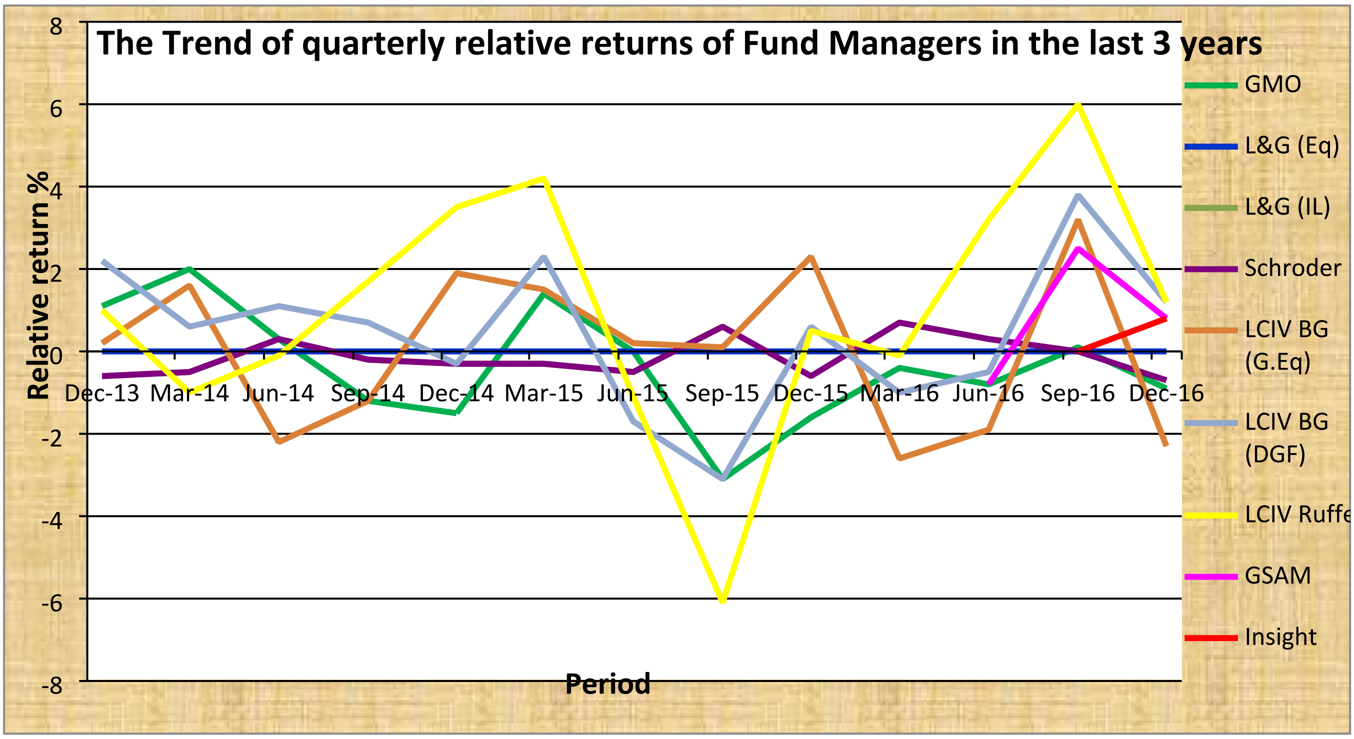
II. The fund underperformed the benchmark this quarter by 0.6% with a return of 3.1% compared to the benchmark return of 3.7%. The twelve month period sees the fund ahead of its benchmark slightly by 0.1%, as shown in Table 1

III. The performance of the fund over the longer term is as set out in the chart below.

<u>Table 1 – Pension Fund Performance</u>



IV. The graph below 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.



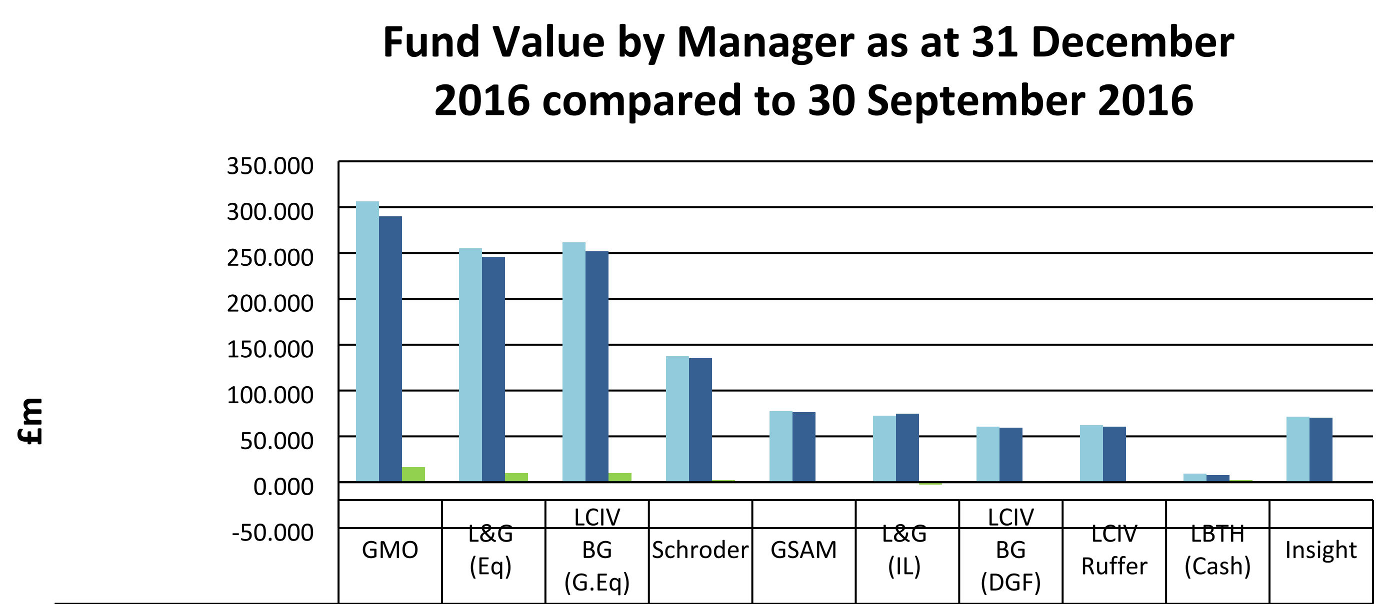
3.11 MANAGERS

I. The Fund is managed on a specialist basis with GMO and LCIV (BG GE) managing the Global Equities on an active basis; UK Equities and UK Index-Linked are passively managed by LGIM; GSAM and Insight managing absolute return pooled bond funds and Schroders are the property manager.

II. The managers, mandate and funds held under management are set out below: The Fund was valued at £1,312.568million as at 31 December 2016. This includes cash held and being managed internally (LBTH Treasury Management), this stands at 0.7% of the total assets value. This is working capital.

Table 2: Management Structure

Manager	Mandate	Value £M	Weight Target of FM AUM %	Actual Weight of FM AUM %	Over/(Under) Weight Target %	Date Appointed
GMO	Global Equity	305.947	22.0%	23.3%	1.3%	29-Apr-05
LCIV BG	Global Equity	261.368	18.0%	19.9%	1.9%	22-Apr-16
LCIV BG (Diversified Growth Fund)	Absolute Return	60.461	5.0%	4.6%	(0.4)%	15-Feb-16
LCIV Ruffer (Total Return Fund)	Absolute Return	61.834	5.0%	4.7%	(0.3)%	20-Jun-16
L & G UK Equity	UK Equity	255.225	20.0%	19.4%	(0.6)%	02-Aug-10
L & G Index Linked-Gilts	UK Index Linked	72.587	6.0%	5.5%	(0.5)%	02-Aug-10
GSAM	Bonds	77.562	6.0%	5.9%	(0.1)%	04-Apr-16
Insight	Bonds	71.180	6.0%	5.4%	(0.6)%	01-Jul-16
Schroder	Property	137.017	12.0%	10.4%	(1.6)%	30-Sep-04
Cash (Awaiting Investment)	Internal cash management	9.388	0.0%	0.8%	0.7%	
Total		**1,312.568**	**100.0%**	**100.0%**	**0.0%**	



	GMO	L&G (Eq)	LCIV BG (G.Eq)	Schroder	GSAM	L&G (IL)	LCIV BG (DGF)	LCIV Ruffer	LBTH (Cash)	Insight
Value at 31/12/2016	305.947	255.225	261.368	137.017	77.562	72.587	60.461	61.834	9.388	71.180
Value at 30/09/2016	289.654	245.639	251.520	134.876	76.477	74.810	59.269	60.614	7.518	70.187
Gain/(Loss) of Value	16.293	9.586	9.848	2.141	1.085	2.223	1.192	1.220	1.870	0.993

III. The above graph illustrated portfolio value movement of each mandate for this reporting quarter compared to the last quarter. It shows that all portfolios of the Fund have made gains, albeit in some cases only marginal ones.

IV. The performance, gross of fees of the individual managers relative to the appropriate benchmarks over the past five years is as set out in table 3.

Table 3: Manager Investment Performance relative to benchmark

Manager	**Current Quarter**	**One Year**	**Three Years**	**Five Years**
GMO Global Equities	-0.90%	-1.90%	-2.10%	-1.60%
L & G UK Equity	0.00%	0.00%	0.10%	0.10%
LCIV (BG) Global Equities	-2.30%	-3.10%	0.60%	1.80%
LBTH (Cash Management)	0.10%	1.00%	0.60%	0.60%
Schroder	-0.70%	0.30%	-0.50%	-0.60%
L & G Index Linked-Gilts	0.00%	0.00%	0.00%	0.00%
LCIV (BG) Diversified Growth	1.20%	3.70%	1.30%	2.50%
LCIV (Ruffer) Total Return Fund	1.20%	10.00%	2.80%	2.70%
Insight (BNY Absolute Return Bond Fund)	0.80%	N/A	N/A	N/A
GSAM (STAR II)	0.80%	N/A	N/A	N/A
Total Variance (Relative)	**-0.60%**	**0.10%**	**-0.30%**	**-0.10%**

3.12 **GMO** - The portfolio posted benchmark return of 5.5% over the reporting quarter, lagged the benchmark by -0.9%.

I. The US market led most other major markets as the S&P 500 index gained 3.8% in the quarter. Financials had the best sector performance by far (up 21.1%). Energy, Industrials, Telecommunication Services, and Materials all had single-digit returns and also outperformed versus the index.

II. Real Estate was the weakest sector (down 4.4%). Health Care, Consumer Staples, Utilities, Information Technology, and Consumer Discretionary also underperformed.

III. Non-US stocks trailed US stocks in the quarter as the S&P 500 beat MSCI EAFE by about 450 basis points. Within MSCI EAFE, country returns ranged from about +11% to -12%. Italy (up 10.8%) had the best return, followed by Austria, Canada (not in EAFE, but in our investable universe), France, and Norway. Belgium (down 11.8%) was weakest, while Israel, New Zealand, Hong Kong, and Denmark also underperformed vs. EAFE.

IV. Energy was the best performing sector, up 10.4%. Financials, Materials, and Consumer Discretionary also outperformed versus the index. Consumer Staples was the weakest sector (down 10.3%), while Health Care, Real Estate, Utilities, Telecommunication Services, Information Technology, and Industrials were also among the underperformers.

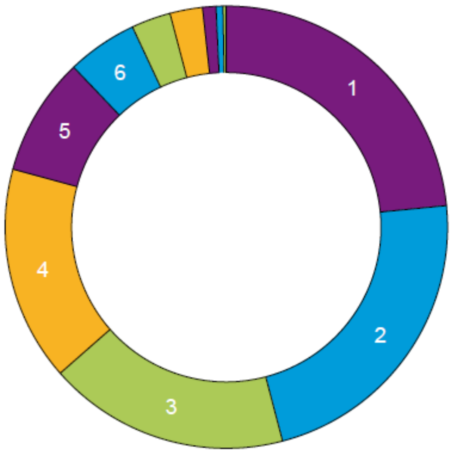
V. Small changes in most equity markets around the world during the quarter resulted in some minor adjustments to GMO's 7-year equity asset class forecasts as of November 2016, reflecting their assessment of opportunities in these markets.

VI. The manager return expectations for most global equity classes continue to look muted at best. As they continue to find high quality stocks to be one of the most attractively valued groups in the US market. Among international developed equities, the manager continues to favour value stocks in Europe and Japan. And the emerging markets value forecast remains the highest of any equity group.

VII. In the year to 31 December 2016 the portfolio posted a return of 26.6%, compared to the benchmark return of 29.1%. The portfolio performance returns over the longer periods are also not encouraging. The portfolio lagged behind the benchmark return by 2.1% for over three years and lagged behind the benchmark by 1.6% for over five years.

3.13 **LCIV (Baillie Gifford) Global Equities** – the portfolio underperformed the benchmark by delivering a return of 3.9% compared to benchmark return of 6.4% over the quarter, resulting in relative underperformance of 2.3%. The portfolio is relatively concentrated and seeks to generate strong absolute returns over the long-term through the use of an unconstrained bottom-up approach. The portfolio also underperformed the benchmark for one year to reporting period by -3.1%, but the portfolio outperformed the benchmark return over 3 years by 0.6% and by 1.8% for 5 years.

The sector breakdown of the portfolio is set out below:



Sector Weights		(%)
1	Financials	23.4
2	Information Technology	22.5
3	Consumer Discretionary	17.6
4	Industrials	15.7
5	Health Care	8.6
6	Materials	5.2
7	Energy	2.9
8	Consumer Staples	2.4
9	Cash	1.0
10	Real Estate	0.5
11	Telecommunication Services	0.2
	Total	100.0

Source: Baillie Gifford as at 31/12/16

I. Being long-term stock-pickers, the portfolio is constructed from a bottom-up basis and while political events have driven recent stock market moves, it is encouraging to see that, in general, the operational performance of the companies in the portfolio remains strong. Many of the holdings have exposure to what the manager believes are three of the most exciting long-term growth areas: technological innovation, growing Asian consumption and a continued recovery in the US economy. The manager remains excited by these structural growth drivers and they are reflected in some of the transactions that they had completed over the past few months.

II. The manager's continued work into 'Technology Platforms' has resulted in two transactions, the first of which was a new holding in the company, Line. It is the dominant messaging 'app' in Japan with 62 million monthly active users, but also has market leading positions in Taiwan, Thailand and Indonesia. Not only do they believe that it will increase monetisation rates in Japan, but it should also benefit from the very rapid growth in its other markets, fuelled by increasing smartphone penetration and high user engagement. As a result, the manager has placed Line in their rapid growth category and, reflecting its relatively high risk profile, has taken an incubator-sized 0.5% position.

III. Earlier in the year, they took an incubator holding in the Chinese travel platform, Ctrip. Productive meetings with the chairman and co-founder, James Liang and with the CFO, Cindy Wang, have strengthened their conviction in the sustainability of its dominant competitive position. The recent purchase of the Edinburgh-based online flight search engine, Skyscanner, will also allow it to integrate acquired metasearch technology into its own offering and undoubtedly help Ctrip's expansion into markets outside China. The manager remains confident there is still considerable upside from here and so increased it to a 1% holding in your portfolio.

IV. The manager has also taken a new holding in the data analytics company, Verisk. The roots of the company were in aggregating data on premiums and losses for the US property & casualty (P&C) insurance industry in the 1970s. However, over the past 45 years it has built up a comprehensive best-in-class data set and evolved into a data analytics company. Its data and analysis services allow customers in the P&C insurance, financial services and energy industries to price risk better and to design new products more quickly and in compliance with regulation. Verisk continues to build its database by exchanging the data that it receives from customers for a more holistic view of the market in which the customer operates. With its strong competitive position and customer-focused, long-term management, they believe the company should be able to generate double digit per annum earnings growth over the next ten years from cross selling, increasing the layers of analysis and international expansion.

V. In contrast however, they have sold the holding in the Japanese company, THK. It has a dominant position in the production of linear motion guides, which are used in machines and robots. The manager believed that the company would benefit from the structural growth in industrial automation as well as being able to expand margins. Unfortunately this has not materialised, with weak demand from China suppressing revenue growth to a modest 2% per annum. Furthermore the manager has become concerned by management's move away from core markets into areas such as the automotive sector.

VI. The top 10 stocks in the portfolio at the end of the quarter were:

<u>Top Ten Holdings</u>

Top Ten Holdings

Asset Name	% of Portfolio
Amazon.com	4.2
Prudential	3.6
Royal Caribbean Cruises	3.2
Naspers	2.9
TSMC ADR	2.8
SAP	2.6
First Republic Bank	2.5
Alphabet Inc Class C	2.4
CRH	2.3
TD Ameritrade Holding Corp	2.2

New Purchases During Quarter

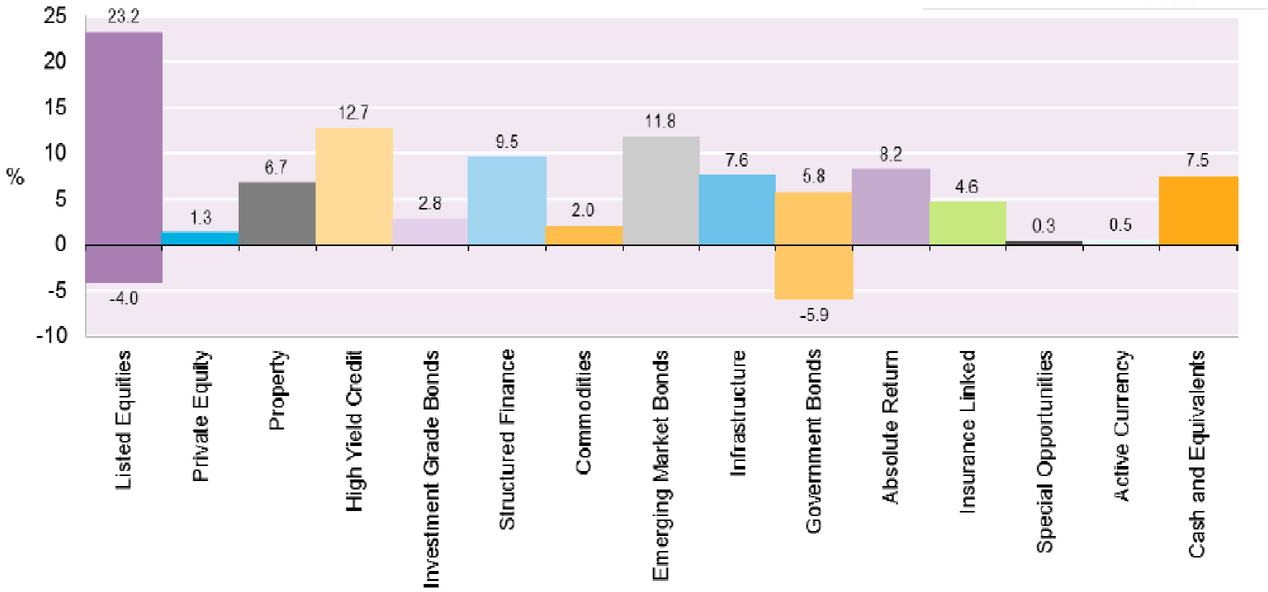
Asset Name
Line Corp
Verisk Analytics

Complete Sales During Quarter

Asset Name
Dolby Laboratories
THK

3.14 **LCIV (Baillie Gifford) Diversified Growth Fund** for this reporting quarter, the return of this portfolio was 2.0% with relative outperformance of 1.2% above the benchmark return of 0.8%.

The fund invests in a diversified range of asset classes and the breakdown is shown below with the negative exposures being delivered through short futures positions:



I. The portfolio delivered 2.0% over the quarter largely attributable to active currency positions at 0.8% of the overall return, although high yield credit and listed equities also added 0.3% each. The positive currency return reflected a long US$ position which benefitted from a further rally in the quarter following the election and renewed optimism for growth in the US economy. The manager has also expressed continuing optimism in the strength of the US$ for the immediate future. Listed equities (at nearly 19% of the portfolio) also delivered good returns over the quarter with exposure primarily through Baillie Gifford equity funds. High yield credit at nearly 13% of the portfolio also delivered a good performance reflecting a well-diversified portfolio in this area. In terms of detractors from performance, these were relatively minor at -0.1% for both government bonds and commodities.

II. In the year to 31 December 2016 the portfolio delivered a return of 7.3% with relative outperformance of 3.7% benchmark return of 3.6% for the year. Over the longer-term, and with relevance to the portfolio's return objective, the three year return was 4.9% with relative outperformance of 1.3% and the five year return was 6.1% per annum with relative outperformance of 2.5% above benchmark return of 3.6%.

3.15 **Ruffer Total Return Fund (Absolute Return)** – The portfolio posted a return of 2.0% compared with benchmark return of 0.8% over the quarter.

I. With a strong outperformance for 12 months to December 2016 with return of 13.6% compared with benchmark return of 3.6%. The portfolio outperformed the benchmark by posting a return of 6.5 % per annum over three years, which is over benchmark return by 2.8% per annum and also ahead of benchmark return by 2.7% per annum for over five years period.

II. Despite being relatively defensively positioned, the underlying Ruffer collective investment scheme ("CIS") managed to put in a reasonable performance in the fourth quarter, with the cyclical positions taking up the running in terms of adding value to offset some of the negatives from the defensive positions in gold and index linked bonds.

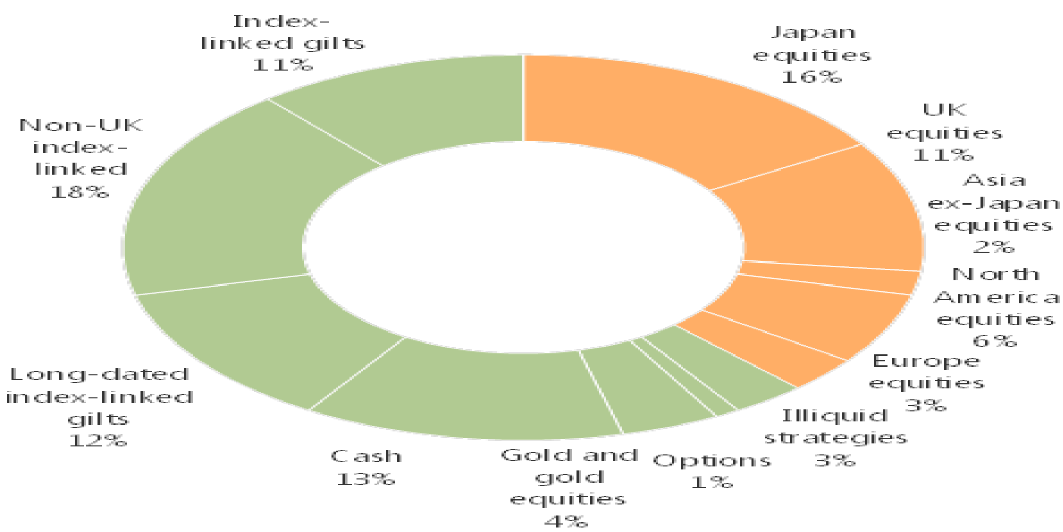
III. Whilst LCIV has had some concerns about the CIS's exposure to Japanese stocks due to cynicism over the ability of Abenomics to deliver growth in Japan, their positon in Japanese financials added significantly to performance this quarter with 2.6% attributable, with some of the stocks rising by 30-45% over the quarter. However, the underlying manager themselves see these holdings as more of a financials recovery play rather than specific Japan exposure and are keen to emphasise this point.

IV. Other positive positions over the quarter were in cyclical stocks such as BP and Lloyds Banks, having removed 'bond-like' proxies from the portfolio earlier in the year; they avoided the sharp setback experienced from this area. The underlying manager has been increasing exposure to value and cyclical positions in areas such industrials, oil and banks, using these as a hedge in case growth and inflation are stronger during 2017 than expected. However they maintain longer protection against inflation with their exposure to index linked holdings.

V. The exposure to UK index linked gilts (21% of the portfolio) brought about a -0.6% drag on performance, along with -0.4% drag on performance from US TIPS. Exposure to gold also impacted negatively both in terms of the manager's holding in a gold fund (-0.5%) and direct exposure to gold bullion (-0.3%).

VI. The manager's position on currencies is that they have 89% exposure to sterling, arguing that it has fallen far enough and therefore could see it revalued over the coming months provided that the UK economy continues to show reasonable growth. In their view the 20% devaluation of the currency was overdone, a view with which LCIV can have some sympathy given that growth has so far remained strong in the UK post the Brexit vote.

VII. The portfolio distribution with 38% in equities, 13% cash, 4% gold and the remainder in index linked bonds as shown in the table below:



3.16 **Legal & General - L & G (UK Equity)** – The portfolio returned 3.9% matching the index return over the quarter.

The FTSE 100 also moved to new all-time highs, rising well above 7,000 in the final few days of 2016. In particular, energy stocks performed well, with oil prices in focus following an agreement by OPEC to cap production. Meanwhile, UK financials rose strongly as investors bet on higher interest rate margins for banks. Mid cap stocks also performed well, with investors encouraged by Phillip Hammond's announcement of a domestic infrastructure spending programme at his Autumn Statement.

3.17 **L & G Index Linked Gilts** – The portfolio returned -3.0% matching the index return over the quarter.

In the UK, the Bank of England revised its domestic growth forecasts higher and therefore decided not to cut interest rates further, despite prior expectations to the contrary. This sent gilt yields higher, a trend which was exacerbated by rising inflation expectations on the back of higher energy prices. However, higher inflation levels failed to support index linked gilts prices, which fell back in line with conventional UK gilt prices.

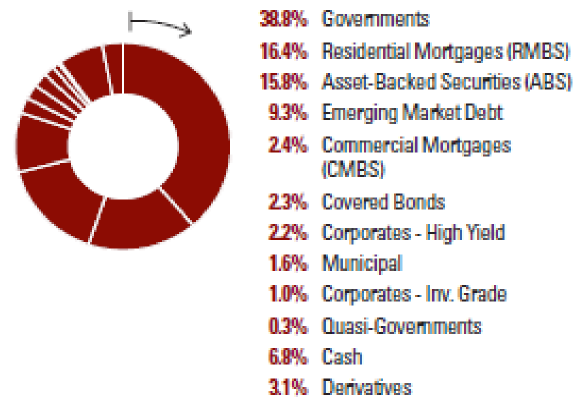
3.18 **Goldman Sachs Asset Management (GSAM) -** The portfolio outperformed the benchmark (3 month LIBOR plus 2%) in the reporting period by posting returns of 1.4% against a benchmark return of 0.6%.

I. Within macro strategies, the manager's currency strategy contributed, primarily from their longs in USD vs a basket of Asian currencies. Their cross macro strategy was a contributor as well, mostly from their trade positioned for looser UK financial conditions vs Europe & the US.

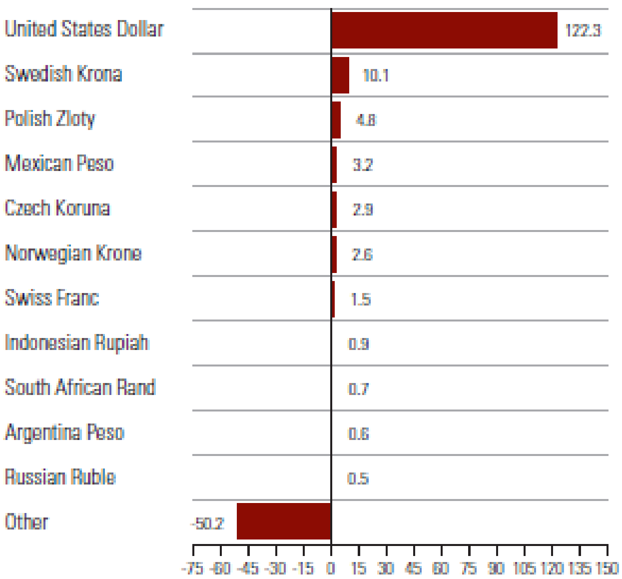
II. Within sector strategies, the emerging markets debt strategy modestly contributed to performance from their exposure to local Brazilian debt.

III. Detractors from performance were mostly from exposure to Puerto Rico bonds.

Sector Allocation (%)



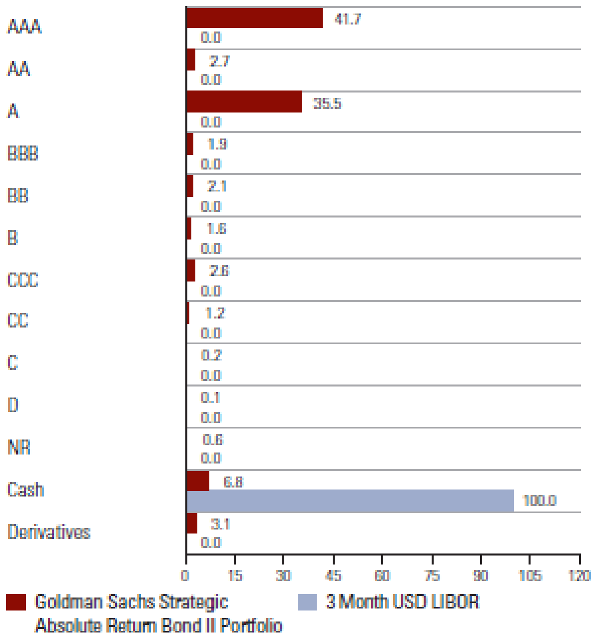
Top 10 Currency Weights (%)



Country Bond Allocation (%)

	Goldman Sachs Strategic Absolute Return Bond II Portfolio	3 Month USD LIBOR
US	58.2	100.0
Japan	24.1	0.0
Eurozone	5.3	0.0
UK	0.6	0.0
Canada	0.2	0.0
Norway	0.1	0.0
Australia	-0.1	0.0
Other	11.6	0.0

Credit Allocation (%)



3.19 **Insight Investment** - The portfolio outperformed the benchmark (3 month LIBOR plus 2%) in the reporting period by posting returns of 1.4% against a benchmark return of 0.6%.

They reduced their long exposure to conventional government bonds and continues to favour US over Europe. The manager remains constructive overall, particularly in asset-backed securities where they expect supply to fall materially due to the relative scarcity of large portfolios that can be securitised.

REGIONAL INTEREST RATE DURATION (YEARS)

	Long	Short	Net
USA	7.7	-5.4	2.3
Other Dollar Bloc	0.0	0.0	0.0
Eurozone	0.8	-2.2	-1.4
UK	0.0	0.0	0.0
Other europe	0.0	0.0	0.0
Emerging Markets	0.2	-0.1	0.1
Total	8.6	-7.6	1.0

MATURITY INTEREST RATE DURATION (YEARS)

	Long	Short	Net
0-1 yr	0.0	-0.1	0.0
1-5 yrs	0.1	-0.1	-0.1
5-10 yrs	2.3	-2.3	0.0
10-15 yrs	0.1	0.0	0.1
15+ yrs	6.2	-5.1	1.0
Total	8.6	-7.6	1.0

UNHEDGED FX EXPOSURE (%)

	Fund
USD	4.1
Emerging Markets	0.0
Other European	0.0
AUD/NZD	0.0
GBP	-0.7
EUR	-1.4
JPY	-2.0
Total	0.0

Source: BNY Mellon Investment Management EMEA Limited
Portfolio holdings are subject to change, for information only and are not investment recommendations.

SECTOR SPREAD DURATION (YEARS)

	Long	Short	Net
Supra/Agencies	0.0	0.0	0.0
Non-financial corporates	0.6	-0.1	0.5
Financials	0.5	-0.1	0.4
ABS/MBS	0.4	0.0	0.4
Loans	0.1	0.0	0.1
Emerging Markets	0.2	-0.1	0.1
CDS Indices	0.5	-0.2	0.3
Money Market Instruments	0.4	0.0	0.4
Total	2.6	-0.5	2.1

CREDIT RATING (HIGHEST) SPREAD DURATION

	Long	Short	Net
AAA	0.0	-0.1	0.0
AA	0.2	0.0	0.2
A	1.2	-0.1	1.1
BBB	1.0	-0.1	0.9
BB	0.1	0.0	0.1
B	0.0	-0.2	-0.1
CCC and below	0.0	0.0	0.0
NR	0.0	0.0	0.0
Total	2.6	-0.5	2.1

COUNTRY OF ISSUER DOMICILE

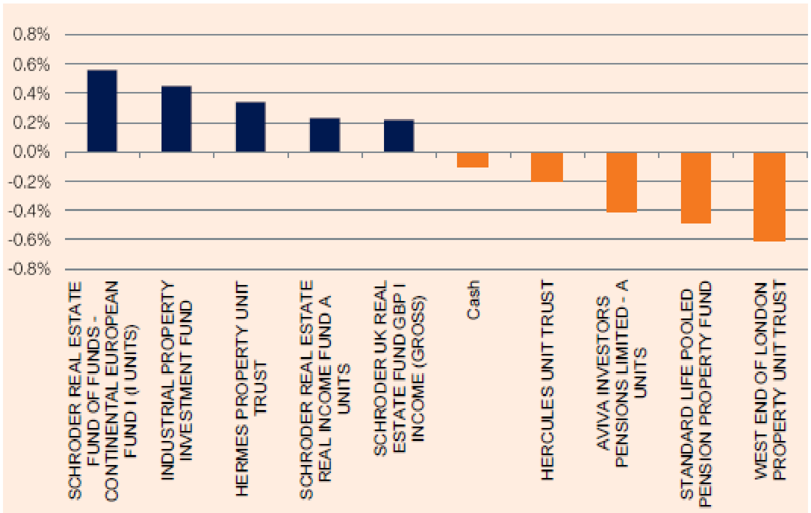
	Net %	Net Spread Duration (Yrs)
United States	26.4	0.5
United Kingdom	15.6	0.4
Supranational	13.4	0.4
France	10.3	0.1
Netherlands	7.2	0.1
Switzerland	4.0	0.1
Australia	2.6	0.1
Ireland	1.6	0.1
Italy	1.5	0.1
Belgium	1.2	0.1
Spain	0.8	0.0
Denmark	0.7	0.0
Canada	0.7	0.0
Japan	0.6	0.0
Sweden	0.4	0.0
Israel	0.3	0.0
Austria	0.2	0.0
Germany	-25.0	0.0
Cash & Others	37.3	0.0
Total	100.0	2.1

3.20 **Schroder (Property)** – The portfolio performance is below benchmark return for this reporting quarter by 0.7% however the performance was marginally above the benchmark (0.3%) for twelve months to 31 December 2016. Over the longer term performance is below the benchmark by 0.5% per annum over three years and 0.6% per annum for over five years periods. The UK portfolio has outperformed the benchmark over all time periods.

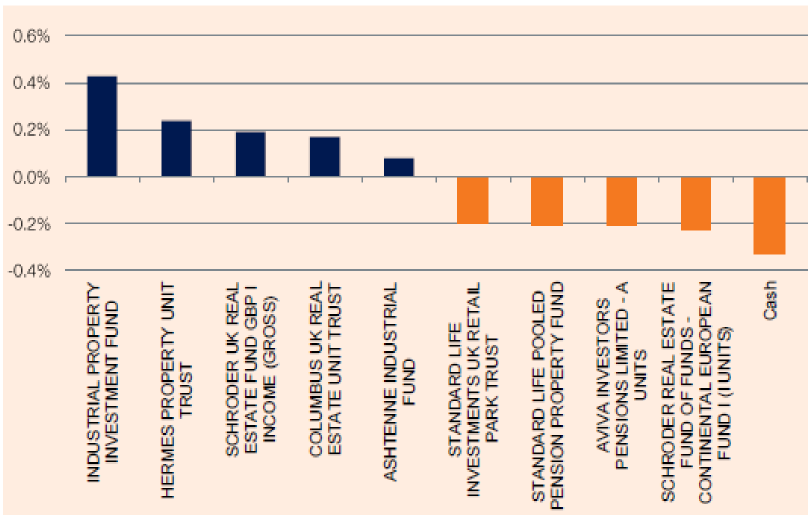
I. Holdings in continental Europe have been the main detractors from returns over the longer term, with the UK (currently 98% by value) outperforming the benchmark over three and five years.

II. At a sector level, alternatives (i.e. not retail, office and industrial) and industrials have typically performed well, whilst central London offices have generally detracted from returns.

Total return attribution relative to benchmark top & bottom five contributors
12 months to 31 Dec 2016



Total return attribution relative to benchmark top & bottom five contributors
3 years to 31 Dec 2016



3.21 **Internal Cash Management**

I. Cash is held by the managers at their discretion in accordance with limits set in their investment guidelines, and internally by LBTH to meet working cashflow requirements, although transfers can be made to Fund managers to top up or rebalance the Fund.

II. The Pension Fund cash balance is invested in accordance with the Council's Treasury Management strategy agreed by Full Council in February 2016, which is delegated to the Corporate Director,Resources to manage on a day to day basis within set parameters.

III. The cash balance as at 31 December 2016, was £9.388m and this is essentially the Fund's working cashflow. Members will continue to be updated quarterly of the Pension Fund in house cash investment strategy. Security of the Fund's cash remains the overriding priority, ahead of yield.

3.22 **ASSET ALLOCATION**

I. 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 Pensions Committee – the latest review was carried out in January 2014.

Asset allocation is determined by a number of factors including:-

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

b) 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.

c) The deficit recovery term. Most LGPS 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.

II. Meanwhile major markets price appreciation has contributed to assets allocations to move away from the original strategic benchmark. This is more so for UK Gilts & Indexed Linked, which has a strategic benchmark weight of 3% and at the end of December 2016, the weight of this asset class represents 5.5% of the total fund. This asset class is currently very expensive, although the independent adviser of the fund encouraged the Committee to considered increasing the benchmark weight of this asset class at one its meetings in 2015.

III. It is now deemed necessary to revise the strategic benchmark to accommodate the current weight of this asset class rather than selling down the position as having more of this assets in the Fund strengthens the liability hedging ratio of the Fund. The officers and adviser are therefore proposing to the Committee to approve 6% allocation as the current strategic weight of the UK Gilts & Indexed Linked pending the outcome of the investment strategy review of the fund.

IV. Individual managers have discretion within defined limits to vary the asset distribution. The overweight position in equities has helped the fund's performance in recent months.

V. The revised benchmark of asset distribution and the fund position at 31 December 2016 are set out below:

Table 4: Asset Allocation

Asset Class	Benchmark	Revised Benchmark	Fund Position as at 31 December 2016	Variance as at 31 December 2016
UK Equities	20.0%	20.0%	19.4%	(0.6)%
Global Equities	40.0%	40.0%	43.2%	3.2%
Total Equities	**60.0%**	**60.0%**	**62.6%**	**2.6%**
Property	12.0%	12.0%	10.4%	(1.6)%
Bonds	15.0%	12.0%	11.3%	(0.7)%
UK Index Linked	3.0%	6.0%	5.5%	(0.5)%
Alternatives	10.0%	10.0%	9.3%	(0.7)%
Cash	0.0%	0.0%	0.7%	0.7%
Total Equities	**100.0%**	**100.0%**	**100.0%**	

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 This report fulfils the requirement to report performance of the Pension Fund investments to the Pension Committee and recommends a change in the asset distribution of the fund to reflect the changes in the market. These changes are line with the investment strategy for the fund.

5. LEGAL COMMENTS

5.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1st November 2016. These Regulations represent an update to the LGPS (Management and Investment of Funds) Regulations 2009 and make a number of changes, including dispensing with the current, explicit limits on specified types of investment and instead charging administering authorities with determining the appropriate mix of investments for their funds. However, administering authorities must now adhere to official guidance; broad powers allow the Government to intervene if they do not. Under regulation 8, the Secretary of State can direct the administering authority to make changes to its investment strategy; invest its assets in a particular way; that the investment functions of the authority are exercised by the Secretary of State and that the authority complies with any instructions issued by the Secretary of State or their nominee.

Comment [NA1]: The 2009 regulations have been superseded by the 2016 regs.

5.2 The Council must take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.

5.3 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.

5.4 One of the functions of the Pensions Committee is to meet the Council's duties in respect of investment matters. It is appropriate, having regard to these matters, for the Committee to receive information about asset allocation and the performance of appointed investment managers. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

5.5 When reviewing the Pension Fund Investment Performance, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty). The Committee may take the view that good, sound investment of the Pension Fund monies will support compliance with the Council's statutory duties in respect of proper management of the Pension Fund.

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 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.

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

7. BEST VALUE (BV) IMPLICATIONS

7.1 This report helps in addressing value for money through benchmarking the Council's performance against the WM Local Authority Universe of Funds.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

9. RISK MANAGEMENT IMPLICATIONS

9.1 Any form of investment inevitably involves a degree of risk.

9.2 To minimise risk the Investment Panel attempts to achieve a diversification portfolio. Diversification relates to asset classes and management styles.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no crime and disorder reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- [None]

Appendices

- Appendix 1 – SSGS Quarterly Performance Review

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
Investment Managers Quarterly reports (Insight, GSAM, GMO, Schroder, Baillie Gifford, LGIM and Ruffer) and SSGS Quarterly Performance Review. (To be email if required)

Officer contact details for documents:

- Bola Tobun Investment &Treasury Manager x4733

Quarterly Performance
Service

LB OF TOWER HAMLETS - TOTAL COMBINED

QUARTERLY PERFORMANCE REVIEW

PERIODS TO END DECEMBER 2016

Produced 01 February 2017

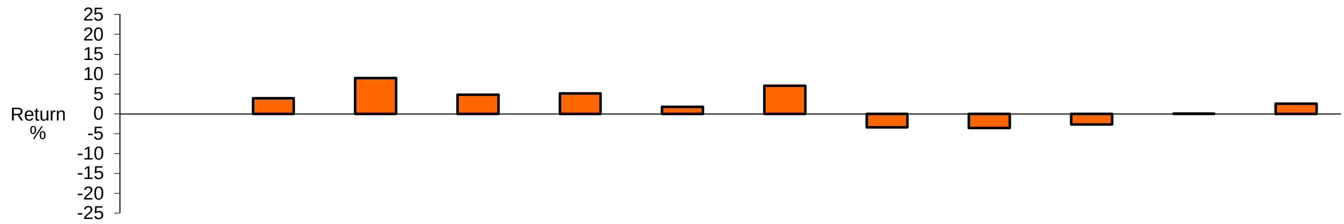
Contents

Market Background

Periods to end December 2016
Pound Sterling

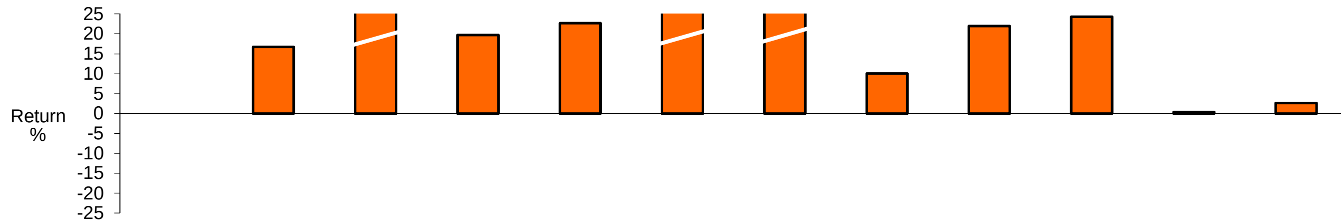
This page details the performance of the major markets.

Latest Quarter



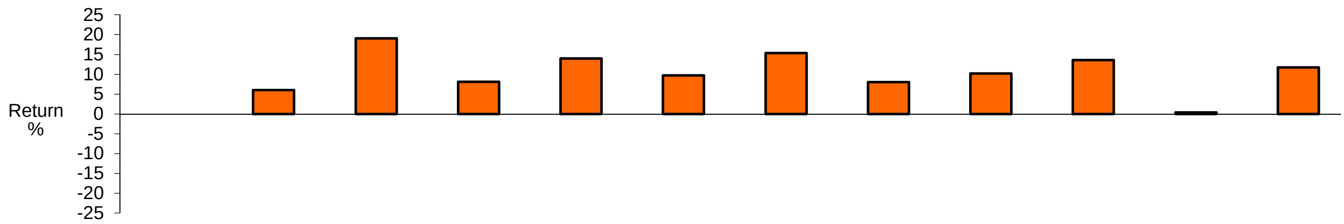
	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return %	3.9	9.0	4.8	5.1	1.7	7.1	-3.4	-3.6	-2.7	0.1	2.6

Last 12 Months



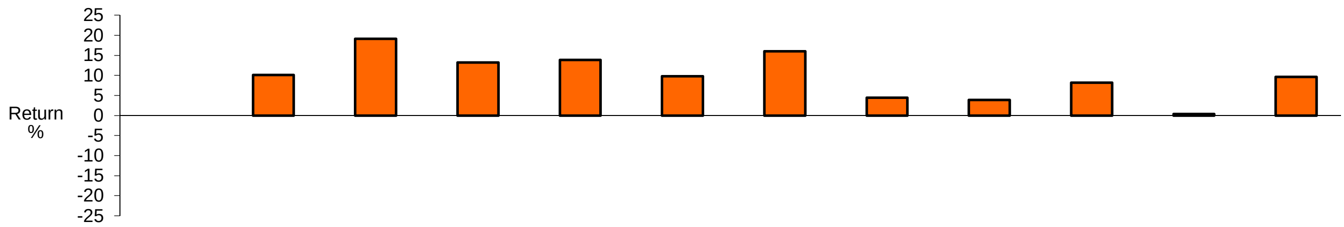
	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return %	16.8	34.1	19.7	22.7	31.7	30.4	10.1	22.0	24.3	0.3	2.6

Last Three Years



	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return % pa	6.1	19.1	8.1	14.0	9.8	15.3	8.0	10.2	13.6	0.3	11.7

Last Five Years



	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Return % pa	10.1	19.1	13.2	13.8	9.8	16.1	4.4	3.9	8.2	0.4	9.6

	UK Equities	N. America	Europe ex UK	Japan	Pacific	Other Intl.	UK Bonds	O/S Bonds	UK IL	Cash/ Alts	Property
Index Used	FT All Share	FTSE WORLD N	FTSE WORLD E	FT Japan	FT Pac x Jap	FT Wld x UK	UK Gilts AS	JPM Glb x UK	I/L Gilts AS	7 Day LIBID	IPD Monthly

Structure

The Fund is managed on a specialist basis with GMO and Baillie Gifford managing the Global Equities on an active basis. UK equities and UK Index-Linked are passively managed by L&G. GSAM and Insight manage absolute return fundS and Schroders are the property manager..Baillie Gifford also manage a Diversified Growth Funds along with Ruffer. From1/4/14 all manager returns are net of management fees.

Benchmark

The Fund's performance is analysed relative to customised benchmarks, the weighting and relevant indices are shown below.
On a quarterly basis the Fund will be measured against its Customised Benchmark. On an annual basis there is secondary analysis undertaken relative to the WM Local Authority Universe.
The fund structure and benchmarks are noted below.

	L&G	**GMO**	**Baillie Gifford**	**Benchmark Indices**
Global Equities		100	100.0	MSCI AC World NDR
UK Equities	100.0			FTSE All Share
% Allocation	20.0	23.0	18.0	

	L&G	**GSAM/ Insight**	**Schroders**	**Baillie Gifford**	**Ruffer**	**Total Combined**	**Benchmark Indices**
Global Equities						41.0	MSCI AC World NDR
UK Equities						20.0	FTSE All Share
Pooled Bonds		100.0				14.0	LIBOR 3 Month 2%
UK Index Linked	100.0					3.0	FTSE A Gov Index-Linked > 5 yrs
Property			100.0			12.00	HSBC/IPD Pooled All Balanced Funds Average
Diversified Growth				100.0	100.0	10.0	3 Month LIBOR +3%
% Allocation	3.0	14.0	12.0	5.0	5.0	100.0	

Targets

GMO: +1.5% p.a. net of fees over a rolling 3 year period.
Baillie Gifford Global Equity: + 2 - 3 % p.a. gross of fees over a rolling 3 year period.
Schroders: +0.75% p.a. net of fees over a rolling 3 year period.
Baillie Gifford Diversified Growth: 3.5% p.a. above the UK Base Rate (after fees).
GSAM/Insight: 3 Month LIBOR +2% p.a.
Ruffer: Overall objective is firstly to preserve the capital over rolling twelve month periods, and secondly to grow the Portfolio at a higher rate (after fees) than could reasonably be expected from the alternative of depositing the cash value of the Portfolio in a reputable UK bank.

SSGS - Performance Services Contact: Ann Gillies
Direct Telephone: (0131) 315 5465 E-mail: ann.gillies@statestreet.com

Category - TOTAL ASSETS

This page summarises the overall value and performance of the Fund.

Fund Value

Values (GBP)'000	Mandate	Value at 30/09/2016	Transactions	Capital Gain / loss	Income	Value at 30/12/2016	*% Fund*
GMO	Eq Glbl	289,654	2,852	13,441	2,404	305,947	23
BAILLIE GIFF	Eq Glbl	251,520	452	9,396	452	261,368	20
L & G	Eq UK	245,639	0	9,585	-7	255,225	19
SCHRODERS	Prop UK	134,876	1,027	1,114	1,027	137,017	10
GOLDMAN	Absolute	76,477	0	1,085	0	77,562	6
L & G	Bd UK I/L	74,810	0	-2,223	-2	72,587	6
INSIGHT INV	Absolute	70,187	0	992	0	71,180	5
RUFFER	Absolute	60,614	0	1,220	0	61,834	5
BAILLIE GIFF	Structured	59,269	0	1,192	0	60,461	5
INT MGD	Cash	7,518	1,870	0	15	9,388	1
Total Fund		1,270,564	6,200	35,804	3,889	1,312,568	100

The table shows the value of each Portfolio at the start and end of the period.
The change in value over the period is a combination of the net money flows into or out of each Portfolio and any gain or loss on the capital value of the investments.

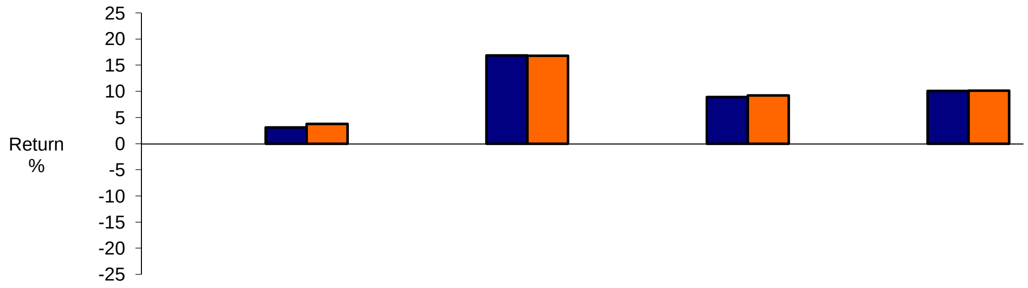
Performance Summary

LB OF TOWER HAMLETS - TOTAL COMBINED | **Periods to end December 2016**
Benchmark - LB TOWER HAMLETS TOTAL B/MARK | **Pound Sterling**

Category - TOTAL ASSETS

This page summarises the overall value and performance of the Fund.

Fund Returns



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	3.1	16.9	8.9	10.1
Benchmark	3.7	16.8	9.2	10.2
Relative Return	-0.6	0.1	-0.3	-0.1

The graphs show the performance of the Fund and Benchmark over the latest period and longer term.

The relative return is the degree by which the Fund has out or underperformed the Benchmark over these periods

= Data not available for the full period

Detailed Analysis of the Latest Quarter Performance

LB OF TOWER HAMLETS - TOTAL COMBINED	**Periods to end December 2016**
Benchmark - LB TOWER HAMLETS TOTAL B/MARK	**Pound Sterling**

Category - TOTAL ASSETS

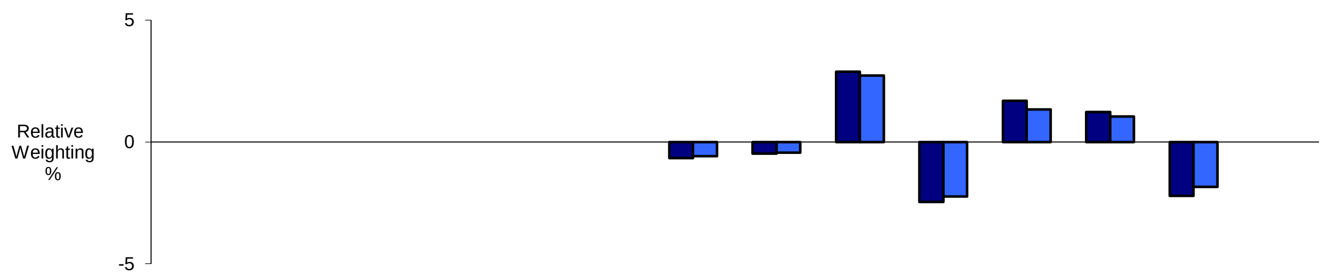
This page analyses in detail the Fund performance over the latest period.

Summary

Fund Return	3.1
Benchmark Return	3.7
Relative Performance	-0.6
attributable to:	
Asset Allocation	-0.1
Stock Selection	-0.5

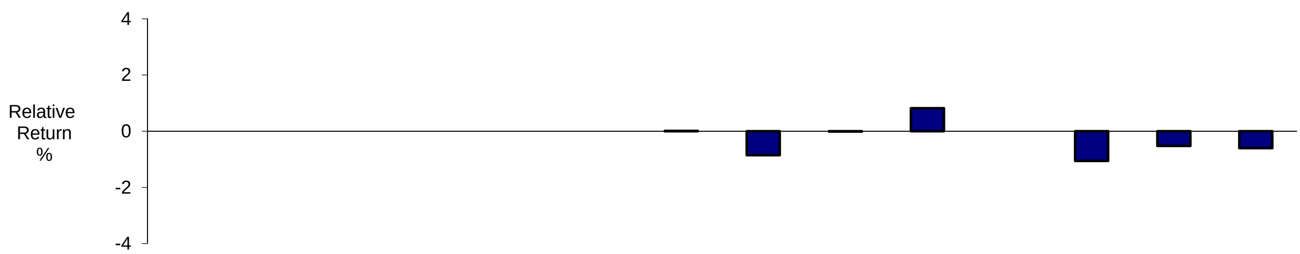
The relative performance can be attributed to the effects of stock selection and asset allocation as detailed below:

Asset Allocation



	UK Equities	O/S Equities	UK IL	Pooled Bonds	Cash	Alternatives	Property	Total Fund
Fund Start	19.3	22.5	5.9	11.5	1.7	29.2	9.8	100.0
Fund End	19.4	23.1	5.5	11.3	1.3	29.2	10.0	100.0
BM Start	20.0	23.0	3.0	14.0		28.0	12.0	100.0
BM End	20.0	23.6	2.8	13.6		28.2	11.8	100.0
Impact	-	-	-0.2	0.1	-	-	-	-0.1

Stock Selection



	UK Equities	O/S Equities	UK IL	Pooled Bonds	Cash	Alternatives	Property	Total Fund
Fund	3.9	5.5	-3.0	1.4	1.1	3.3	1.7	3.1
Benchmark	3.9	6.4	-3.0	0.6		4.4	2.3	3.7
Impact	-	-0.2	-	0.1		-0.3	-0.1	-0.5

An asset allocation decision will have a positive impact if a Fund is invested more heavily than its Benchmark in an area that has performed well.

Conversely, a positive benefit would be derived from having a relatively low exposure to an area that has performed poorly.

Stock selection will have a positive impact if the Fund has outperformed the Benchmark in a particular area.

The impact of both asset allocation and stock selection is weighted by the level of investment in the area.

not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

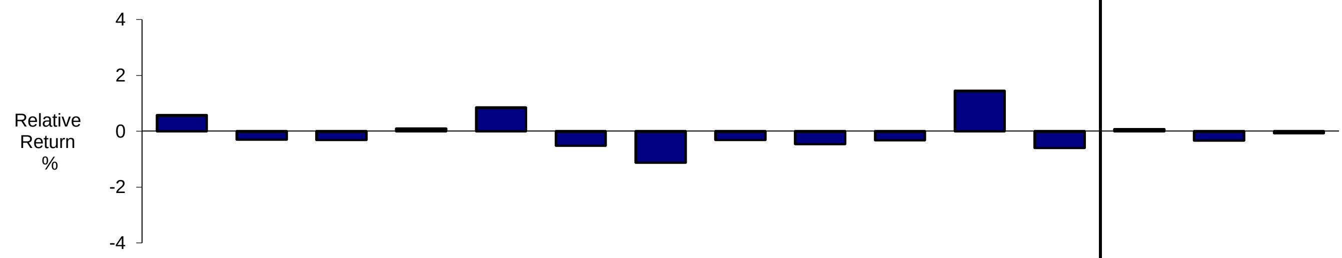
Long Term Performance Analysis

LB OF TOWER HAMLETS - TOTAL COMBINED	Periods to end December 2016
Benchmark - LB TOWER HAMLETS TOTAL B/MARK	Pound Sterling

Category - TOTAL ASSETS

This page looks in more detail at the long term performance, plotting it relative to the Benchmark.

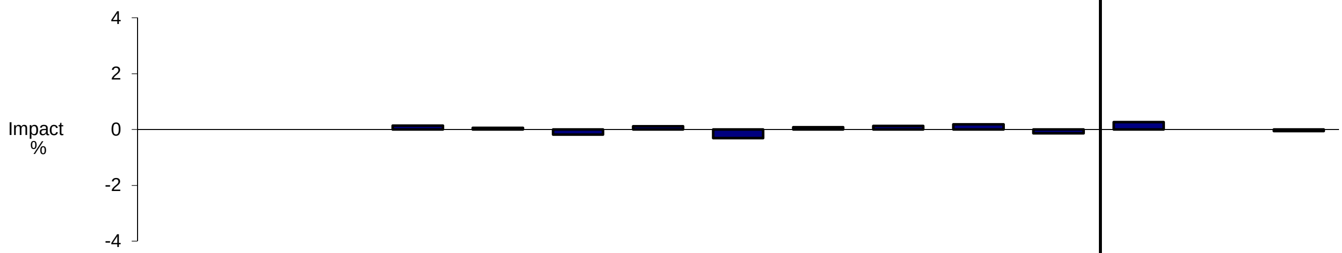
Fund Returns



	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	1.3	1.8	1.2	2.8	5.5	-2.4	-4.0	4.2	1.2	4.8	6.9	3.1	16.9	8.9	10.1
Benchmark	0.7	2.1	1.5	2.7	4.7	-1.9	-2.9	4.5	1.6	5.1	5.4	3.7	16.8	9.2	10.2
Relative	0.6	-0.3	-0.3	0.1	0.9	-0.5	-1.1	-0.3	-0.5	-0.3	1.4	-0.6	0.1	-0.3	-0.1

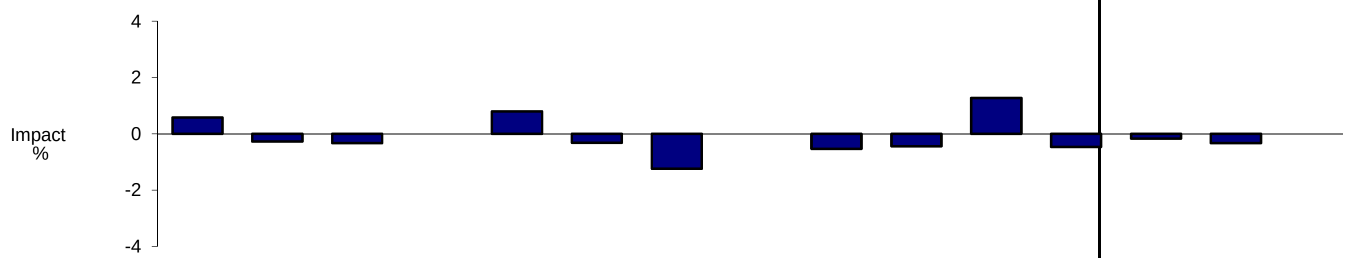
The relative performance can be attributed to the effects of asset allocation and stock selection as detailed below:

Asset Allocation



	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Impact	-	-	-	0.1	0.1	-0.2	0.1	-0.3	0.1	0.1	0.2	-0.1	0.3	-	-0.1

Stock Selection



	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Impact	0.6	-0.3	-0.3	-	0.8	-0.3	-1.2	-	-0.5	-0.4	1.3	-0.5	-0.2	-0.3	-

An asset allocation decision will be positive if a Fund is invested more heavily than its Benchmark in an area that has performed well.

Conversely a positive benefit would be derived from investing less heavily in an area that has performed poorly.

Stock selection will be positive if the Fund has outperformed the Benchmark in a particular area.

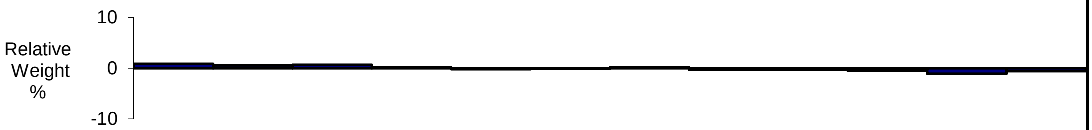
The impact of both asset allocation and stock selection is weighted by the level of investment in the area.

not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

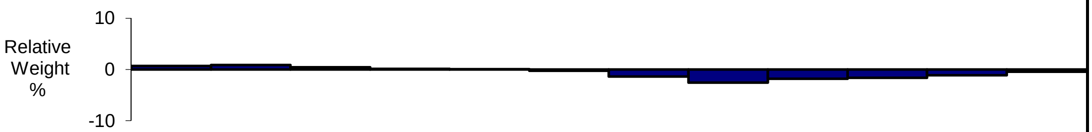
This page looks in more detail at asset allocation decisions, plotting the Fund's exposure at the end of each period relative to the Benchmark and detailing the impact on the total fund performance.

U.K. EQUITIES



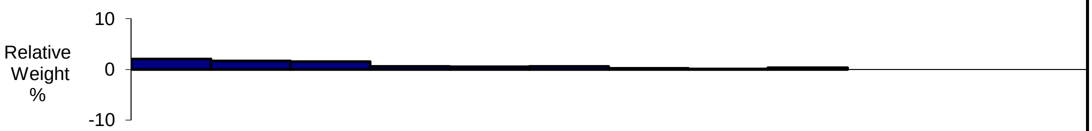
	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	23.0	23.1	22.6	20.0	19.8	20.0	19.6	19.5	19.2	19.2	19.3	19.4			
Benchmark	22.2	22.5	21.9	19.8	20.0	20.1	19.4	19.9	19.6	19.7	20.4	20.0			
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

OVERSEAS EQUITIES



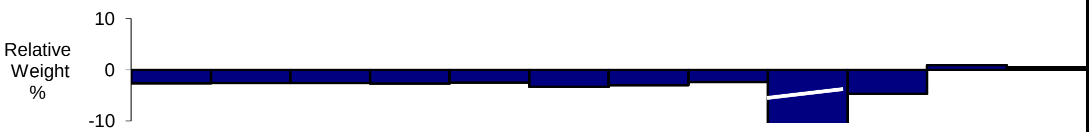
	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	23.1	23.4	23.0	23.0	23.7	22.0	20.9	21.2	21.5	22.3	22.5	23.1			
Benchmark	22.4	22.5	22.6	22.8	23.6	22.3	22.3	23.8	23.3	23.9	23.6	23.6			
Impact	-	-	-	0.1	-	-	0.1	-0.1	-	-0.1	-	-	-0.1	-	-

GLOBAL POOLED INC UK



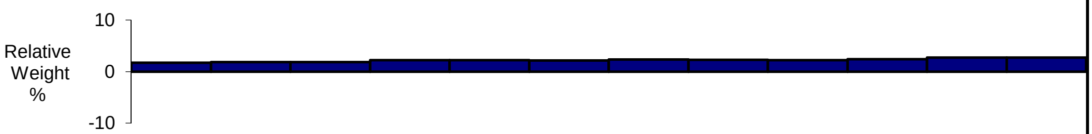
	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	18.0	17.7	17.8	18.4	19.1	18.0	17.7	18.7	18.6	0.0					
Benchmark	16.0	16.1	16.3	17.9	18.5	17.4	17.5	18.6	18.2						
Impact	-	-	-	-0.1	-	-	-	-	-	-			-	-	-

TOTAL BONDS PLUS INDEX-LINKED



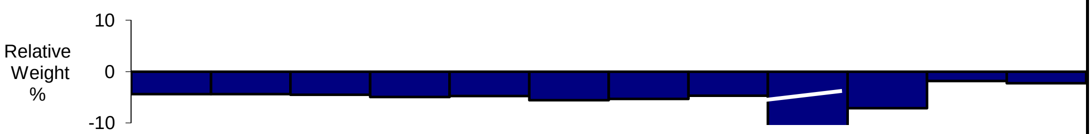
	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	14.4	14.2	14.4	14.5	13.9	14.0	14.7	13.9	5.4	11.9	17.4	16.9			
Benchmark	17.1	16.8	17.0	17.2	16.4	17.3	17.7	16.3	17.0	16.6	16.5	16.4			
Impact	0.1	-	0.1	0.2	0.2	-0.2	-0.1	-	0.2	0.4	0.4	-0.1	0.9	0.4	0.2

U.K. INDEX - LINKED



	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	4.8	4.8	5.0	5.3	5.2	5.2	5.5	5.1	5.4	5.7	5.9	5.5			
Benchmark	3.1	3.0	3.1	3.1	3.0	3.0	3.2	2.8	3.1	3.3	3.2	2.8			
Impact	-	-	0.1	0.1	-	-	0.1	-0.2	0.1	0.1	0.1	-0.2	0.2	0.1	-

POOLED BONDS



	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	9.6	9.4	9.4	9.2	8.7	8.8	9.2	8.8	0.0	6.3	11.5	11.3			
Benchmark	14.0	13.8	13.9	14.1	13.5	14.4	14.5	13.5	13.9	13.4	13.4	13.6			
Impact	-	0.1	-	0.1	0.2	-0.1	-0.2	0.2	0.1	0.3	0.2	0.1	0.8	0.3	0.3

For each area of investment the final weighting for the Fund and the Benchmark is shown and the difference plotted.

The impact will be positive when the Fund is overweight in an area that has outperformed or vice versa.

- indicates a value less than 0.05 and greater than -0.05

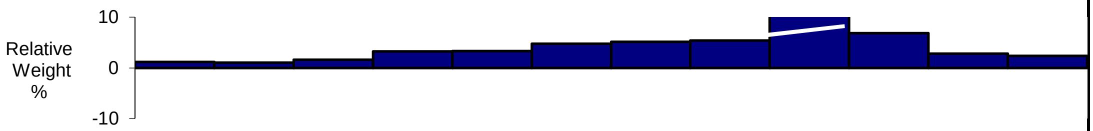
Long Term Asset Allocation

LB OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end December 2016**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

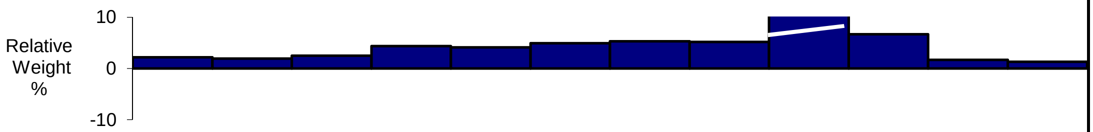
This page looks in more detail at asset allocation decisions, plotting the Fund's exposure at the end of each period relative to the Benchmark and detailing the impact on the total fund performance.

CASH/ALTERNATIVES



	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	11.2	11.0	11.6	13.4	13.0	15.1	15.5	15.0	23.5	35.2	30.9	30.6			
Benchmark	10.0	9.9	9.9	10.1	9.6	10.3	10.4	9.6	9.9	28.3	28.1	28.2			
Impact	-	-	-	-	-0.1	0.1	0.2	-0.2	-0.1	-0.3	-0.2	-	-0.7	-0.3	-0.2

TOTAL CASH

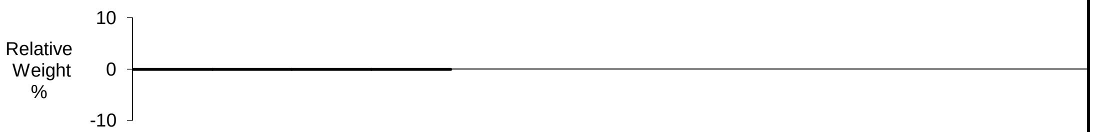


	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	2.2	2.0	2.5	4.4	4.1	4.9	5.3	5.1	13.7	6.7	1.7	1.3			
Benchmark															
Impact	-	-0.1	-	-0.1	-0.2	0.1	0.2	-0.2	-0.1	-0.3	-0.2	-	-0.7	-0.3	-0.3

ALTERNATIVES

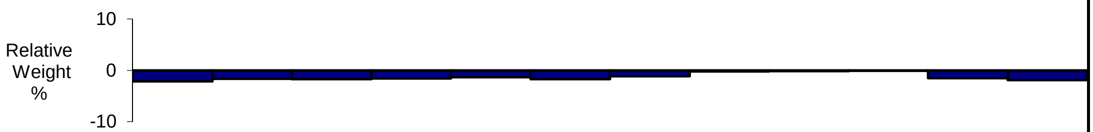
	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	9.0	9.0	9.1	9.0	8.9	10.2	10.2	9.9	9.8	28.5	29.2	29.2			
Benchmark	10.0	9.9	9.9	10.1	9.6	10.3	10.4	9.6	9.9	28.3	28.1	28.2			
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

CURRENCY INSTRUMENTS



	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	-0.0	-0.0	-0.0	-0.0	0.0										
Benchmark															
Impact	-	-	-	-0.1	-									-	-

TOTAL PROPERTY



	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	10.2	10.6	10.6	10.7	10.5	10.9	11.6	11.6	11.8	11.4	9.8	10.0			
Benchmark	12.3	12.3	12.3	12.3	11.8	12.6	12.7	11.8	11.9	11.4	11.3	11.8			
Impact	-	-	-	-	-	-0.1	-0.1	-	-	-	0.1	-	0.1	-0.1	-

For each area of investment the final weighting for the Fund and the Benchmark is shown and the difference plotted.

The impact will be positive when the Fund is overweight in an area that has outperformed or vice versa.

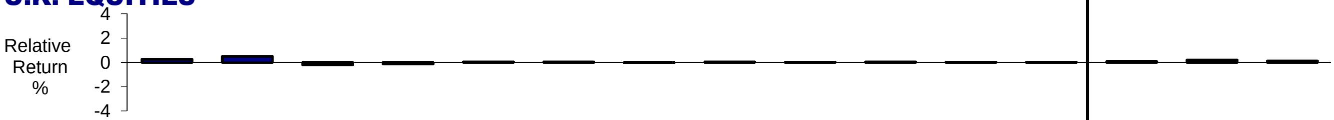
- indicates a value less than 0.05 and greater than -0.05

Long Term Stock Selection

LB OF TOWER HAMLETS - TOTAL COMBINED | **Periods to end December 2016**
Benchmark - LB TOWER HAMLETS TOTAL B/MARK | **Pound Sterling**

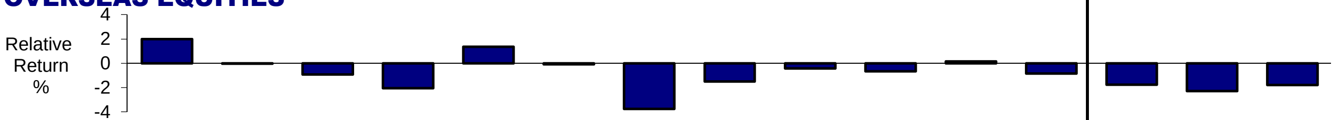
This page looks in more detail at the impact of stock selection, plotting the return in each area relative to the Benchmark and detailing the impact on the total fund performance.

U.K. EQUITIES



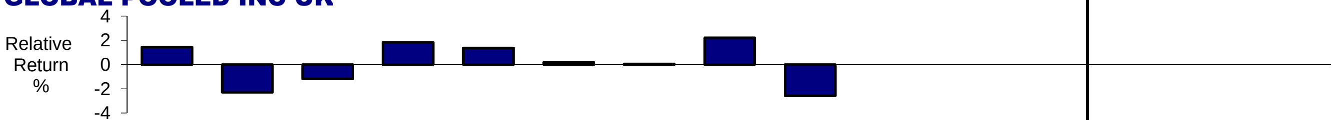
	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	-0.4	2.7	-1.2	0.4	4.7	-1.5	-5.7	4.0	-0.4	4.7	7.8	3.9	16.8	6.3	10.2
Benchmark	-0.6	2.2	-1.0	0.6	4.7	-1.6	-5.7	4.0	-0.4	4.7	7.8	3.9	16.8	6.1	10.1
Impact	0.1	0.1	-	-	-	-	-	-	-	-	-	-	-	-	-

OVERSEAS EQUITIES



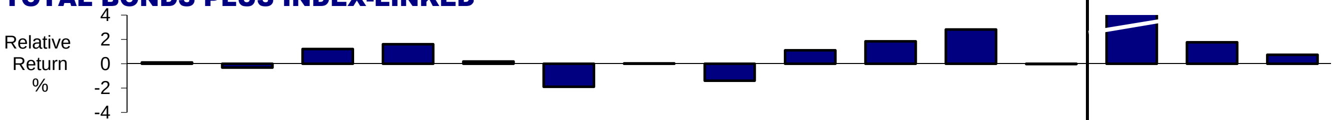
	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	2.4	2.1	0.9	1.7	9.1	-5.2	-9.4	6.4	2.5	8.1	8.5	5.5	26.8	10.7	12.9
Benchmark	0.5	2.1	1.8	3.8	7.6	-5.1	-5.9	8.1	2.9	8.8	8.4	6.4	29.1	13.3	15.0
Impact	0.4	-	-0.2	-0.5	0.3	-	-0.8	-0.3	-0.1	-0.1	-	-0.2	-0.4	-0.5	-0.4

GLOBAL POOLED INC UK



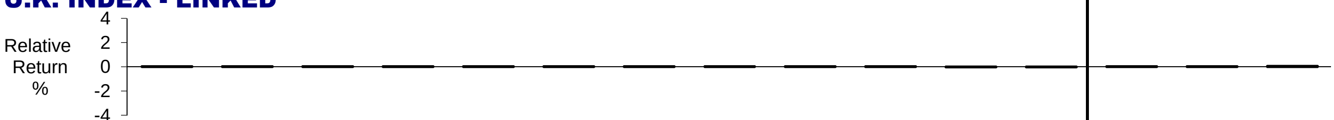
	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	2.0	0.3	1.9	6.4	9.1	-4.9	-5.8	10.4	0.3	2.0 #					
Benchmark	0.5	2.6	3.2	4.5	7.6	-5.1	-5.9	8.1	2.9	-0.4 #					
Impact	0.3	-0.4	-0.2	0.3	0.3	-	-	0.4	-0.5	0.4			-0.1	0.2	0.3

TOTAL BONDS PLUS INDEX-LINKED



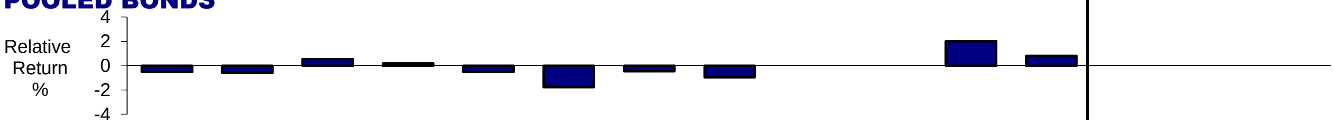
	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	1.3	0.4	2.8	3.8	1.3	-1.9	1.0	-1.4	2.8	4.5	5.4	-0.1	13.1	6.6	4.6
Benchmark	1.1	0.7	1.6	2.2	1.1	-0.1	0.9	-0.1	1.7	2.6	2.5	-0.0	6.8	4.8	3.8
Impact	-	-0.1	0.1	-	-	-0.2	-	-0.1	-	-0.1	0.1	0.1	0.1	-0.1	-0.1

U.K. INDEX - LINKED



	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	3.6	1.1	5.9	9.4	3.3	-3.3	2.3	-3.3	6.5	11.1	11.0	-3.0	27.4	15.2	9.1
Benchmark	3.6	1.1	5.9	9.4	3.3	-3.3	2.3	-3.3	6.5	11.1	11.0	-3.0	27.4	15.2	9.1
Impact	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

POOLED BONDS



	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	0.1	0.0	1.2	0.8	0.1	-1.1	0.2	-0.3	0.4 #	-0.8 #	2.7	1.4			
Benchmark	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	2.6	2.6	2.6
Impact	-	-0.1	0.1	-	-	-0.2	-	-0.1	-	-0.1	0.1	0.1	0.1	-0.1	-0.1

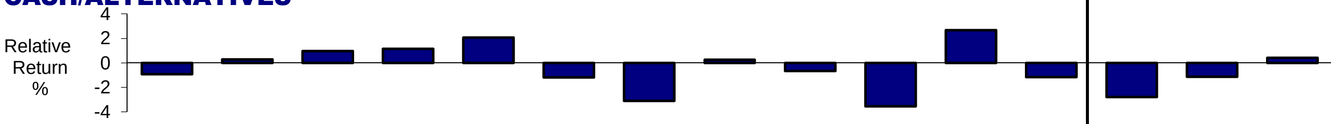
For each area of investment the return for the Fund and the Benchmark is shown and the relative return plotted.
The impact of stock selection is the relative return weighted by the level of investment in the area.
not invested in this area for the entire period
- indicates a value less than 0.05 and greater than -0.05

Long Term Stock Selection

LB OF TOWER HAMLETS - TOTAL COMBINED | **Periods to end December 2016**
Benchmark - LB TOWER HAMLETS TOTAL B/MARK | **Pound Sterling**

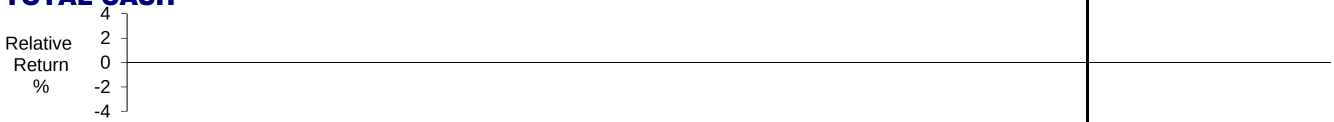
This page looks in more detail at the impact of stock selection, plotting the return in each area relative to the Benchmark and detailing the impact on the total fund performance.

CASH/ALTERNATIVES



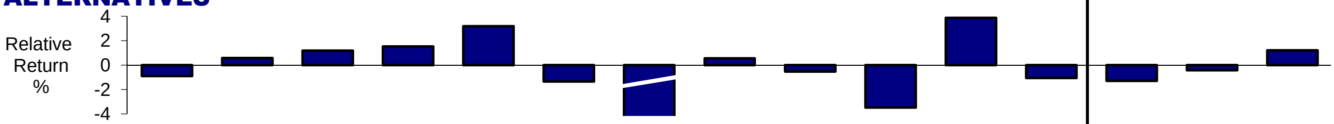
	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	-0.1	1.1	1.8	2.0	2.9	-0.4	-2.3	1.1	0.2	2.6	8.5	3.2	15.1	6.9	6.6
Benchmark	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	6.4	5.7	4.4	18.4	8.1	6.1
Impact	-0.1	0.1	0.1	0.1	0.3	-0.1	-0.5	0.1	-0.1	-0.7	1.1	-0.3	0.1	-	0.1

TOTAL CASH



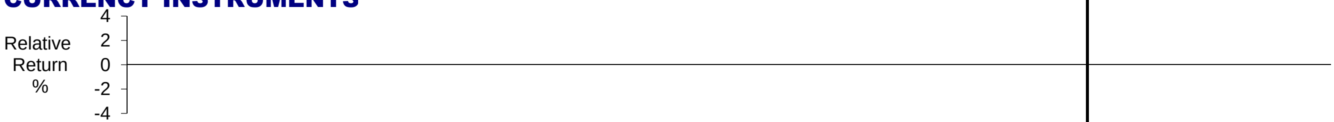
	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	-0.2	-0.2	0.8	0.9	0.6	0.0	0.4	0.4	0.8	0.4	0.7	1.1	2.9	1.9	1.2
Benchmark															
Impact															

ALTERNATIVES



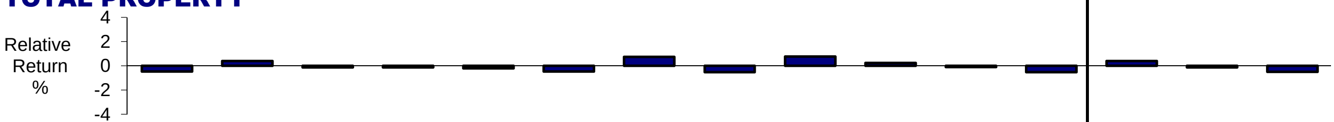
	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	-0.1	1.4	2.0	2.4	4.0	-0.5	-3.8	1.4	0.3	2.7	9.8	3.3	16.8	7.6	7.4
Benchmark	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	6.4	5.7	4.4	18.4	8.1	6.1
Impact	-0.1	0.1	0.1	0.1	0.3	-0.1	-0.5	0.1	-0.1	-0.7	1.1	-0.3	0.1	-	0.1

CURRENCY INSTRUMENTS



	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	n/a	n/a	n/a	n/a	0.0 #										
Benchmark															
Impact															

TOTAL PROPERTY



	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	1yr	3yrs % pa	5yrs % pa
Fund	2.8	4.7	3.9	4.4	2.6	2.8	3.8	2.3	1.9	0.4	-0.8	1.7	3.2	10.5	7.8
Benchmark	3.3	4.3	4.0	4.6	2.8	3.3	3.0	2.8	1.1	0.1	-0.7	2.3	2.8	10.7	8.4
Impact	-	-	-	-	-	-0.1	0.1	-0.1	0.1	-	-	-0.1	0.1	-	-

For each area of investment the return for the Fund and the Benchmark is shown and the relative return plotted.

The impact of stock selection is the relative return weighted by the level of investment in the area.

not invested in this area for the entire period

- indicates a value less than 0.05 and greater than -0.05

Rolling Years with Relative Risk

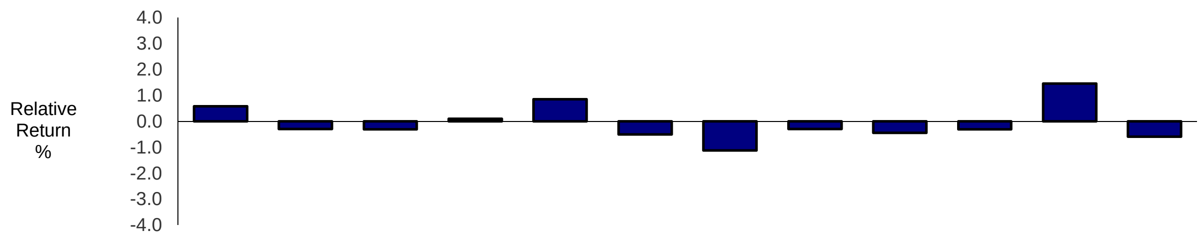
LB OF TOWER HAMLETS - TOTAL COMBINED	Periods to end December 2016
Benchmark - LB TOWER HAMLETS TOTAL B/MARK	Pound Sterling

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

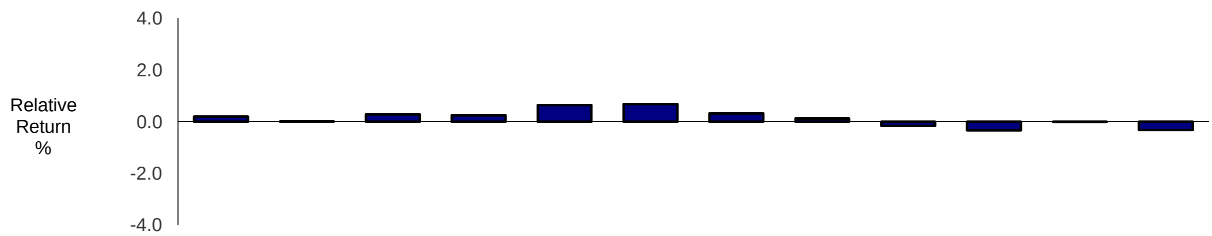
	-------------- 2014 --------------				-------------- 2015 --------------				-------------- 2016 --------------			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	998.4	1016.2	1035.1	1049.7	1081.5	1141.9	1115.6	1071.6	1117.7	1130.1	1185.6	1270.6
Net Investment	7.1	4.2	4.3	4.7	2.5	4.8	3.7	3.6	1.9	5.3	5.7	6.2
Capital Gain/Loss	10.8	14.7	10.3	27.0	57.9	-31.0	-47.7	42.4	10.5	50.2	79.3	35.8
Final	1016.2	1035.1	1049.7	1081.5	1141.9	1115.6	1071.6	1117.7	1130.1	1185.6	1270.6	1312.6
Income	2.1	3.8	2.3	2.9	2.0	3.2	2.5	2.5	2.4	3.6	3.1	3.9
Proportion Of Total Fund (%)	100	100	100	100	100	100	100	100	100	100	100	100
Proportions (%) In												
Total Equity	64	64	63	61	63	60	58	59	59	42	42	43
Bonds + IL	14	14	14	15	14	14	15	14	5	12	17	17
Cash/ Alts	11	11	12	13	13	15	16	15	24	35	31	31
Property	10	11	11	11	10	11	12	12	12	11	10	10

Quarterly Returns



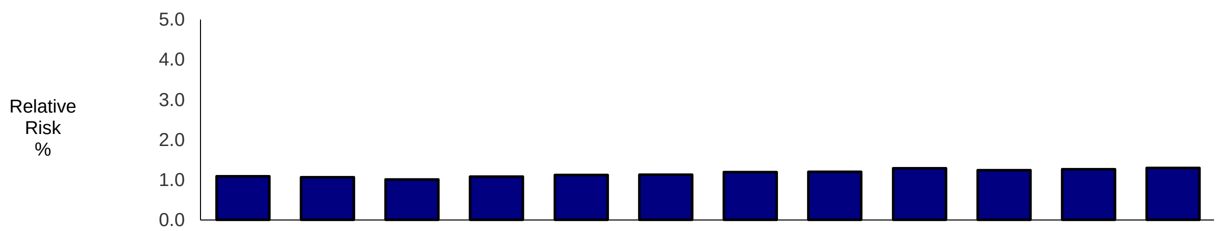
Fund	1.3	1.8	1.2	2.8	5.5	-2.4	-4.0	4.2	1.2	4.8	6.9	3.1
Benchmark	0.7	2.1	1.5	2.7	4.7	-1.9	-2.9	4.5	1.6	5.1	5.4	3.7
Relative Return	0.6	-0.3	-0.3	0.1	0.9	-0.5	-1.1	-0.3	-0.5	-0.3	1.4	-0.6

Annualised Rolling 3 Year Returns



Fund	7.1	7.2	11.2	10.4	10.7	10.7	8.3	8.8	6.2	7.8	9.2	8.9
Benchmark	6.9	7.2	10.9	10.1	10.0	10.0	7.9	8.7	6.3	8.2	9.2	9.2
Relative Return	0.2	0.0	0.3	0.2	0.6	0.7	0.3	0.1	-0.2	-0.3	-0.0	-0.3

Rolling 3 Year Risk



Relative Risk	1.1	1.1	1.0	1.1	1.1	1.1	1.2	1.2	1.3	1.2	1.3	1.3
Information Ratio	0.2	0.0	0.3	0.2	0.6	0.6	0.3	0.1	-0.1	-0.3	-0.0	-0.3

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Summary of Manager Performance

LB OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end December 2016**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

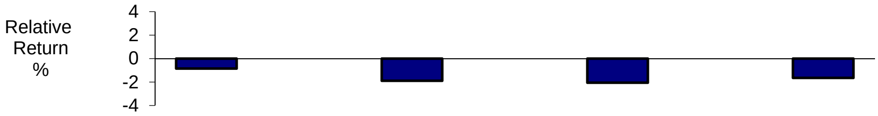
Category - TOTAL ASSETS

This page summarises the performance of each investment manager plotting the return achieved relative to the Benchmark.

	Latest Quarter	1 Year	3 Years % pa	5 Years % pa

GMO - TOTAL ASSETS

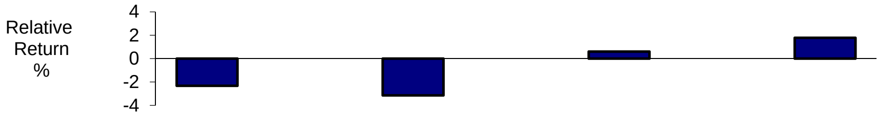
LB OF TOWER HAMLETS - GMO BM.



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	5.5	26.6	10.6	12.8
Benchmark	6.4	29.1	12.9	14.7
Relative Return	-0.9	-1.9	-2.1	-1.6

BAILLIE GIFFORD & CO - TOTAL ASSETS

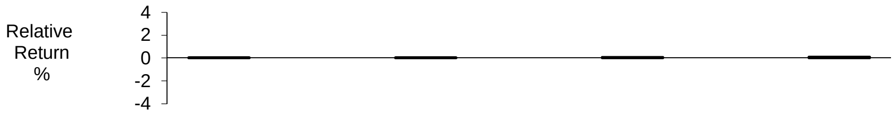
MSCI AC WORLD NDR



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	3.9	24.6	14.4	16.5
Benchmark	6.4	28.7	13.7	14.5
Relative Return	-2.3	-3.1	0.6	1.8

L&G - TOTAL ASSETS

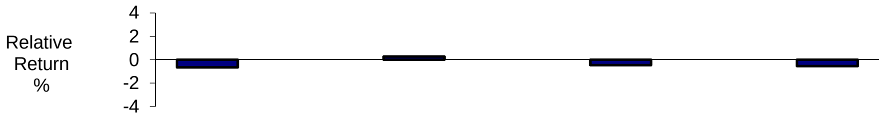
FTSE All Share TR



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	3.9	16.8	6.1	10.2
Benchmark	3.9	16.8	6.1	10.1
Relative Return	0.0	0.0	0.1	0.1

SCHRODER INVEST. MGMT. - TOTAL ASSETS

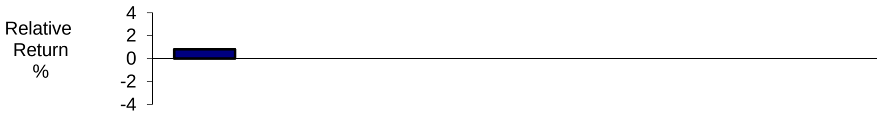
London Borough of Tower Hamlets - Schroders



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	1.6	3.0	10.1	7.6
Benchmark	2.3	2.8	10.7	8.2
Relative Return	-0.7	0.3	-0.5	-0.6

GOLDMAN SACHS ASSET MGMT - TOTAL ASSETS

GBP 3 MONTH LIBOR + 2%



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	1.4			
Benchmark	0.6			
Relative Return	0.8			

The graphs show the performance of each manager relative to their Benchmark.

The relative return is the degree of out or underperformance of the Benchmark over these periods.

not invested in this area for the entire period

Summary of Manager Performance

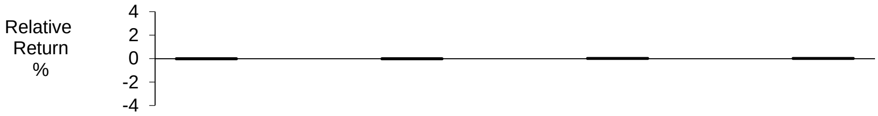
LB OF TOWER HAMLETS - TOTAL COMBINED | **Periods to end December 2016**
Benchmark - LB TOWER HAMLETS TOTAL B/MARK | **Pound Sterling**

Category - TOTAL ASSETS

This page summarises the performance of each investment manager plotting the return achieved relative to the Benchmark.

L&G - TOTAL ASSETS

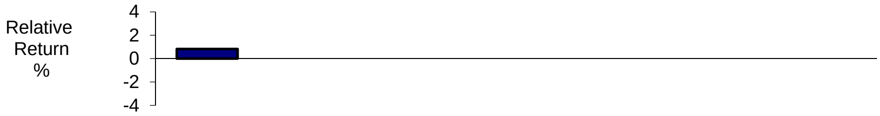
FTSE UK GILTS INDEXED > 5 YRS



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	-3.0	27.4	15.2	9.1
Benchmark	-3.0	27.4	15.2	9.1
Relative Return	-0.0	-0.0	0.0	0.0

INSIGHT INVESTMENTS - TOTAL ASSETS

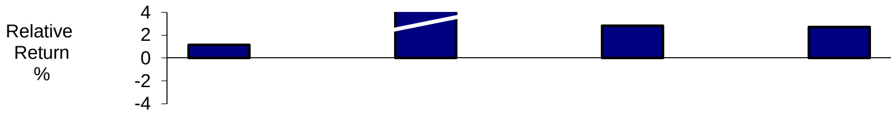
GBP 3 MONTH LIBOR + 2%



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	1.4			
Benchmark	0.6			
Relative Return	0.8			

RUFFER INVESTMENT MGMT LTD - TOTAL ASSETS

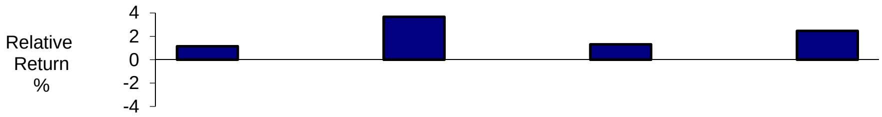
GBP 3 MONTH LIBOR + 3%



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	2.0	13.9	6.5	6.4
Benchmark	0.8	3.6	3.6	3.6
Relative Return	1.2	10.0	2.8	2.7

BAILLIE GIFFORD & CO - TOTAL ASSETS

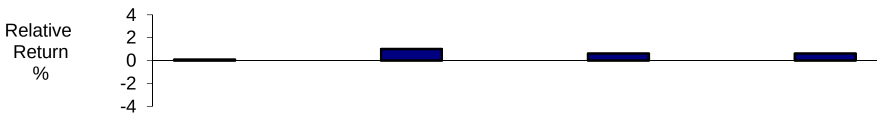
GBP 3 MONTH LIBOR + 3%



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	2.0	7.3	4.9	6.1
Benchmark	0.8	3.6	3.6	3.6
Relative Return	1.2	3.7	1.3	2.5

INTERNALLY MANAGED - TOTAL ASSETS

LB TOWER HAMLETS INTERNAL BM



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Portfolio	0.2	1.3	1.0	1.0
Benchmark	0.1	0.3	0.3	0.4
Relative Return	0.1	1.0	0.6	0.6

The graphs show the performance of each manager relative to their Benchmark.

The relative return is the degree of out or underperformance of the Benchmark over these periods.

not invested in this area for the entire period

Performance Summary - Manager Attribution

LB OF TOWER HAMLETS | **Quarter to end December 2016**
Benchmark - LB TOWER HAMLETS TOTAL B/MARK | **Pound Sterling**

This page analyses in detail the contributions to the Fund performance over the latest period.

Summary

Fund Return		3.1
Benchmark Return		3.7
Relative Performance		-0.6
	attributable to:	
	Strategic Allocation	-0.1
	Manager Contribution	-0.5
	Residual	-

The relative performance can be attributed to the effects of manager contribution and strategic allocation.

Detail

Strategic Allocation				Manager Contribution		
Distribution		Policy	Investment	Weighted	% Return	
Portfolio	Benchmark	Contribution	Manager	Contribution	Portfolio	Benchmark
22.8	23.0	-	GMO	-0.2	5.5	6.4
19.8	18.0	-	BAILLIE GIFFORD & CO	-0.5	3.9	6.4
19.3	20.0	-	L&G	-	3.9	3.9
10.6	12.0	-	SCHRODER INVEST. MGMT.	-0.1	1.6	2.3
6.0	7.0	-	GOLDMAN SACHS ASSET MGMT	-	1.4	0.6
5.9	3.0	-0.2	L&G	-	-3.0	-3.0
5.5	7.0	-	INSIGHT INVESTMENTS	-	1.4	0.6
4.8	5.0	-	RUFFER INVESTMENT MGMT LTD	0.1	2.0	0.8
4.7	5.0	-	BAILLIE GIFFORD & CO	0.1	2.0	0.8
0.6	0.0	-	INTERNALLY MANAGED	-	0.2	0.1
		-0.1		-0.5		

The Strategic Allocation quantifies the impact of the fund being invested differently from the Strategic Benchmark set.

The Manager Contribution comes about from the out / underperformance of each manager relative to their benchmarks weighted by the value of assets held.

= not invested in this area for the entire period

Appendices

LB OF TOWER HAMLETS - TOTAL COMBINED — **Periods to end December 2016**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK — **Pound Sterling**

This page provides the underlying detail for the fund over the latest period.

All values are shown in GBP'000s	Asset Allocation								Stock Selection	
	30/09/2016				Gain/		30/12/2016			
	Value	%	Purchases	Sales	Loss	Income	Value	%	Return	B'M
TOTAL EQUITIES	*531,846*	*42*	*36,434*	*31,987*	*22,804*	*2,488*	*559,097*	*43*	*4.7*	*5.2*
U.K. EQUITIES	*245,639*	*19*	*52*		*9,586*		*255,278*	*19*	*3.9*	*3.9*
OVERSEAS EQUITIES	*286,206*	*23*	*36,382*	*31,987*	*13,217*	*2,488*	*303,819*	*23*	*5.5*	*6.4*
NORTH AMERICA	*105,795*	*8*	*14,806*	*17,987*	*8,479*	*630*	*111,094*	*8*	*8.8*	
TOTAL USA	*99,435*	*8*	*13,831*	*17,112*	*7,918*	*582*	*104,073*	*8*	*8.8*	
CONTINENTAL EUROPE	*55,347*	*4*	*3,274*	*4,710*	*4,465*	*184*	*58,375*	*4*	*8.5*	
EUROLAND TOTAL	*44,507*	*4*	*2,405*	*3,903*	*3,959*	*166*	*46,968*	*4*	*9.4*	
NON EUROLAND TOTAL	*10,840*	*1*	*869*	*807*	*505*	*18*	*11,407*	*1*	*4.8*	
JAPAN	*28,829*	*2*	*2,530*	*1,627*	*2,194*	*36*	*31,927*	*2*	*7.7*	
TOTAL PACIFIC (EX.JAPAN)	*15,256*	*1*	*2,433*	*4,301*	*-118*	*52*	*13,269*	*1*	*-0.4*	
OTHER INTL EQUITIES	*59,436*	*5*	*11,921*	*2,785*	*-1,080*	*1,453*	*67,492*	*5*	*0.7*	*6.4*
EMERGING MARKETS	*3,976*	*0*	*129*	*2,785*	*257*	*8*	*1,577*	*0*	*15.7*	
OTHER OVERSEAS	*21,544*	*2*	*1,419*	*577*	*-723*	*134*	*21,662*	*2*	*-2.7*	
UK GLOBAL	*21,544*	*2*	*1,419*	*577*	*-723*	*134*	*21,662*	*2*	*-2.7*	
GMO EMERGING MARKETS EQUITY	*55,460*	*4*	*11,792*		*-1,337*	*1,445*	*65,915*	*5*	*0.3*	
TOTAL BONDS PLUS INDEX-LINKED	*221,474*	*17*	*76,529*	*76,529*	*-145*		*221,329*	*17*	*-0.1*	*-0.0*
U.K. INDEX - LINKED	*74,810*	*6*			*-2,223*		*72,587*	*6*	*-3.0*	*-3.0*
POOLED BONDS	*146,664*	*12*	*76,529*	*76,529*	*2,077*		*148,741*	*11*	*1.4*	*0.6*
CASH/ALTERNATIVES	*392,859*	*31*	*139,475*	*143,248*	*12,035*	*467*	*401,122*	*31*	*3.2*	*4.4*
TOTAL CASH	*21,456*	*2*	*139,023*	*143,248*	*227*	*15*	*17,459*	*1*	*1.1*	
ALTERNATIVES	*371,403*	*29*	*452*		*11,808*	*452*	*383,663*	*29*	*3.3*	*4.4*
LGPS CIV Diversified Growth Fund (Class A	*59,269*	*5*			*1,192*		*60,461*	*5*	*2.0*	
LGPS CIV Global Equity Alpha Fund (Class /	*251,520*	*20*	*452*		*9,396*	*452*	*261,368*	*20*	*3.9*	
LCIV RF ABSOLUTE RETURN FUND	*60,614*	*5*			*1,220*		*61,834*	*5*	*2.0*	
TOTAL PROPERTY	*124,385*	*10*	*17,230*	*11,704*	*1,111*	*1,026*	*131,021*	*10*	*1.7*	*2.3*
TOTAL ASSETS	***1,270,564***	***100***	***269,667***	***263,467***	***35,804***	***3,889***	***1,312,568***	***100***	***3.1***	***3.7***

The change in Fund value over the period is a combination of the net money flows into or out of the Fund and any gain or loss on the capital value of the investments.

not invested in this area for the entire period

Summary of Long Term Returns

LB OF TOWER HAMLETS - TOTAL COMBINED | **Periods to end December 2016**

Benchmark - LB TOWER HAMLETS TOTAL B/MARK | **Pound Sterling**

This page summarises the long term returns at asset class level

	2014				2015				2016				1yr	3yrs	5yrs
Return %	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		% pa	% pa
UK Equities	*-0.4*	*2.7*	*-1.2*	*0.4*	*4.7*	*-1.5*	*-5.7*	*4.0*	*-0.4*	*4.7*	*7.8*	*3.9*	*16.8*	*6.3*	*10.2*
N. America	*1.4*	*0.5*	*7.0*	*8.6*	*7.4*	*-5.4*	*-7.0*	*4.3*	*2.4*	*8.9*	*6.8*	*8.8*	*29.7*	*14.8*	*15.0*
Europe ex UK	*6.5*	*1.6*	*-5.6*	*-2.7*	*10.4*	*-5.8*	*-9.2*	*10.8*	*0.5*	*3.1*	*9.4*	*8.5*	*23.0*	*8.6*	*13.0*
Pacific	*-0.8*	*4.4*	*0.1*	*3.0*	*11.1*	*-4.9*	*-16.1*	*6.4*	*0.6*	*9.7*	*12.2*	*-0.4*	*23.3*	*7.5*	*12.6*
Japan	*-4.8*	*6.3*	*0.9*	*-4.0*	*18.5*	*-0.1*	*-8.5*	*14.6*	*-3.9*	*9.7*	*9.6*	*7.7*	*24.4*	*14.8*	*13.2*
Global Eq	*2.0*	*0.3*	*1.9*	*6.4*	*9.1*	*-4.9*	*-5.8*	*10.4*	*0.3*	*2.0 #*					
UK IL	*3.6*	*1.1*	*5.9*	*9.4*	*3.3*	*-3.3*	*2.3*	*-3.3*	*6.5*	*11.1*	*11.0*	*-3.0*	*27.4*	*15.2*	*9.1*
Pooled Bonds	*0.1*	*0.0*	*1.2*	*0.8*	*0.1*	*-1.1*	*0.2*	*-0.3*	*0.4 #*	*-0.8 #*	*2.7*	*1.4*			
Cash	*-0.2*	*-0.2*	*0.8*	*0.9*	*0.6*	*0.0*	*0.4*	*0.4*	*0.8*	*0.4*	*0.7*	*1.1*	*2.9*	*1.9*	*1.2*
Alternatives	*-0.1*	*1.4*	*2.0*	*2.4*	*4.0*	*-0.5*	*-3.8*	*1.4*	*0.3*	*2.7*	*9.8*	*3.3*	*16.8*	*7.6*	*7.4*
Curr Instr	*n/a*	*n/a*	*n/a*	*n/a*	*0.0 #*										
Property	*2.8*	*4.7*	*3.9*	*4.4*	*2.6*	*2.8*	*3.8*	*2.3*	*1.9*	*0.4*	*-0.8*	*1.7*	*3.2*	*10.5*	*7.8*
Total Assets	1.3	1.8	1.2	2.8	5.5	-2.4	-4.0	4.2	1.2	4.8	6.9	3.1	16.9	8.9	10.1

not invested in this area for the entire period

Rolling Years with Relative Risk - GMO World Equity

LONDON BOROUGH OF TOWER HAMLETS - GMO — **Periods to end December 2016**

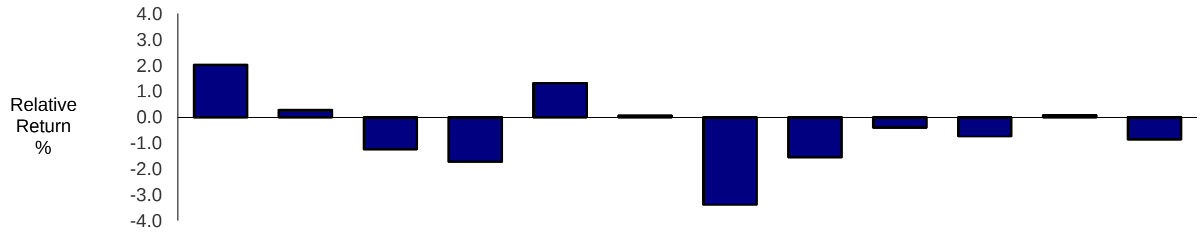
Benchmark - LB OF TOWER HAMLETS - GMO BM. — **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

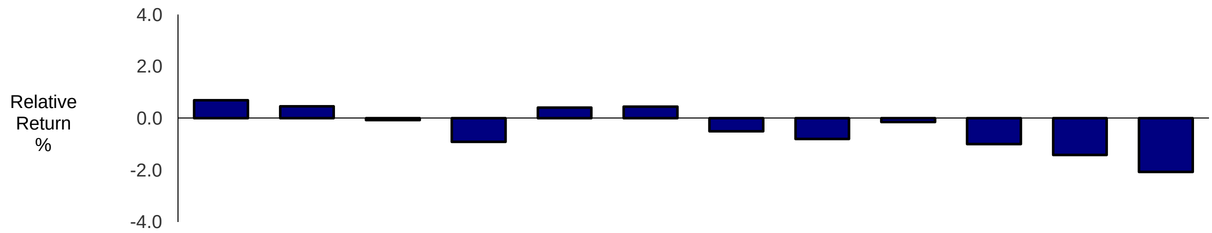
	2014				2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	254.8	260.5	267.0	267.8	250.7	273.4	249.2	226.6	241.4	247.3	267.2	289.7
Net Investment	0.9	2.8	1.2	-18.8	1.0	-8.6	1.5	1.8	0.9	2.5	1.7	2.9
Capital Gain/Loss	4.8	3.7	-0.4	1.7	21.6	-15.6	-24.1	13.0	5.0	17.4	20.8	13.4
Final	260.5	267.0	267.8	250.7	273.4	249.2	226.6	241.4	247.3	267.2	289.7	305.9
Income	1.2	2.7	1.3	1.9	1.0	2.1	1.5	1.5	1.2	2.4	1.8	2.4
Proportion Of Total Fund (%)	26	26	26	23	24	22	21	22	22	23	23	23

Quarterly Returns



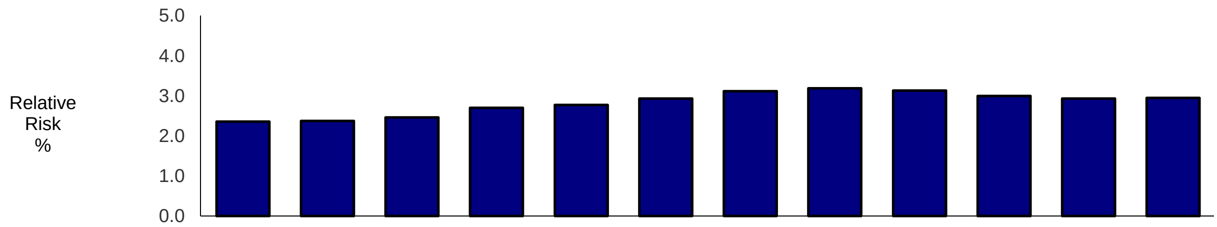
Fund	2.4	2.4	0.3	1.3	9.0	-5.1	-9.0	6.4	2.5	8.0	8.4	5.5
Benchmark	0.3	2.2	1.6	3.1	7.6	-5.1	-5.9	8.1	2.9	8.8	8.4	6.4
Relative Return	2.0	0.3	-1.2	-1.7	1.3	0.1	-3.4	-1.6	-0.4	-0.7	0.1	-0.9

Annualised Rolling 3 Year Returns



Fund	8.5	8.7	14.8	13.0	14.1	13.8	9.1	10.2	7.1	9.1	10.6	10.6
Benchmark	7.8	8.2	14.9	14.0	13.6	13.3	9.7	11.0	7.3	10.2	12.2	12.9
Relative Return	0.7	0.5	-0.1	-0.9	0.4	0.4	-0.5	-0.8	-0.1	-1.0	-1.4	-2.1

Rolling 3 Year Risk



Relative Risk	2.4	2.4	2.5	2.7	2.8	2.9	3.1	3.2	3.1	3.0	2.9	2.9
Information Ratio	0.3	0.2	-0.0	-0.3	0.1	0.2	-0.2	-0.3	-0.0	-0.3	-0.5	-0.7

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - L&G Equity Uk

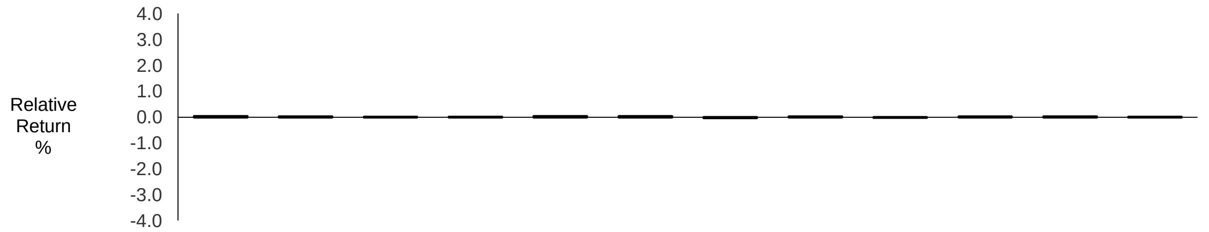
LB OF TOWER HAMLETS - L&G	Periods to end December 2016
Benchmark - FTSE All Share TR	Pound Sterling

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

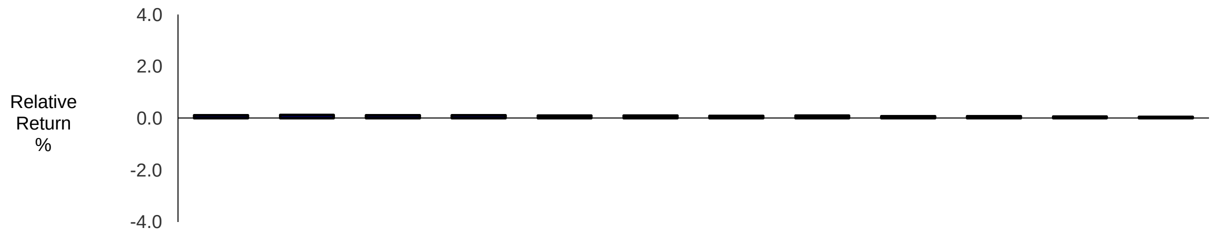
	-------------- 2014 --------------				-------------- 2015 --------------				-------------- 2016 --------------			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	213.4	212.1	216.9	214.8	216.1	226.3	222.8	210.1	218.4	217.5	227.8	245.6
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	-1.3	4.8	-2.1	1.3	10.2	-3.5	-12.7	8.4	-0.9	10.3	17.8	9.6
Final	212.1	216.9	214.8	216.1	226.3	222.8	210.1	218.4	217.5	227.8	245.6	255.2
Income	0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0
Proportion Of Total Fund (%)	21	21	20	20	20	20	20	20	19	19	19	19

Quarterly Returns



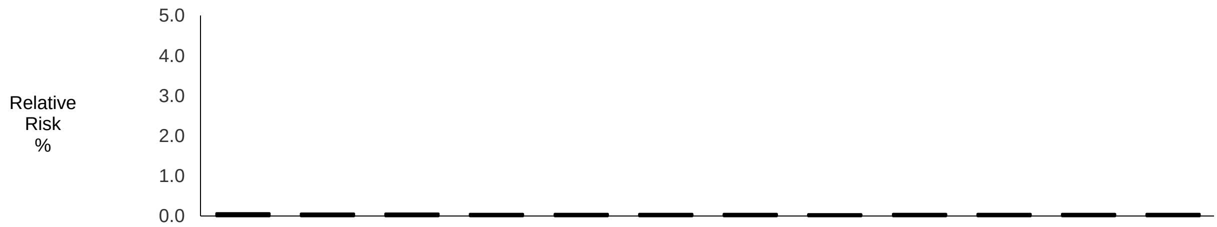
Fund	-0.6	2.3	-1.0	0.6	4.7	-1.5	-5.7	4.0	-0.4	4.7	7.8	3.9
Benchmark	-0.6	2.2	-1.0	0.6	4.7	-1.6	-5.7	4.0	-0.4	4.7	7.8	3.9
Relative Return	0.0	0.0	0.0	0.0	0.0	0.0	-0.0	0.0	-0.0	0.0	0.0	0.0

Annualised Rolling 3 Year Returns



Fund	8.9	9.0	14.1	11.2	10.7	11.1	7.3	7.4	3.7	5.9	6.6	6.1
Benchmark	8.8	8.9	13.9	11.1	10.6	11.0	7.2	7.3	3.7	5.8	6.6	6.1
Relative Return	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Rolling 3 Year Risk



Relative Risk	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Information Ratio	1.9	2.2	2.2	2.3	2.3	2.2	2.1	2.4	1.8	1.6	1.4	1.3

The relative return is the degree of out or underperformance of the Benchmark over these periods.
Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.
Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - B Gifford World Equity

LONDON BOROUGH OF TOWER HAMLETS - BAILLIE GIFFORD & CO | **Periods to end December 2016**

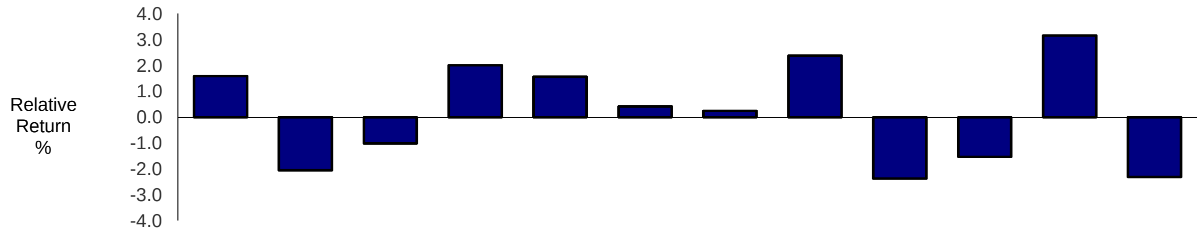
Benchmark - MSCI AC WORLD NDR | **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

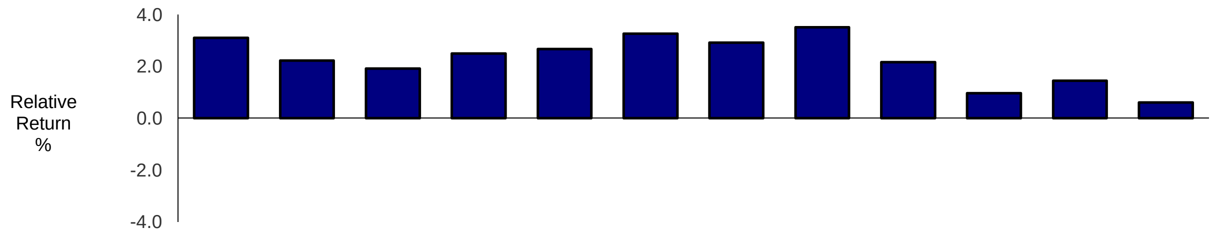
	-------------- 2014 --------------				-------------- 2015 --------------				-------------- 2016 --------------			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Values (GBPm's)												
Initial	179.4	183.1	183.6	187.3	199.4	217.7	200.8	189.3	209.2	209.9	224.4	251.5
Net Investment	0.1	0.1	0.1	0.1	0.1	-6.3	0.1	0.1	0.1	0.0	0.6	0.5
Capital Gain/Loss	3.6	0.5	3.5	12.1	18.1	-10.5	-11.7	19.8	0.6	14.5	26.5	9.4
Final	183.1	183.6	187.3	199.4	217.7	200.8	189.3	209.2	209.9	224.4	251.5	261.4
Income	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.5
Proportion Of Total Fund (%)	18	18	18	18	19	18	18	19	19	19	20	20

Quarterly Returns



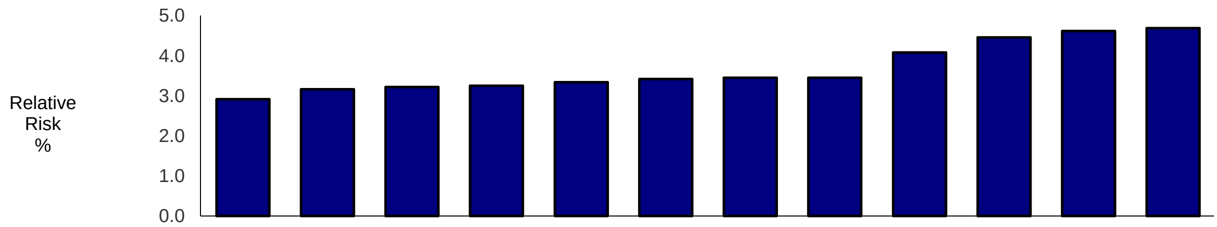
Fund	2.0	0.3	2.0	6.5	9.1	-4.9	-5.8	10.5	0.3	6.9	11.8	3.9
Benchmark	0.4	2.4	3.0	4.4	7.5	-5.3	-6.0	7.9	2.8	8.6	8.4	6.4
Relative Return	1.6	-2.1	-1.0	2.0	1.6	0.4	0.2	2.4	-2.4	-1.5	3.2	-2.3

Annualised Rolling 3 Year Returns



Fund	10.4	10.4	17.3	16.8	16.5	16.6	12.4	15.2	9.8	11.6	14.8	14.4
Benchmark	7.1	8.0	15.1	13.9	13.5	12.9	9.2	11.3	7.5	10.6	13.2	13.7
Relative Return	3.1	2.2	1.9	2.5	2.7	3.3	2.9	3.5	2.2	1.0	1.4	0.6

Rolling 3 Year Risk



Relative Risk	2.9	3.2	3.2	3.2	3.3	3.4	3.4	3.4	4.1	4.5	4.6	4.7
Information Ratio	1.1	0.7	0.6	0.8	0.8	1.0	0.8	1.0	0.5	0.2	0.3	0.1

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - Schroders UK Property

LB OF TOWER HAMLET PROPERTY PORTFOLIO - SCHRODER INVEST. MGMT. — **Periods to end December 2016**

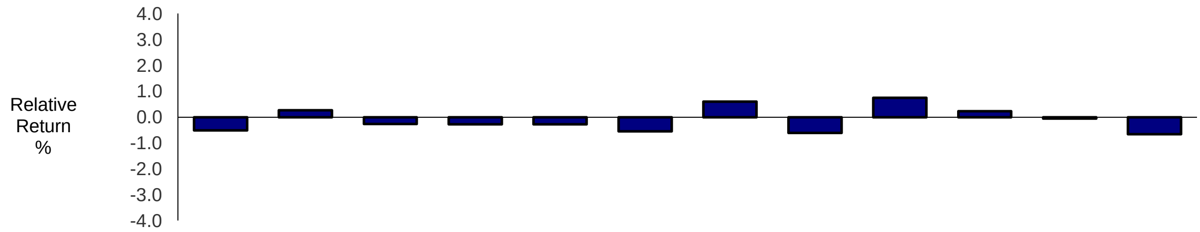
Benchmark - London Borough of Tower Hamlets - Schroders — **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

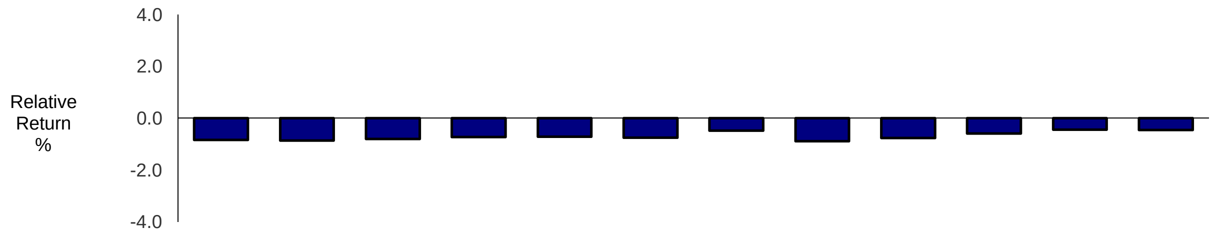
	2014				2015				2016			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Values (GBPm's)												
Initial	102.3	105.2	110.1	114.3	119.2	122.2	125.6	130.1	133.0	135.4	135.9	134.9
Net Investment	1.0	1.1	1.0	1.0	0.9	0.9	0.9	0.9	0.9	1.0	1.2	1.0
Capital Gain/Loss	1.9	3.8	3.2	3.9	2.1	2.4	3.6	2.0	1.5	-0.5	-2.2	1.1
Final	105.2	110.1	114.3	119.2	122.2	125.6	130.1	133.0	135.4	135.9	134.9	137.0
Income	0.9	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.2	1.0
Proportion Of Total Fund (%)	10	11	11	11	11	11	12	12	12	11	11	10

Quarterly Returns



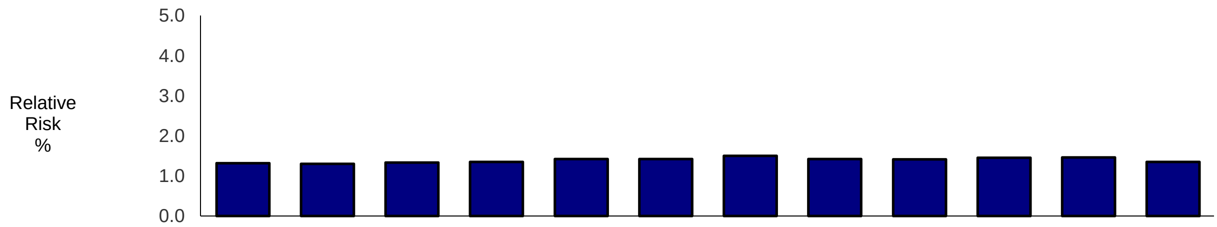
	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Fund	2.8	4.6	3.7	4.3	2.5	2.8	3.6	2.2	1.8	0.4	-0.7	1.6
Benchmark	3.3	4.3	4.0	4.6	2.8	3.3	3.0	2.8	1.1	0.1	-0.7	2.3
Relative Return	-0.5	0.3	-0.3	-0.3	-0.3	-0.5	0.6	-0.6	0.7	0.2	-0.1	-0.7

Annualised Rolling 3 Year Returns



	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Fund	4.8	5.7	6.6	7.8	8.6	9.7	11.1	11.9	12.1	11.8	10.9	10.1
Benchmark	5.7	6.6	7.4	8.6	9.4	10.6	11.7	12.9	13.0	12.5	11.4	10.7
Relative Return	-0.8	-0.9	-0.8	-0.7	-0.7	-0.7	-0.5	-0.9	-0.8	-0.6	-0.4	-0.5

Rolling 3 Year Risk



	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Relative Risk	1.3	1.3	1.3	1.4	1.4	1.4	1.5	1.4	1.4	1.4	1.5	1.3
Information Ratio	-0.6	-0.7	-0.6	-0.5	-0.5	-0.5	-0.3	-0.6	-0.5	-0.4	-0.3	-0.3

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - L&G Index Linked

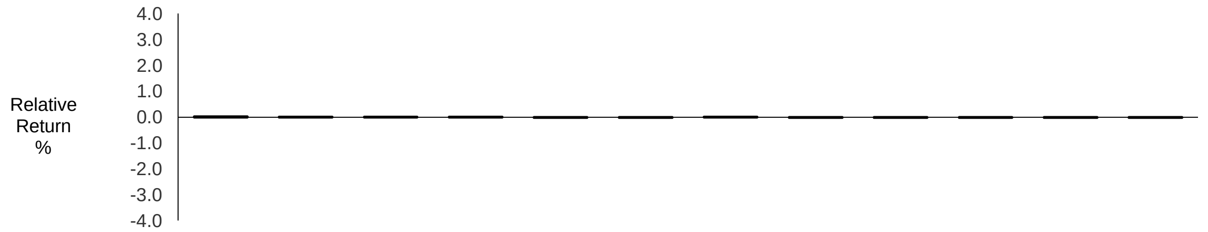
LB OF TOWER HAMLETS - L&G	Periods to end December 2016
Benchmark - FTSE UK GILTS INDEXED > 5 YRS	Pound Sterling

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

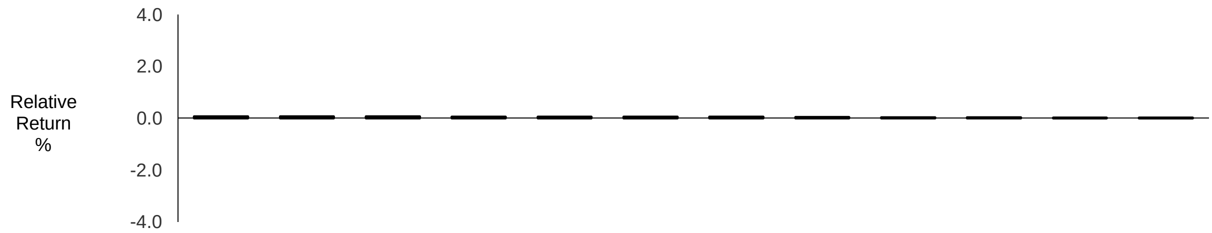
	-------------- 2014 --------------				-------------- 2015 --------------				-------------- 2016 --------------			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	47.5	49.2	49.7	52.7	57.7	59.5	57.6	58.9	57.0	60.7	67.4	74.8
Net Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	1.7	0.6	3.0	5.0	1.9	-2.0	1.3	-1.9	3.7	6.7	7.4	-2.2
Final	49.2	49.7	52.7	57.7	59.5	57.6	58.9	57.0	60.7	67.4	74.8	72.6
Income	0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0
Proportion Of Total Fund (%)	5	5	5	5	5	5	5	5	5	6	6	6

Quarterly Returns



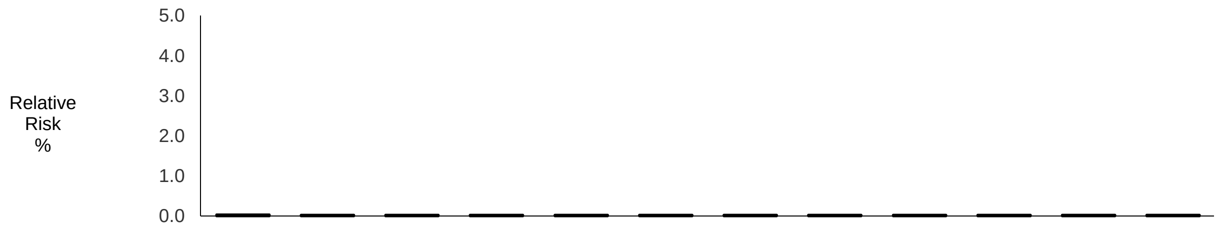
	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Fund	3.6	1.1	5.9	9.4	3.3	-3.3	2.3	-3.3	6.5	11.1	10.9	-3.0
Benchmark	3.6	1.1	5.9	9.4	3.3	-3.3	2.3	-3.3	6.5	11.1	11.0	-3.0
Relative Return	0.0	0.0	0.0	0.0	-0.0	-0.0	0.0	-0.0	-0.0	-0.0	-0.0	-0.0

Annualised Rolling 3 Year Returns



	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Fund	9.0	7.8	7.2	7.1	9.0	7.5	9.4	6.5	5.6	12.2	16.0	15.2
Benchmark	8.9	7.8	7.1	7.0	8.9	7.4	9.4	6.4	5.6	12.2	15.9	15.2
Relative Return	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Rolling 3 Year Risk



	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Relative Risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Information Ratio	2.1	2.5	2.8	2.7	2.7	2.2	2.3	1.9	1.3	1.1	0.5	0.2

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

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Rolling Years with Relative Risk - B Gifford Divers Growth

LB OF TOWER HAMLETS - BAILLIE GIFFORD & CO | **Periods to end December 2016**

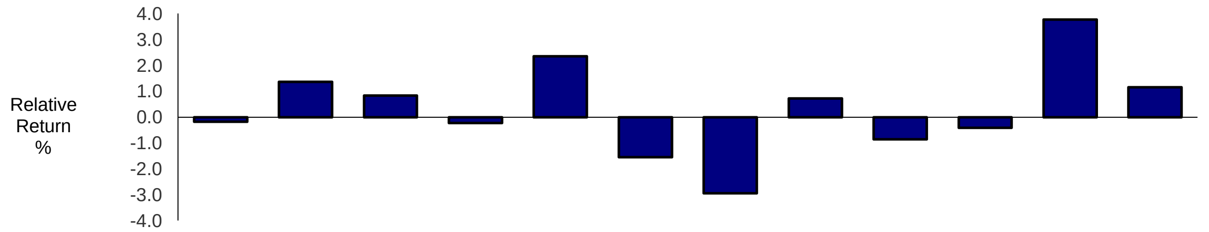
Benchmark - GBP 3 MONTH LIBOR + 3% | **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

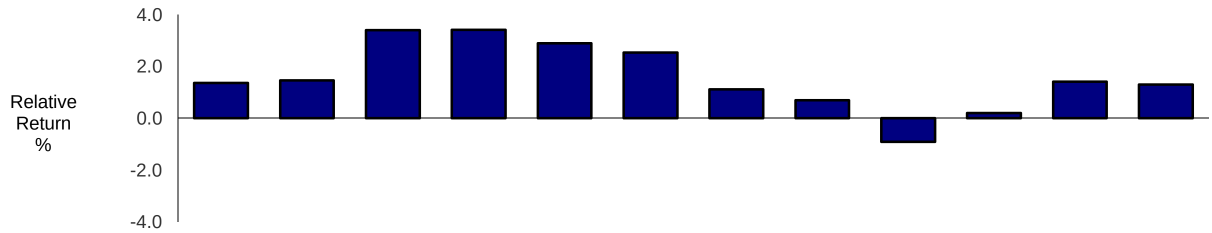
	-------------- 2014 --------------				-------------- 2015 --------------				-------------- 2016 --------------			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Values (GBPm's)												
Initial	46.5	46.9	47.9	48.8	49.1	50.7	56.7	55.5	56.4	56.3	56.6	59.3
Net Investment	0.0	0.0	0.0	0.0	0.0	6.4	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	0.3	1.0	0.8	0.3	1.6	-0.5	-1.2	0.9	-0.1	0.3	2.7	1.2
Final	46.9	47.9	48.8	49.1	50.7	56.7	55.5	56.4	56.3	56.6	59.3	60.5
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Proportion Of Total Fund (%)	5	5	5	5	4	5	5	5	5	5	5	5

Quarterly Returns



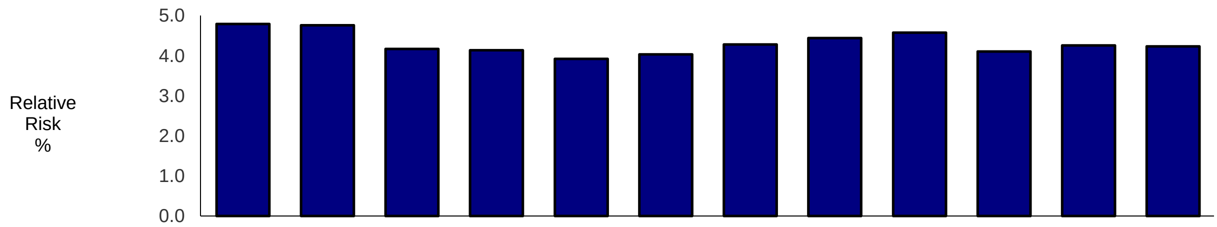
Fund	0.7	2.3	1.7	0.6	3.3	-0.7	-2.1	1.6	0.0	0.5	4.7	2.0
Benchmark	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.8
Relative Return	-0.2	1.4	0.8	-0.2	2.4	-1.5	-2.9	0.7	-0.9	-0.4	3.8	1.2

Annualised Rolling 3 Year Returns



Fund	5.1	5.2	7.2	7.2	6.6	6.2	4.7	4.3	2.6	3.8	5.0	4.9
Benchmark	3.7	3.7	3.7	3.6	3.6	3.5	3.5	3.5	3.5	3.6	3.6	3.6
Relative Return	1.4	1.5	3.4	3.4	2.9	2.5	1.1	0.7	-0.9	0.2	1.4	1.3

Rolling 3 Year Risk



Relative Risk	4.8	4.8	4.2	4.1	3.9	4.0	4.3	4.4	4.6	4.1	4.3	4.2
Information Ratio	0.3	0.3	0.8	0.8	0.7	0.6	0.3	0.2	-0.2	0.0	0.3	0.3

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk - Ruffer

LB OF TOWER HAMLETS - RUFFER INVESTMENT MGMT LTD — Periods to end December 2016

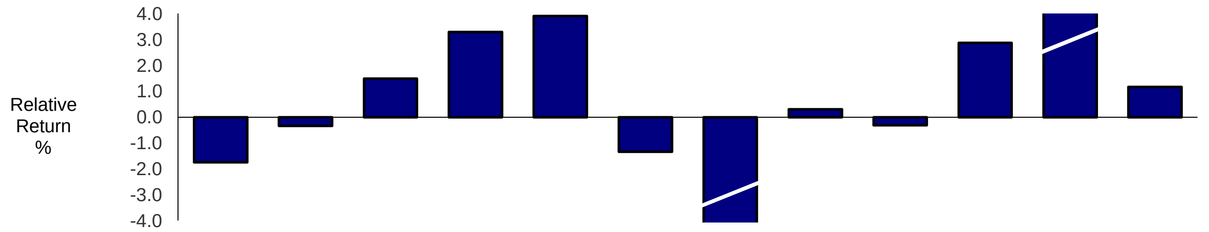
Benchmark - GBP 3 MONTH LIBOR + 3% — Pound Sterling

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

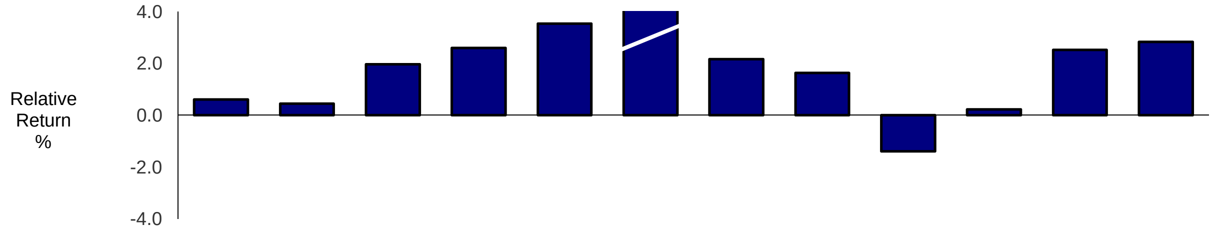
	2014				2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial	45.4	45.0	45.3	46.3	48.3	50.6	56.8	53.7	54.3	54.6	56.7	60.6
Net Investment	0.0	0.0	0.0	0.0	0.0	6.5	0.0	0.0	0.0	0.0	0.0	0.0
Capital Gain/Loss	-0.4	0.2	1.1	1.9	2.3	-0.3	-3.1	0.6	0.3	2.1	3.9	1.2
Final	45.0	45.3	46.3	48.3	50.6	56.8	53.7	54.3	54.6	56.7	60.6	61.8
Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proportion Of Total Fund (%)	4	4	4	4	4	5	5	5	5	5	5	5

Quarterly Returns



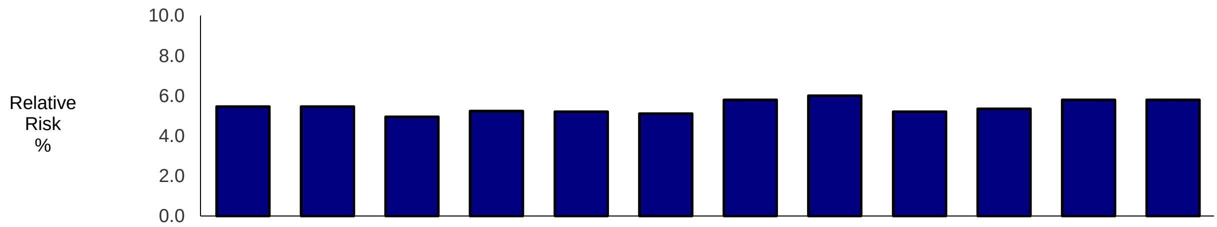
Fund	-0.9	0.5	2.4	4.2	4.8	-0.5	-5.5	1.2	0.6	3.8	6.9	2.0
Benchmark	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.8
Relative Return	-1.7	-0.3	1.5	3.3	3.9	-1.3	-6.3	0.3	-0.3	2.9	6.0	1.2

Annualised Rolling 3 Year Returns



Fund	4.3	4.1	5.7	6.3	7.2	8.2	5.8	5.2	2.1	3.8	6.2	6.5
Benchmark	3.7	3.7	3.7	3.6	3.6	3.5	3.5	3.5	3.5	3.6	3.6	3.6
Relative Return	0.6	0.4	2.0	2.6	3.5	4.5	2.2	1.6	-1.4	0.2	2.5	2.8

Rolling 3 Year Risk



Relative Risk	5.5	5.5	4.9	5.2	5.2	5.1	5.8	6.0	5.2	5.3	5.8	5.8
Information Ratio	0.1	0.1	0.4	0.5	0.7	0.9	0.4	0.3	-0.3	0.0	0.4	0.5

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk

LONDON BOROUGH OF TOWER HAMLETS - GOLDMAN SACHS ASSET MGMT — **Periods to end December 2016**

Benchmark - GBP 3 MONTH LIBOR + 2% — **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

	2014				2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial										0.0	74.2	76.5
Net Investment										74.8	0.0	0.0
Capital Gain/Loss										-0.6	2.3	1.1
Final										74.2	76.5	77.6
Income										0.0	0.0	0.0
Proportion Of Total Fund (%)										6	6	6

Quarterly Returns

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Fund											3.1	1.4
Benchmark											0.6	0.6
Relative Return											2.5	0.8

Annualised Rolling 3 Year Returns

Fund

Benchmark

Relative Return

Rolling 3 Year Risk

Relative Risk

Information Ratio

The relative return is the degree of out or underperformance of the Benchmark over these periods.
Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.
Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Rolling Years with Relative Risk

LONDON BOROUGH OF TOWER HAMLETS - INSIGHT INVESTMENTS | **Periods to end December 2016**

Benchmark - GBP 3 MONTH LIBOR + 2% | **Pound Sterling**

Category - TOTAL ASSETS

This page details the longer term performance of the Fund, plotting it relative to the Benchmark set.

	2014				2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Values (GBPm's)												
Initial											0.0	70.2
Net Investment											70.0	0.0
Capital Gain/Loss											0.2	1.0
Final											70.2	71.2
Income											0.0	0.0
Proportion Of Total Fund (%)											6	5

Quarterly Returns

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Fund												1.4
Benchmark												0.6
Relative Return												0.8

Annualised Rolling 3 Year Returns

Fund

Benchmark

Relative Return

Rolling 3 Year Risk

Relative Risk

Information Ratio

The relative return is the degree of out or underperformance of the Benchmark over these periods.

Relative risk measures the degree of fund performance deviation from benchmark. The larger the relative risk number the greater the monthly deviation from benchmark.

Information Ratio is often interpreted as a measure of manager skill in adding value over and above the benchmark.

Non-Executive Report of the: **PENSIONS COMMITTEE** **16 March 2017**	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director, Resources	**Classification:** Unrestricted
Pension Fund Triennial Valuation Outcome and Funding Strategy Statement for 2017/18	

Originating Officer(s)	Bola Tobun, Investment and Treasury Manager
Wards affected	All

Summary

The Tower Hamlets Pension Fund, in accordance with Local Government Pension Scheme (LGPS) regulations, undergoes a full actuarial valuation once every three years, the results of which are used to determine contribution rates for each of the employers within the Fund for the following three years. The current actuarial valuation is based upon investment, cash flow and member information as at 31 March 2016 with contributions set to cover the period from April 2017 – March 2020.

This report brings the final actuarial valuation outcome to the Committee for adoption and also the Funding Strategy Statement (FSS) to the Committee for approval. This statement sets out how the Pension Fund aims to become fully funded over the long term, whilst considering affordability, transparency, stability and prudence.

Employees contributions are set by the Government, so employers must pay the balance of any cost in 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 or pools of employers pay for their own liabilities. The final agreed contribution rates for employers are shown in Appendix 3.

The Funding Strategy Statement has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) as attached in Appendix 4, which provides the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

The FSS was circulated in draft to all employers who participate in the Tower Hamlets Pension Fund to allow comments to be made prior to its finalisation. Employers were invited to respond with any comments by Monday 6th March 2017.

Following the consultation, the FSS will be considered and approved by the Pensions Committee on 16th March 2017. Comments received from consultation will be brought to the attention of the Committee.

Recommendations:

Pensions Committee is recommended to:

- Note and adopt the 31st March 2016 actuarial valuation report as set out in Appendix 1;
- Approve the Funding Strategy Statement as set out in Appendix 2;
- Note and adopt the draft rates and adjustments schedule/certificate prepared by the Fund Actuary listing all employers' in the Tower Hamlets Pension Fund, primary and secondary contributions payable from April 2017 to March 2020 as set out in Appendix 3;
- Approve the sign off of the Rates and Adjustments Certificate and the implementation of the Funding Strategy Statement.

Comment [NA1]: There is currently no power for the Committee to pass this function to the Director. I think if the wording is left at for the Committee to approve the sign off and implementation this should be ok.

1. REASONS FOR THE DECISIONS

1.1 Regulation 58 of the Local Government Pension Scheme (Administration) Regulations 2013 (as amended) together with the guidance issued by CIPFA provides the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

1.2 Following consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy with all relevant interested parties involved with the fund – for example, local authority employers, admitted bodies, scheduled/resolution bodies.

1.3 The administering authority will prepare and publish its funding strategy by having have regard to:-

a. the guidance issued by CIPFA for this purpose; and

b. the Statement of Investment Principles (SIP) or investment strategy statement (ISS), whichever is appropriate;

1.4 The FSS will 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 or investment strategy statement.

1.5 The revised FSS should be completed and approved by the Pension Committee (or equivalent) prior to the completion of each valuation.

1.6 The Fund actuary must have regard to the FSS as part of the fund valuation process.

2. ALTERNATIVE OPTIONS

2.1 There is no alternative because the requirements to carry out the triennial revaluation and prepare a Funding Strategy Statement are prescribed in regulations

3. DETAILS OF REPORT

Valuation Results: Deficit and Funding Level

3.1 The valuation report is set out in Appendix 1. The highlights are that since the last valuation was carried out as at 31st March 2013:

- The funding level has improved from 71.8% to 82.7%.
- In monetary terms the deficit has reduced by £130m from £365m (at March 2013) to £235m (March 2016). This was based on the Fund having assets of £1,126m and liabilities of £1,361m as shown below.

Valuation Date	31 March 2013	31 March 2016
Past Service Liabilities	**(£m)**	**(£m)**
Employees	451	414
Deferred Pensioners	297	320
Pensioners	546	627
Total Liabilities	**1,293**	**1,361**
Assets	**928**	**1,126**
Surplus / (Deficit)	**(365)**	**(235)**
Funding Level	**71.8%**	**82.7%**

3.2 The table shown below analyses the change in the deficit. The main reason for the reduced deficit are as follows; contributions greater than cost of accrual, better than expected performance of the markets/return on investments and membership experience (new members, number of deaths and leavers, etc.) being better in terms of financial impact on the Fund.

Analysis		(£m)
Surplus / (deficit) at 31 March 2013		**(365)**
Interest on surplus / (deficit)	(53)	
Investment returns greater than expected	46	
Contributions greater than cost of accrual	38	
Membership experience over the period	66	
Change in demographic assumptions	6	
Change in base mortality assumption	16	
Change in longevity improvements assumption	1	
Change in financial assumptions	33	
Impact of LGPS 50/50 take up	(7)	
Other experience items	(16)	
Surplus / (deficit) at 31 March 2016		**(235)**

3.3 It is noticeable from above table, that the elements of the valuation assumptions that are controllable by the Council (investment returns, retirements & salary increases) have positively impacted the results; whereas the assumptions that are outside the Council's control (gilt yields and inflation during the valuation period) have had a negative impact on the results. For the first time in recent times, mortality rate has trended downwards – this has had a positive impact on Fund liabilities.

Contributions Rates

3.4 The rates that are certified in the Rates and Adjustment Certificate ("R and A"), as shown at Appendix 3, which result from calculations carried out by the Fund Actuary (Hymans Robertson) at the valuation, are made up of two elements:

a) the estimated cost of future benefits being accrued, (the "Primary Rate") – this is the cost of an officer earning an extra year of pension benefit; plus

b) an adjustment for the funding position of the benefits accrued in the past – usually where there is a deficit in the pension fund, (the "Secondary Rate"). If there is a deficit/surplus there will be an increase/decrease in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period.

3.5 ***Individual Employer Contribution Rates*** - While the fund is managed as a whole, it is effectively a number of sub funds for each individual employer. This means that each employer contributes according to a contribution rate that specifically reflects the individual employer's membership profile. Under guidance from the actuary, we have continued to set deficit recovery as monetary amounts. Employee contributions are payable in addition to the employer contributions.

3.6 The actuary's final report is set out in Appendix 1. The Pension Fund is required by statute to publish a Funding Strategy Statement (FSS), to keep the Statement under review and to revise it whenever there is a material change in the policy set out within it.

3.7 The Council, as an employer in the Fund, like the Fund as a whole, is in deficit and has been for a significant period of time. Therefore, the rates previously and currently paid have included a Secondary Rate to help recover the deficit. This deficit amount helps to meet the objective of the Fund, and ensure the Council can become fully funded over a suitable period of time.

3.8 Historically, the schools within the London Borough of Tower Hamlets, have paid the Primary Rate only, i.e. the cost of future accrual, and have not been contributing towards the deficit repayment. This has led to the Council subsidising the schools to ensure that the Council, overall, pay the rate certified by the Fund Actuary.

3.9 The 2013 valuation the rates certified were as follows:

Payment Period	Primary	Secondary	Total % of pay	Subsidy (Difference between Total Rate and Primary Rate)
2014-15	15.8%	£18.5m	31%	15.2%
2015-16	15.8%	£20.5m	32%	16.2%
2016-17	15.8%	£22.0m	33%	17.2%

3.10 As stated above, schools have only been contributing towards the cost of future accrual, and have been paying 15.8% for the past 3 years. The Council has subsidised the difference in order to meet the deficit payment contributions. The amounts subsidised as a percentage of pay are shown in the table above.

Outlook - Primary Rate

3.12 The recent 2016 valuation results have been completed and the funding position of the Fund as a whole has improved. However, despite this improvement in funding position, which relates to the past service benefits accrued, the cost of future benefits has increased as a result of the change in market conditions.

3.13 This has resulted in a new primary rate of 19.9% of pay being required for the Council for the 3 years from 1 April 2017. This represents a 4% increase on current contributions towards the cost of new benefits accruing, and as noted above this is mainly due to the market expectations of future investment returns being lower.

3.14 The Council has made the decision not to pass this increase on to Schools immediately; however phased increases will apply over the next 3 years.

Outlook – Secondary Rate

3.15 As noted above, the funding position of the Council has improved, and this has resulted in lower deficit repayments. Overall however, with the primary rate increasing and secondary rate decreasing the Council's rate will remain the same as the current rate (i.e. 33% of pay) from 1 April 2017. This is the rate the schools should be paying. However, in order to ease budgetary pressure the Council has decided that Schools will have their contribution increased by 1.5% p.a. to meet the cost of future benefits and by 2019 their contribution rate will start to pay back some of the accumulated deficit.

3.16 This means that for the following 3 years the contribution rates for schools will be:

Payment Period	Total % of pay
2017-18	17.3%
2018-19	18.8%
2019-20	20.3%

3.17 These rates will be re-assessed as part of the 2019 valuation, from which point new contribution rates will be certified to come into payment from 1 April 2020. However, there is likely to be further upward pressure on the contribution rates, with the overall aim of schools paying a similar rate to the Council. This rate is currently certified at 33% of pay, but is expected to fall with subsequent valuations as the deficit decreases.

3.18 It is important to note that until 1 April 2019, schools will be contributing less than the cost of future benefits and the Council will continue to subsidise the schools until they are paying the same rate as the Council. For planning purposes, schools could assume the likely contribution rates will increase by 1.5% a year until they match the Council's overall contribution rate. This approach and basis for future planning has been communicated to the schools that are Fund members.

3.19 The strategy of amending contributions so that they contribution to deficit payments, as shown in the table above, and the more stable increase in the total contribution rate are in line with the objectives as stated in the FSS.

3.20 The FSS set out in Appendix 2 has been drawn up by the Fund's actuary, Hymans Robertson, in conjunction with Officers of the Council. The Pension Fund previously published a FSS following the 2013 valuation and this has been updated to reflect changes made for the 2016 valuation.

3.21 As set out in the FSS the objectives of the statement are to:

a) ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;

b) ensure that employer contribution rates are reasonably stable where appropriate;

c) minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB., this will also minimise the costs to be borne by Council Tax payers);

d) reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

e) 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.

3.22 In addition to the objectives set out above, the FSS also sets out the different treatments for different types of employers ranging from tax raising bodies such as the Council and other scheduled bodies such as Academies to Community and Transferee Admission Bodies. Various factors are considered during the contribution setting process, including the funding target (the assets required to pay member benefits), the time horizon and the probability of reaching the funding target over that time horizon. Each of these factors may be varied according to employer type, as this will influence the level of risk posed by each employer.

3.23 The FSS also covers the links to investment strategy which are set out in the Statement of Investment Principles now Investment Strategy Statement. The investment strategy for the Pension Fund is set for the longer term. The investment strategy is an important and time consuming activity that the Committee needs to devote its time to. This may include dedicated strategy meetings to consider the longer term investment strategy for the Fund as well as looking at options for risk reduction over the longer term, should the funding level improve.

3.24 The FSS includes a number of detailed appendices covering key points around responsibilities, risks and regulations and the following points set these out in more detail.

3.25 Appendix A – Regulatory Framework for the FSS which sets out the purpose of the Statement as defined by The Department for Communities and Local Government (DCLG):

- “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.”

3.26 Appendix B – Responsibilities of the key parties, i.e. the Administering Authority, individual employers, the Fund Actuary and other parties such as the investment advisers, investment managers, legal advisers, etc.

3.27 Appendix C – Key Risks and Controls:

- **Financial Risks** – includes assets failing to deliver returns in line with anticipated returns, inappropriate long term investment strategy, falls in risk-free returns on Government bonds giving rise to value placed on liabilities, underperformance relative to benchmark by the Fund’s investment managers, pay and price inflation significantly higher than anticipated, impact of increased employer contributions on service delivery and ceased employers giving rise to additional costs. **Controls** – includes prudent longer term return assumptions, taking specialist advice, inter-valuation monitoring, reviewing investment strategy options, measuring performance relative to bond targets, stabilisation modelling, quarterly investment and funding monitoring, making employers aware of possible consequences of decision, stabilisation for some employer, phased contribution increases, guarantees, cessation calculations and recovery of deficit amounts.
- **Demographic Risks** - includes pensioners living longer, fund maturity i.e. declining active membership, deteriorating patterns of early retirements and reductions in payroll leading to insufficient deficit payments,. **Controls** – include setting mortality assumptions which allow for some increased longevity, specific fund mortality monitoring, ongoing monitoring of cashflows and maturity profiling of the Fund, monitoring ill health experience, charging employers for non ill-health retirements and seeking deficit contributions paid as lump sums rather than percentage of payroll.
- **Regulatory Risks** – includes changes to national pension requirements and/or HMRC rules, time/cost/reputational risk associated with DCLG intervention triggered by Section 13 and changes by Government to particular employer participation in the LGPS. **Controls** – include ensuring that the Administering Authority considers consultations issued by Government and comments where appropriate and taking advice from the Fund Actuary re: Section 13.
- **Governance Risk** – Administering Authority unaware of structural changes in employer membership, actuarial advice not sought, noted or proves to be insufficient, failure to carry out termination valuations on a cessation of an employer or employers ceasing with insufficient reserves to meet liabilities at cessation. **Controls** – include monitoring employer membership and any changes to the employer that may impact on it, collecting deficit contributions as lump sums, Administering Authority maintaining a close working relationship with its advisers, seeking guarantees from another

scheme employer and being alert to possible financial problems facing employers.

3.28 Appendix D – The calculation of Employer contributions covering the difference in the calculation at a whole Fund level compared to individual employer level, how the Primary and Secondary contribution rates are calculated and the treatment of different types of employers, how the Funding level is calculated and what affects the results for individual employers

3.29 Appendix E – Actuarial Assumptions, sets out the actuarial assumptions used and the standard funding basis (ongoing), as well as the assumptions behind this (investment returns/discount rate, expected salary growth, pensions increase, life expectancy and other wider assumptions.)

3.30 Appendix F – Glossary - sets out key terms used in both the FSS and the Actuarial Valuation.

3.31 The Committee are asked to approve the draft Funding Strategy Statement and to delegate final sign off of FSS to the Corporate Director, Resources following the consultation period.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The budget for the formal actuarial work was £30k however additional work required has resulted in additional expenditure and a total spend of £46k is forecast. The total cost of the actuarial work will be met through the pension fund.

4.2 The performance of the Pension Fund's investments affects the required level of contributions due from employers.

4.3 The employers' contribution rate for the London Borough of Tower Hamlets is currently set at 15.8% for 2016/17. This will increase to 19.9% as a result of the 2016 triennial review. However, following the 2013 triennial valuation the total implied employer's contribution rate (based on current pensionable pay) for the Council for 2016/17 was 33% and this will not change as a result of the 2016 triennial review. The Council will still continue to pay this rate for the next three years up until 31 March 2020. The next valuation exercise will occur in March 2019 with the results taking effect from 1 April 2020.

5. LEGAL COMMENTS

5.1 The Constitution delegates to the Pensions Committee the function of setting the overall strategic objectives for the Pension Fund.

5.2 Regulation 58 of the Local Government Pension Scheme Regulations 2013 requires the Council as an administering authority to publish and maintain a funding strategy statement.

5.3 When preparing, maintaining or publishing the funding strategy statement, the Council is required to make such revisions as it considers appropriate following material change to the policy set out in the statement; any revisions must be made following consultation with such persons as the Authority considers appropriate.

5.4 When reviewing the funding strategy statement, the Council is required to have regards to:

a) the CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement; and

b) the Council's statement of investment principles/Investment Strategy Statement.

The review of the funding strategy statement has been undertaken by the Fund Actuary and Fund officers with reference to a and b above as required.

5.5 When performing its functions as administrator of the LBTH pension fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

6. ONE TOWER HAMLETS CONSIDERATIONS

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

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

7. BEST VALUE (BV) IMPLICATIONS

7.1 The preparation and production of a Funding Strategy Statement ought to result in a more efficient process of managing the Pension Fund.

7.2 Without sound financial management of the Pension Fund, the Council and other employers in the Pension Fund could see increased volatility in their contribution rates and increases in the cost of providing for the benefits of scheme members.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

9. RISK MANAGEMENT IMPLICATIONS

9.1 All material, financial and business issues and possibility of risks have been considered and addressed within the report and its appendices, and that the actuarial report and funding strategy statement will provide the Pension Fund with a solid framework in which to achieve a full funding status over the long term.

9.2 The Funding Strategy Statement forms part of the broader framework for funding and management of the London Borough of Tower Hamlets Pension Fund. It sets out how the Fund will approach the future funding of its liabilities and the recovery periods for recovering any deficit.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents

Linked Report - NONE

Appendices
Appendix 1 – Actuarial Valuation
Appendix 2 – Funding Strategy Statement
Appendix 3 – Rates & Adjustments Certificate
Appendix 4 – CIPFA FSS Guidance

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report - NONE

Officer contact details for documents:
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- Mulberry House, 5 Clove Crescent E14 2BG

London Borough of Tower Hamlets Pension Fund

2016 Actuarial Valuation
Valuation Report

March 2017

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For and on behalf of Hymans Robertson LLP

Hymans Robertson LLP has carried out an actuarial valuation of the London Borough of Tower Hamlets Pension Fund (“the Fund”) as at 31 March 2016, details of which are set out in the report dated 1 March 2017 (“the Report”), addressed to the Administering Authority of the Fund, London Borough of Tower Hamlets (“the Client”). The Report was prepared for the sole use and benefit of our Client and not for any other party; and Hymans Robertson LLP makes no representation or warranties to any third party as to the accuracy or completeness of the Report.

The Report was not prepared for any third party and it will not address the particular interests or concerns of any such third party. The Report is intended to advise our Client on the past service funding position of the Fund at 31 March 2016 and employer contribution rates from 1 April 2017, and should not be considered a substitute for specific advice in relation to other individual circumstances.

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Contents

Executive summary

We have carried out an actuarial valuation of the London Borough of Tower Hamlets Pension Fund ('the Fund') as at 31 March 2016. The results are presented in this report and are briefly summarised below.

Funding position

The table below summarises the funding position of the Fund as at 31 March 2016 in respect of benefits earned by members up to this date (along with a comparison at the last formal valuation at 31 March 2013).

Past Service Position	31 March 2013 (£m)	31 March 2016 (£m)
Past Service Liabilities	1,293	1,361
Market Value of Assets	928	1,126
Surplus / (Deficit)	(365)	(235)
Funding Level	**71.8%**	**82.8%**

The funding level on your agreed funding basis has improved from 71.8% in 2013 to 82.8% in 2016. Additionally, the funding deficit has decreased. The main reasons for the change in the funding level over the period were better than anticipated investment returns, receipt of deficit repair contributions, and positive membership experience. Increases in the value placed on liabilities due to changes in market conditions have been partially offset by a change in approach to determining assumptions.

The improvement in funding position between 2013 and 2016 is mainly due to strong investment performance over the inter-valuation period. The liabilities have also increased due to a reduction in the future expected investment return, although this has been partially been offset by lower than expected pay and benefit growth (both over the inter-valuation period and continuing in the long term).

Contribution rates

The table below summarises the whole Fund Primary and Secondary Contribution rates at this triennial valuation. These rates are the payroll weighted average of the underlying individual employer primary and secondary rates, calculated in accordance with the Regulations and CIPFA guidance.

Contribution Rates	31 March 2016 (% of pay)
Primary Rate	19.9%
Secondary Rate	9.1%
Total Contribution Rate	**29.0%**
Employee contribution rate	6.6%
Expenses	0.6%

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force. Therefore a contribution rate that is directly comparative to the rates above is not provided.

In totality, contributions required to be made by employers in respect of new benefits earned by members (the primary contribution rate) have remained broadly the same as at 2013 as the reduction in future expected investment returns has been matched by the reduction in future expected inflation levels. Changes to employer contributions targeted to ensure full funding have been variable across employers.

The minimum contributions to be paid by each employer from 1 April 2017 to 31 March 2020 are shown in the Rates and Adjustment Certificate in **Appendix H**.

1 Introduction

We have carried out an actuarial valuation of the London Borough of Tower Hamlets Pension Fund ("the Fund") as at 31 March 2016 under Regulation 62 of The Local Government Pension Scheme Regulations 2013 ("the Regulations"). The purpose of the valuation is to assess the value of the assets and liabilities of the Fund as at 31 March 2016 and to calculate the required rate of employers' contributions to the Fund for the period from 1 April 2017 to 31 March 2020.

Valuation Report

This report records the high level outcomes of the actuarial valuation as at 31 March 2016. The valuation report is prepared by the actuary to the Fund and is addressed to London Borough of Tower Hamlets as the Administering Authority to the Fund.

Component reports

This document is part of an "aggregate" report, i.e. it is the culmination of various "component" reports and discussions, in particular:

- The reports setting out the results of the modelling work carried out on the salary increase and discount arte assumptions, dated 2 August 2016;
- The formal agreement by the Administering Authority of the actuarial assumptions used in this document, at a meeting dated 11 August 2016;
- The Initial Results report (dated 30 September 2016) which outlined the whole Fund results;
- The contribution modelling carried out for certain employers, as detailed in our report to the Administering Authority of 23 November 2016;
- The Funding Strategy Statement, confirming the different contribution rate setting approaches for different types of employer or in different circumstances; and
- Correspondence relating to data including the Data Report dated 8 March 2017.

2 Valuation Approach

The valuation is a planning exercise for the Fund, to assess the monies needed to meet the benefits owed to its members as they fall due. As part of the valuation process the Fund reviews its funding strategy to ensure that an appropriate contribution plan and investment strategy is in place.

It is important to realise that the actual cost of the pension fund (i.e. how much money it will ultimately have to pay out to its members in the form of benefits) is unknown. This cost will not be known with certainty until the last benefit is paid to the last pensioner. The purpose of this valuation is to estimate what this cost will be, so that the Fund can then develop a funding strategy to meet it.

Setting the funding strategy for an open defined benefit pension fund such as London Borough of Tower Hamlets Pension Fund is complex. Firstly, the time period is very long; benefits earned in the LGPS today will be paid out over a period of the next 80 years or more and it remains open to new joiners and accrual of benefits. Secondly, the LGPS remains a defined benefit scheme so there are significant uncertainties in the final cost of the benefits to be paid. Finally, in order to reduce employer costs, London Borough of Tower Hamlets Pension Fund invests in a return seeking investment strategy which can result in high levels of asset volatility.

Such a valuation can only ever be an estimate – as the future cannot be predicted with certainty. However, as actuaries, we can use our understanding of the Fund and the factors that affect it to set the pace of funding in conjunction with the Administering Authority. The pace of this funding can vary according to the level of prudence that is built into the valuation method and assumptions.

The valuation approach adopted recognises the uncertainties and risks posed to funding by the factors discussed above and follows the process outlined below.

Step 1: The Fund sets a funding target (or funding basis) which defines the target amount of assets to be held to meet the future cashflows. The assumptions underlying the funding target are discussed further in the next section. A measurement is made at the valuation date to compare the assets held with the funding target.

Step 2: The Fund sets the time horizon over which the funding target is to be reached.

Step 3: The Fund sets contributions that give a sufficiently high likelihood of meeting the funding target over the set time horizon. More detail on this risk based approach to setting contribution rates can be found in **Appendix C**.

For this valuation, as for the previous valuation, our calculations identify separately the expected cost of members' benefits in respect of scheme membership completed before the valuation date ("past service") and that which is expected to be completed after the valuation date ("future service").

Past service

The principal measurement here is the comparison of the funding position at the valuation date against the funding target. The market value of the Fund's assets as at the valuation date are compared against the value placed on the Fund's liabilities in today's terms (calculated using a market-based approach). By maintaining a link to the market in both cases, this helps ensure that the assets and liabilities are valued in a consistent manner. Our calculation of the Fund's liabilities also explicitly allows for expected future pay and pension increases. The assumptions used in the assessment of the funding position at the valuation date are detailed in the next section.

The funding level is the ratio of assets to liabilities at the valuation date. A funding level of less/more than 100% implies that there is a deficit/surplus in the Fund at the valuation date against the funding target.

Funding plans are set to target a funding level of 100% over the set time horizon. To do so, additional contributions may be required to be paid into the Fund; these contributions are known as the "secondary rate".

Future service

In addition to benefits that have already been earned by members prior to the valuation date, employee members will continue to earn new benefits in the future. The cost of these new benefits must be met by both employers and employees. The employers' share of this cost is known as the "primary rate".

The primary rates for employers are determined with the aim of meeting the funding target in respect of these new benefits at the end of the set time horizon with an appropriate likelihood of success. The primary rate will depend on the profile of the membership (amongst other factors). For example, the rate is higher for older members as there is less time to earn investment returns before the member's pension comes into payment.

The methodology for calculating the primary rate will also depend on whether an employer is open or closed to new entrants. All else being equal, a closed employer will have a higher rate as we must allow for the consequent gradual ageing of the workforce.

Uncertainty

For the reasons outlined above regarding the uncertainty of the future, there is no guarantee that the amount paid for the primary rate will be sufficient to meet the cost of the benefits that accrue. Similarly, there is no guarantee that the secondary contributions will result in a 100% funding level at the end of the time horizon. Further discussion of this uncertainty is set out in **Appendix C**.

3 Assumptions

Due to the long term nature of the Fund, assumptions about the future are required to place a value of the benefits earned to date (past service) and the cost of benefits that will be earned in the future (future service).

Broadly speaking, our assumptions fall into two categories when projecting and placing a value on the future benefit payments and accrual – financial and demographic.

Demographic assumptions typically try to forecast **when** benefits will come into payment and what form these will take. For example, when members will retire (e.g. at their normal retirement age or earlier), how long they will then survive and whether a dependant's pension will be paid. In this valuation of the Fund, we use a single agreed set of demographic assumptions which is set out below and in more detail in **Appendix E**.

Financial assumptions typically try to anticipate the **size** of these benefits, for example, how large members' final salaries will be at retirement and how their pensions will increase over time. In addition, the financial assumptions also help us to estimate how much all these benefits will cost the Fund in today's money by making an assumption about the return on the Fund's investments in the future.

For measuring the funding position, the liabilities of the Fund are reported on a single constant set of financial assumptions about the future, based on financial market data as at 31 March 2016.

However, when we assess the required employer contributions to meet the funding target, we use a model that calculates the contributions required under 5000 different possible future economic scenarios. Under these 5000 different economic scenarios, key financial assumptions about pension increases and Fund investment returns vary across a wide range. More information about these types of assumptions is set out in **Appendix F**.

Financial assumptions

Discount rate

In order to place a current value on the future benefit payments from the Fund, an assumption about future investment returns is required in order to "discount" future benefit payments back to the valuation date. In setting the discount rate the Fund is determining the extent to which it relies on future investment returns required to meet benefit payments in excess of the monies already held at the valuation date.

For a funding valuation such as this, the discount rate is required by Regulations to incorporate a degree of prudence. The discount rate is therefore set by taking into account the Fund's current and expected future investment strategy and, in particular, how this strategy is expected to outperform the returns from Government bonds over the long term. The additional margin for returns in excess of that available on Government bonds is called the Asset Outperformance Assumption (AOA).

The selection of an appropriate AOA is a matter of judgement and the degree of risk inherent in the Fund's investment strategy should always be considered as fully as possible.

There has been a downward shift in the expected returns on many asset classes held by the Fund since the 2013 valuation. Following modelling, analysis and discussion reported in the "2016 valuation – Asset Outperformance Assumption" paper dated 2 August 2016 and based on considerations of their investment portfolio the Fund is satisfied that an AOA of 2.0% p.a. is a prudent assumption for the purposes of this valuation.

Price inflation / pension increases

Pension (both in payment and deferment) benefit increases and the revaluation of career-average earnings are in line with Consumer Price Index (CPI) inflation. As there continues to be no deep market for CPI linked financial instruments, the Fund derives the expected level of future CPI with reference to the Retail Price Index (RPI).

Due to further analysis of the CPI since 2013, the Fund expects the average long term difference between RPI and CPI to be 1.0% p.a. compared with 0.8% p.a. at the 2013 valuation.

At the previous valuation, the assumption for RPI was derived from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. At this valuation, the Fund continues to adopt a similar approach.

Salary increases

Due to the change to a CARE scheme from 2014, there is now a closed group of membership in the Fund with benefits linked to final salary. The run-off of this final salary linked liability was modelled, taking into account the short-term restrictions in public sector pay growth.

The results of this modelling and analysis were reported in my paper titled "2016 Valuation - Pay Growth Assumption" dated 2 August 2016. Based on the results of this modelling the Fund set a salary growth assumption of RPI less 1.2% p.a. This reflects both short term pay constraints and the belief that general economic growth and hence pay growth may be at a lower level than historically experienced for a prolonged period of time.

Note that this assumption is made in respect of the general level of salary increases (e.g. as a result of inflation and other macroeconomic factors). We also make a separate allowance for expected pay rises granted in the future as a result of promotion. This assumption takes the form of a set of tables which model the expected promotional pay awards based on each member's age and class. Please see **Appendix E**.

A summary of the financial assumptions underpinning the target funding basis and adopted during the assessment of the liabilities of the Fund as at 31 March 2016 (alongside those adopted at the last valuation for comparison) are shown below.

Financial assumptions	31 March 2013	31 March 2016
Discount rate		
Return on long-dated gilts	3.0%	2.2%
Asset Outperformance Assumption	1.6%*	2.0%*
Discount rate	**4.6%**	**4.2%**
Benefit increases		
Retail Prices Inflation (RPI)	3.3%	3.2%
Assumed RPI/CPI gap	(0.8%)*	(1.0%)*
Benefit increase assumption (CPI)	**2.5%**	**2.1%**
Salary increases		
Retail Prices Inflation (RPI)	3.3%	3.2%
Increases in excess of RPI	0.5%*	(1.2%)*
Salary increase assumption	**3.8%**	**2.0%**

**Adjustments are applied arithmetically in 2013 and geometrically in 2016*

Demographic assumptions

Longevity

The main demographic assumption to which the valuation results are most sensitive is that relating to the longevity of the Fund's members. For this valuation, the Fund has adopted assumptions which give the following sample average future life expectancies for members:

	31 March 2013	31 March 2016
Male		
Pensioners	22.2 years	22.1 years
Non-pensioners	24.3 years	23.9 years
Female		
Pensioners	24.2 years	24.1 years
Non-pensioners	26.4 years	25.8 years

Further details of the longevity assumptions adopted for this valuation can be found in **Appendix E**. Note that the figures for actives and deferreds assume that they are aged 45 at the valuation date.

Other demographic assumptions

We are in the unique position of having a very large local authority data set from which to derive our other demographic assumptions. We have analysed the trends and patterns that are present in the membership of local authority funds and tailored our demographic assumptions to reflect LGPS experience.

Details of the other demographic assumptions adopted by the Fund are set out in **Appendix E**.

Further comments on the assumptions

As required for Local Government Pension Scheme valuations, our approach to this valuation must include a degree of prudence. This has been achieved by explicitly allowing for a margin of prudence in the AOA.

For the avoidance of doubt, we believe that all other proposed assumptions represent the "best estimate" of future experience. This effectively means that there is a 50% chance that future experience will be better or worse than the chosen assumption.

Taken as a whole, we believe that our proposed assumptions are more prudent than the best estimate.

The actuarial assumptions underlying the Scheme Advisory Board's Key Performance Indicators are viewed as best estimate. Using these best estimate assumptions, the assessed funding position as at 31 March 2016 would have been 93.4%.

Assets

We have taken the assets of the Fund into account at their market value as informed to us by the Administering Authority. We have also included an allowance for the expected future payments in respect of early retirement strain and augmentation costs granted prior to the valuation date in the value of assets, for consistency with the liabilities and with the previous valuation. We have calculated the total value of these expected future payments to be £0.3m at 31 March 2016.

In our opinion, the basis for placing a value on members' benefits is consistent with that for valuing the assets - both are related to market conditions at the valuation date.

4 Results

The Administering Authority has prepared a Funding Strategy Statement which sets out its funding objectives for the Fund. In broad terms, the main valuation objectives are to hold sufficient assets in the Fund to meet the assessed cost of members' accrued benefits on the target funding basis ("the Funding Objective") and to set employer contributions which ensure both the long term solvency and the long term cost efficiency of the Fund ("the Contribution Objective").

Funding Position Relative to Funding Target

In assessing the extent to which the Funding Objective was met at the valuation date, we have used the actuarial assumptions described in the previous section of this report for the target funding basis and the funding method also described earlier. The table below compares the value of the assets and liabilities at 31 March 2016. The 31 March 2013 results are also shown for reference.

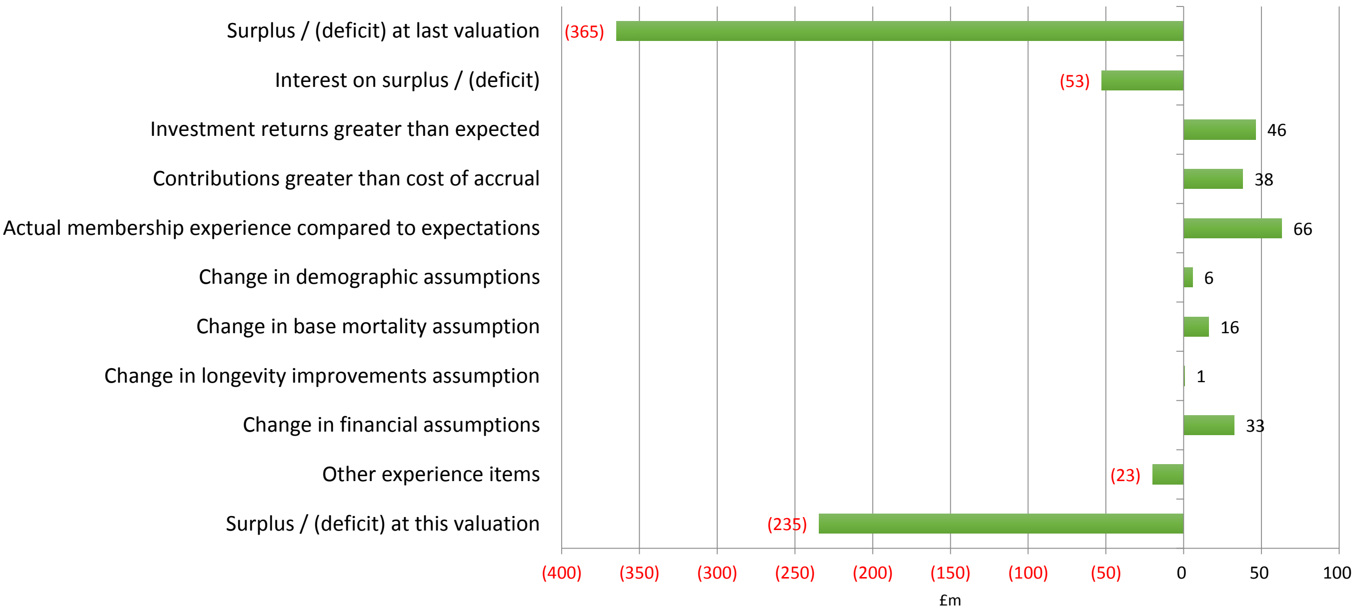
A funding level of 100% would correspond to the Funding Objective being met at the valuation date.

Valuation Date	31 March 2013	31 March 2016
Past Service Liabilities	**(£m)**	**(£m)**
Employees	451	414
Deferred Pensioners	297	320
Pensioners	546	627
Total Liabilities	**1,293**	**1,361**
Assets	**928**	**1,126**
Surplus / (Deficit)	**(365)**	**(235)**
Funding Level	**71.8%**	**82.8%**

The Funding Objective was not met: there was a shortfall of assets relative to the assessed cost of members' benefits on the target funding basis of £235m.

Summary of changes to the funding position

The chart below illustrates the factors that caused the changes in the funding position between 31 March 2013 and 31 March 2016:



Further comments on some of the items in this chart:

- There is an interest cost of £53m. This is broadly three years of compound interest at 4.6% p.a. applied to the previous valuation deficit of £365m (and can be thought of as the investment return that would have been achieved on the extra assets the Fund would have held if fully funded).
- Investment returns being higher than expected since 2013 lead to a gain of £46m. This is roughly the difference between the actual three-year return (19.4%) and expected three-year return (14.4%) applied to the whole Fund assets from the previous valuation of £928m, with a further allowance made for cashflows during the period.
- The membership experience of the Fund has differed to the assumptions made at the 2013 valuation resulting in a gain of around £66m. The table below summarises the significant factors that underlie these differences:

	Expected	Actual	Difference	Impact
Pre-retirement experience				
Early leavers (no.of lives)	3,019	2,333	(686)	Negative
Ill-health retirements* (no.of lives)	93	66	(27)	Positive
Salary increases (p.a.)	4.3%	1.8%	(2.6%)	Positive
Post-retirement experience				
Benefit increases (p.a.)	2.5%	1.3%	(1.2%)	Positive
Pensions ceasing (£m)	2.7	2.3	(0.4)	Negative

*Tier1 and Tier 2 ill-health retirements only

- The impact of the change in demographic assumptions has been a gain of around £6m.
- The change in mortality assumptions (baseline and improvements) has given rise to a gain of £17m.
- The change in financial conditions since the previous valuation has led to a gain of £33m. This is due to a decrease in the expected future salary growth which impacts final salary linked benefits. There has also been a reduction in CPI and an increase to the AOA assumption compared to 2013. This has been partially offset by a decrease nominal discount rate.
- Other experience items, such as changes in the membership data, have served to increase the deficit at this valuation by around £23m.

Employer Contribution Rates

The Contribution Objective is achieved by setting employer contributions which are likely to be sufficient to meet both the cost of new benefits accruing and to address any funding deficit relative to the funding target over the agreed time horizon. A secondary objective is to maintain where possible relatively stable employer contribution rates.

For each employer in the Fund, to meet the Contribution Objective, a primary contribution rate has been calculated in order to fund the cost of new benefits accruing in the Fund. Additionally, if required, a secondary contribution rate has also been calculated to target a fully funded position within the employer's set time horizon. These rates have been assessed using a financial model that assesses the funding outcome for the employer under 5000 different possible future economic scenarios where the key financial assumptions about pension increases and investment returns vary. The employer contribution rates have been set to achieve the funding target over the agreed time horizon and with the appropriate likelihood of success. The time horizon and the likelihood parameters vary by employer according to each employer's characteristics. These parameters are set out in the Funding Strategy Statement and have been communicated to employers. More information about the methodology used to calculate the contribution rates is set out in **Appendix C**.

The employer contributions payable from 1 April 2017 are given in **Appendix H**, and these have been devised in line with the Funding Strategy Statement: see **section 6**.

The table below summarises the whole Fund Primary and Secondary Contribution rates at this valuation. These rates are the payroll weighted average of the underlying individual employer primary and secondary rates, calculated in accordance with the Regulations and CIPFA guidance.

Contribution Rates	31 March 2016 (% of pay)
Primary Rate	19.9%
Secondary Rate	9.1%
Total Contribution Rate	**29.0%**
Employee contribution rate	6.6%
Expenses	0.6%

Note that the employee contribution rate includes any additional contributions being paid by employees as at 31 March 2016 into the Fund.

The table below shows the Fund "Common Contribution rate' as at 31 March 2013 for information purposes. **Although note that the change in regulatory regime and guidance on contribution rates means that a direct comparison to the whole Fund rate at 2016 is not appropriate.**

Contribution Rates	31 March 2013 (% of pay)
Employer future service rate (incl. expenses)	20.3%
Past Service Adjustment	15.2%
Total employer contribution rate (incl. expenses)	**35.5%**
Employee contribution rate	6.6%
Expenses	0.7%

5 Risk Assessment

The valuation results depend critically on the actuarial assumptions that are made about the future of the Fund. If all of the assumptions made at this valuation were exactly borne out in practice then the results presented in this document would represent the true cost of the Fund as it currently stands at 31 March 2016.

However, no one can predict the future with certainty and it is unlikely that future experience will exactly match the assumptions. The future therefore presents a variety of risks to the Fund and these should be considered as part of the valuation process. In particular:

- The main risks to the financial health of the Fund should be **identified**.
- Where possible, the financial significance of these risks should be **quantified**.
- Consideration should be given as to how these risks can then be **controlled** or **mitigated**.
- These risks should then be **monitored** to assess whether any mitigation is actually working.

This section investigates the potential implications of the actuarial assumptions not being borne out in practice.

Set out below is a brief assessment of the main risks and their effect on the valuation past service funding position results.

Sensitivity of past service funding position results to changes in assumptions

The table below gives an indication of the sensitivity of the funding position to small changes in two of the main financial assumptions used:

		Benefit Increases & CARE Revaluation			
Discount Rates	(£m)	2.0%	2.1%	2.2%	
	4.3%	1,319	1,338	1,359	Liabilities
		1,126	1,126	1,126	Assets
		(192)	(212)	(232)	(Deficit)
		85%	84%	83%	Funding Level
	4.2%	1,341	1,361	1,381	Liabilities
		1,126	1,126	1,126	Assets
		(214)	(235)	(255)	(Deficit)
		84%	83%	82%	Funding Level
	4.1%	1,363	1,384	1,405	Liabilities
		1,126	1,126	1,126	Assets
		(237)	(257)	(278)	(Deficit)
		83%	81%	80%	Funding Level

The valuation results are also very sensitive to unexpected changes in future longevity. All else being equal, if longevity improves in the future at a faster pace than allowed for in the valuation assumptions, the funding level will decline and the required employer contribution rates will increase.

Recent medical advances, changes in lifestyle and a greater awareness of health-related matters have resulted in life expectancy amongst pension fund members improving in recent years at a faster pace than was originally foreseen. It is unknown whether and to what extent such improvements will continue in the future.

For the purposes of this valuation, we have selected assumptions that we believe make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund since the previous valuation.

The table below shows how the valuation results at 31 March 2016 are affected by adopting different longevity assumptions.

	Peaked improvements (£m)	Non-peaked improvements (£m)
Liabilities	1,361	1,393
Assets	1,126	1,126
(Deficit)	(235)	(267)
Funding Level	**83%**	**81%**

The "further improvements" are a more cautious set of improvements that, in the short term, assume the 'cohort effect' of strong improvements in life expectancy currently being observed amongst a generation born around the early and mid 1930s will continue to strengthen for a few more years before tailing off. This is known as "non-peaked".

This is not an exhaustive list of the assumptions used in the valuation. For example, changes to the assumed level of withdrawals and ill health retirements will also have an effect on the valuation results.

Note that the tables show the effect of changes to each assumption in isolation. In reality, it is perfectly possible for the experience of the Fund to deviate from more than one of our assumptions simultaneously and so the precise effect on the funding position is therefore more complex. Furthermore, the range of assumptions shown here is by no means exhaustive and should not be considered as the limits of how extreme experience could actually be.

Sensitivity of contribution rates to changes in assumptions

The employer contribution rates are dependent on a number of factors including the membership profile, current financial conditions, the outlook for future financial conditions, and demographic trends such as longevity. Changes in each of these factors can have a material impact on the contribution rates (both primary and secondary rates). We have not sought to quantify the impact of differences in the assumptions because of the complex interactions between them.

Investment risk

The Fund holds some of its assets in return seeking assets such as equities to help reduce employers' costs. However, these types of investments can result in high levels of asset volatility. Therefore, there is a risk that future investment returns are below expectations and the funding target is not met. This will require additional contributions from employers to fund any deficit.

Whilst the Fund takes steps to ensure that the level of investment risk is managed and monitored via strategy reviews and performance monitoring, it can never be fully mitigated.

Regulatory risk

One further risk to consider is the possibility of future changes to Regulations that could materially affect the benefits that members become entitled to. It is difficult to predict the nature of any such changes but it is not inconceivable that they could affect not just the cost of benefits earned after the change but could also have a retrospective effect on the past service position.

Managing the risks

Whilst there are certain things, such as the performance of investment markets or the life expectancy of members, that are not directly within the control of the pension fund, that does not mean that nothing can be done to understand them further and to mitigate their effect. Although these risks are difficult (or impossible) to eliminate, steps can be taken to manage them.

Ways in which some of these risks can be managed could be:

- Set aside a specific reserve to act as a cushion against adverse future experience (possibly by selecting a set of actuarial assumptions that are deliberately more prudent).
- Take steps internally to monitor the decisions taken by members (e.g. 50:50 scheme take-up, commutation) and employers (e.g. relating to early / ill health retirements or salary increases) in a bid to curtail any adverse impact on the Fund.
- Pooling certain employers together at the valuation and then setting a single (pooled) contribution rate that they will all pay. This can help to stabilise contribution rates (at the expense of cross-subsidy between the employers in the pool during the period between valuations).
- Carrying out a review of the future security of the Fund's employers (i.e. assessing the strength of employer covenants) and ultimately their ability to continue to pay contributions or make good future funding deficits.
- Carry out a bespoke analysis of the longevity of Fund members and monitor how this changes over time, so that the longevity assumptions at the valuation provide as close a fit as possible to the particular experience of the Fund.
- Undertake an asset-liability modelling exercise that investigates the effect on the Fund of possible investment scenarios that may arise in the future. An assessment can then be made as to whether long term, secure employers in the Fund can stabilise their future contribution rates (thus introducing more certainty into their future budgets) without jeopardising the long-term health of the Fund.
- Purchasing ill health liability insurance to mitigate the risk of an ill health retirement impacting on solvency and funding level of an individual employer where appropriate.
- Monitoring different employer characteristics in order to build up a picture of the risks posed. Examples include membership movements, cash flow positions and employer events such as cessations.
- Regularly reviewing and validating the Fund's membership data to ensure it is complete, up to date and accurate.

6 Related issues

The Fund's valuation operates within a broader framework, and this document should therefore be considered alongside the following:

- the Funding Strategy Statement, which in particular highlights how different types of employer in different circumstances have their contributions calculated;
- the Statement of Investment Principles (e.g. the discount rate must be consistent with the Fund's asset strategy);
- the general governance of the Fund, such as meetings of the Pensions Committee, decisions delegated to officers, the Fund's business plan, etc;
- the Fund's risk register; and
- the information the Fund holds about the participating employers.

Further recommendations

Valuation frequency

Under the provisions of the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2019. In light of the uncertainty of future financial conditions, we recommend that the financial position of the Fund (and for individual employers in some cases) is monitored by means of interim funding reviews in the period up to this next formal valuation. This will give early warning of changes to funding positions and possible revisions to funding plans.

Investment strategy and risk management

We recommend that the Administering Authority continues to regularly review its investment strategy and ongoing risk management programme.

New employers joining the Fund

Any new employers or admission bodies joining the Fund should be referred to the Fund Actuary for individual calculation as to the required level of contribution. Depending on the number of transferring members the ceding employer's rate may also need to be reviewed.

Additional payments

Employers may make voluntary additional contributions to recover any funding shortfall over a shorter period, subject to agreement with the Administering Authority and after receiving the relevant actuarial advice.

Further sums should be paid to the Fund by employers to meet the capital costs of any unreduced early retirements, reduced early retirements before age 60 and/or augmentation (i.e. additional membership or additional pension) using the methods and factors issued by me from time to time or as otherwise agreed.

In addition, payments may be required to be made to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those allowed for within our assumptions.

Cessations and bulk transfers

Any employer who ceases to participate in the Fund should be referred to us in accordance with Regulation 64 of the Regulations.

Any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund, or
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement should be referred to us to consider the impact on the Fund.

7 Reliances and limitations

Scope

This document has been requested by and is provided to London Borough of Tower Hamlets in its capacity as Administering Authority to the London Borough of Tower Hamlets Pension Fund. It has been prepared by Hymans Robertson LLP to fulfil the statutory obligations in accordance with regulation 62 of the Regulations. None of the figures should be used for accounting purposes (e.g. under FRS102 or IAS19) or for any other purpose (e.g. a termination valuation under Regulation 64).

This document should not be released or otherwise disclosed to any third party without our prior written consent, in which case it should be released in its entirety. Hymans Robertson LLP accepts no liability to any other party unless we have expressly accepted such liability.

The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation. We have issued a separate report confirming that the data provided is fit for the purposes of this valuation and have commented on the quality of the data provided. The data used in our calculations is as per our report of TBC. However, if any material issues with the data provided are identified at a later date, then the results stated in this report may change.

Actuarial Standards

The following Technical Actuarial Standards[1] are applicable in relation to this report and have been complied with where material:

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

Barry McKay

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

7 March 2017

[1] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this report.

Appendix A: About the pension fund

The purpose of the Fund is to provide retirement and death benefits to its members. It is part of the Local Government Pension Scheme (LGPS) and is a multi-employer defined benefit pension scheme.

For more details please refer to the Fund's Funding Strategy Statement.

Defined benefit pension scheme

In a defined benefit scheme such as this, the nature of retirement benefits that members are entitled to is known in advance. For example, it is known that members will receive a pension on retirement that is linked to their salary (final salary and/or career average) and pensionable service (for service before 1 April 2014) according to a pre-determined formula.

However, the precise cost to the Fund of providing these benefits is **not** known in advance. The estimated cost of these benefits represents a liability to the Fund and assets must be set aside to meet this. The relationship between the value of the liabilities and the value of the assets must be regularly assessed and monitored to ensure that the Fund can fulfil its core objective of providing its members with the retirement benefits that they have been promised.

Liabilities

The Fund's liabilities are the benefits that will be paid in the future to its members (and their dependants).

The precise timing and amount of these benefit payments will depend on future experience, such as when members will retire, how long they will live for in retirement and what economic conditions will be like both before and after retirement. Because these factors are not known in advance, assumptions must be made about future experience. The valuation of these liabilities must be regularly updated to reflect the degree to which actual experience has been in line with these assumptions.

Assets

The Fund's assets arise from the contributions paid by its members and their employers and the investment returns that they generate. The way these assets are invested is of fundamental importance to the Fund. The selection, monitoring and evolution of the Fund's investment strategy are key responsibilities of the Administering Authority.

As the estimated cost of the Fund's liabilities is regularly re-assessed, this effectively means that the amount of assets required to meet them is a moving target. As a result, at any given time the Fund may be technically in surplus or in deficit.

A contribution strategy must be put in place which ensures that each of the Fund's employers pays money into the Fund at a rate which will target the cost of its share of the liabilities in respect of benefits already earned by members and those that will be earned in the future.

The long-term nature of the Fund

The pension fund is a long-term commitment. Even if it were to stop admitting new members today, it would still be paying out benefits to existing members and dependants for many decades to come. It is therefore essential that the various funding and investment decisions that are taken now recognise this and come together to form a coherent long-term strategy.

In order to assist with these decisions, the Regulations require the Administering Authority to obtain a formal valuation of the Fund every three years. Along with the Funding Strategy Statement, this valuation will help determine the funding objectives that will apply from 1 April 2017.

Appendix B: Summary of the Fund’s benefits

Provided below is a brief summary of the non-discretionary benefits that we have taken into account for active members at this valuation. This should not be taken as a comprehensive statement of the exact benefits to be paid. For further details please see the Regulations.

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Normal retirement age (NRA)	Age 65.	Age 65.	Equal to the individual member’s State Pension Age (minimum 65).
Earliest retirement age (ERA) on which immediate unreduced benefits can be paid on voluntary retirement	As per NRA (age 65). Protections apply to active members in the scheme immediately prior to 1 October 2006 who would have been entitled to immediate payment of unreduced benefits prior to 65, due to: The benefits relating to various segments of scheme membership are protected as set out in Schedule 2 to the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 and associated GAD guidance.		As per NRA (minimum age 65). Protections apply to active members in the scheme for pensions earned up to 1 April 2014, due to: a) Accrued benefits relating to pre April 2014 service at age 65. b) Continued ‘Rule of 85’ protection for qualifying members. c) Members within 10 yrs of existing NRA at 1/4/12 – no change to when they can retire and no decrease in pension they receive at existing NRA.
Member contributions	Officers - 6% of pensionable pay Manual Workers – 5% of pensionable pay if has protected lower rates rights or 6% for post 31 March 1998 entrants or former entrants with no protected rights.	Banded rates (5.5%-7.5%) depending upon level of full-time equivalent pay. A mechanism for sharing any increased scheme costs between employers and scheme members is included in the LGPS regulations.	Banded rates (5.5%-12.5%) depending upon level of actual pay.
Pensionable pay	All salary, wages, fees and other payments in respect of the employment, excluding non-contractual overtime and some other specified amounts. Some scheme members may be covered by special agreements.		Pay including non-contractual overtime and additional hours.
Final pay	The pensionable pay in the year up to the date of leaving the scheme. Alternative methods used in some cases, e.g. where there has been a break in service or a drop in pensionable pay. Will be required for the statutory underpin and in respect of the final salary link that may apply in respect of certain members of the CARE scheme who have pre April 2014 accrual.		N/A

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Period of scheme membership	Total years and days of service during which a member contributes to the Fund. (e.g. transfers from other pension arrangements, augmentation, or from April 2008 the award of additional pension). For part time members, the membership is proportionate with regard to their contractual hours and a full time equivalent). Additional periods may be granted dependent on member circumstances.		N/A
Normal retirement benefits at NRA	Annual Retirement Pension - 1/80th of final pay for each year of scheme membership. Lump Sum Retirement Grant - 3/80th of final pay for each year of scheme membership.	Scheme membership from 1 April 2008: Annual Retirement Pension - 1/60th of final pay for each year of scheme membership. Lump Sum Retirement Grant – none except by commutation of pension.	Scheme membership from 1 April 2014: Annual Retirement Pension - 1/49th of pensionable pay (or assumed pensionable pay) for each year of scheme membership revalued to NRA in line with CPI. Lump Sum Retirement Grant - none except by commutation of pension.
Option to increase retirement lump sum benefit	In addition to the standard retirement grant any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.	No automatic lump sum. Any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.	No automatic lump sum. Any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.
Voluntary early retirement benefits (non ill-health)	On retirement after age 60, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).		On retirement after age 55, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).
Employer's consent early retirement benefits (non ill-health)	On retirement after age 55 with employer's consent. Benefits paid on redundancy or efficiency grounds are paid with no actuarial reduction. Otherwise, benefits are subject to reduction on account of early payment, unless this is waived by the employer.		Benefits paid on redundancy or efficiency grounds are paid with no actuarial reduction. Employer's consent is no longer required for a member to retire from age 55. However, benefits are subject to reduction on account of early payment, unless this is waived by the employer.

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Ill-health benefits	As a result of permanent ill-health or incapacity. Immediate payment of unreduced benefits. Enhancement to scheme membership, dependent on actual membership. Enhancement seldom more than 6 years 243 days.	As a result of permanent ill-health or incapacity and a reduced likelihood of obtaining gainful employment (local government or otherwise) before age 65. Immediate payment of unreduced benefits. Enhanced to scheme membership, dependent on severity of ill health. 100% of prospective membership to age 65 where no likelihood of undertaking any gainful employment prior to age 65; 25% of prospective membership to age 65 where likelihood of obtaining gainful employment after 3 years of leaving, but before age 65; or 0% of prospective membership where there is a likelihood of undertaking gainful employment within 3 years of leaving employment	As a result of permanent ill-health or incapacity and a reduced likelihood of obtaining gainful employment (local government or otherwise) before NRA. Immediate payment of unreduced benefits. Enhanced to scheme membership, dependent on severity of ill health. 100% of prospective membership to age NRA where no likelihood of undertaking any gainful employment prior to age NRA; 25% of prospective membership to age NRA where likelihood of obtaining gainful employment after 3 years of leaving, but before age NRA; or 0% of prospective membership where there is a likelihood of undertaking gainful employment within 3 years of leaving employment

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Flexible retirement	After 5th April 2006, a member who has attained the age of 50, with his employer's consent, reduces the hours he works, or the grade in which he is employed, may elect in writing to the appropriate Administering Authority that such benefits may, with his employer's consent, be paid to him notwithstanding that he has not retired from that employment. Benefits are paid immediately and subject to actuarial reduction unless the reduction is waived by the employer.	A member who has attained the age of 55 and who, with his employer's consent, reduces the hours he works, or the grade in which he is employed, may make a request in writing to the appropriate Administering Authority to receive **all or part** of his benefits, Benefits are paid immediately and subject to actuarial reduction unless the reduction is waived by the employer.	
Pension increases	All pensions in payment, deferred pensions and dependant's pensions other than benefits arising from the payment of additional voluntary contributions are increased annually. Pensions are increased partially under the Pensions (Increases) Act and partially in accordance with statutory requirements (depending on the proportions relating to pre 88 GMP, post 88 GMP and excess over GMP).		
Death after retirement	A spouse's or civil partner's pension of one half of the member's pension (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners) is payable; plus If the member dies within five years of retiring and before age 75 the balance of five years' pension payments will be paid in the form of a lump sum; plus Children's pensions may also be payable.	A spouse's, civil partner's or nominated cohabiting partner's pension payable at a rate of 1/160th of the member's total membership multiplied by final pay (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners and nominated cohabiting partners) is payable; plus If the member dies within ten years of retiring and before age 75 the balance of ten years' pension payments will be paid in the form of a lump sum; plus Children's pensions may also be payable.	

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Death in service	A lump sum of two times final pay; plus A spouse's or civil partner's pension of one half of the ill-health retirement pension that would have been paid to the scheme member if he had retired on the day of death (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners); plus Children's pensions may also be payable.	A lump sum of three times final pay; plus A spouse's, civil partner's or cohabiting partner's pension payable at a rate of 1/160th of the member's total (augmented to age 65) membership (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners and nominated cohabiting partners), multiplied by final pay; plus Children's pensions may also be payable.	
Leaving service options	If the member has completed three months' or more scheme membership, deferred benefits with calculation and payment conditions similar to general retirement provisions; or A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or If the member has completed less than three months' scheme membership, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.		If the member has completed two years or more scheme membership, deferred benefits with calculation and payment conditions similar to general retirement provisions; or A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or If the member has completed less than two years scheme membership, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.
State pension scheme	From 6th of April 2016, the Fund will no longer be contracted out of the State Second Pension. Until that date, the benefits payable to each member were guaranteed to be not less than those required to enable the Fund to be contracted-out.		
Assumed pensionable pay	N/A		This applies in cases of reduced contractual pay (CPP) resulting from sickness, child related and reserve forces absence, whereby the amount added to the CPP is the assumed pensionable pay rather than the reduced rate of pay actually received.
50/50 option	N/A		Optional arrangement allowing 50% of main benefits to be accrued on a 50% employee contribution rate.

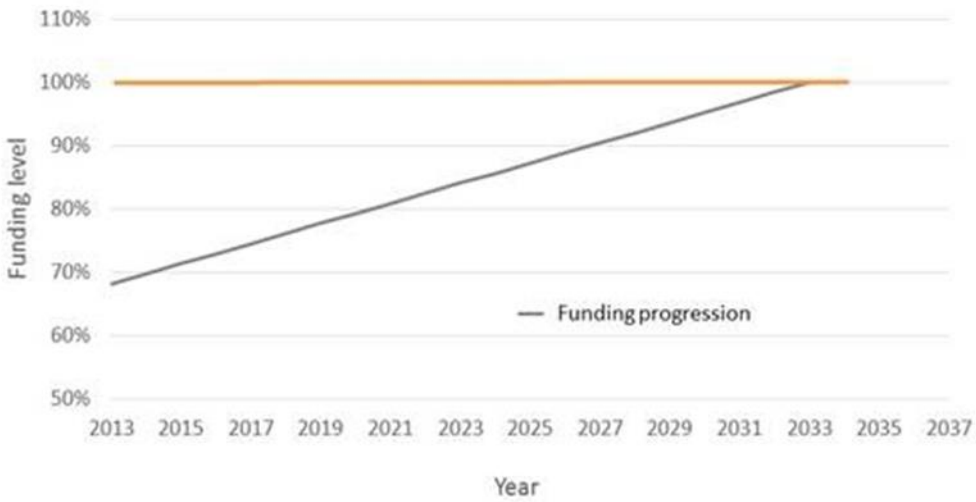
Note: Certain categories of members of the Fund are entitled to benefits that differ from those summarised above.

Discretionary benefits

The LGPS Regulations give employers a number of discretionary powers. The effect on benefits or contributions as a result of the use of these provisions as currently contained within the Local Government Pension Scheme Regulations has been allowed for in this valuation to the extent that this is reflected in the membership data provided. No allowance has been made for the future use of discretionary powers that will be contained within the scheme from 1 April 2017.

Appendix C: Risk based approach to setting contribution rates

At previous valuations we have set contribution rates by calculating them using a single set of assumptions about the future economic conditions (a 'deterministic' method). By using this deterministic method, there is an implicit assumption that the future will follow expectations (i.e. the financial assumptions used in the calculation) and the employer will return to full funding via one 'journey'. This approach is summarised in the illustrative chart below.



However, pension funding is uncertain for a number of reasons. Examples are:

- the Fund's assets are invested in volatile financial markets and therefore they go up and down in value; and
- the pension benefits are linked to inflation which again can go up and down in value over time.

One single set of assumptions are very unlikely to actually match what happens, and therefore, the funding plan originally set out will not evolve in line with the single journey shown above. The actual evolution of the funding position could be one of many different 'journeys', and a sample of these are given below.

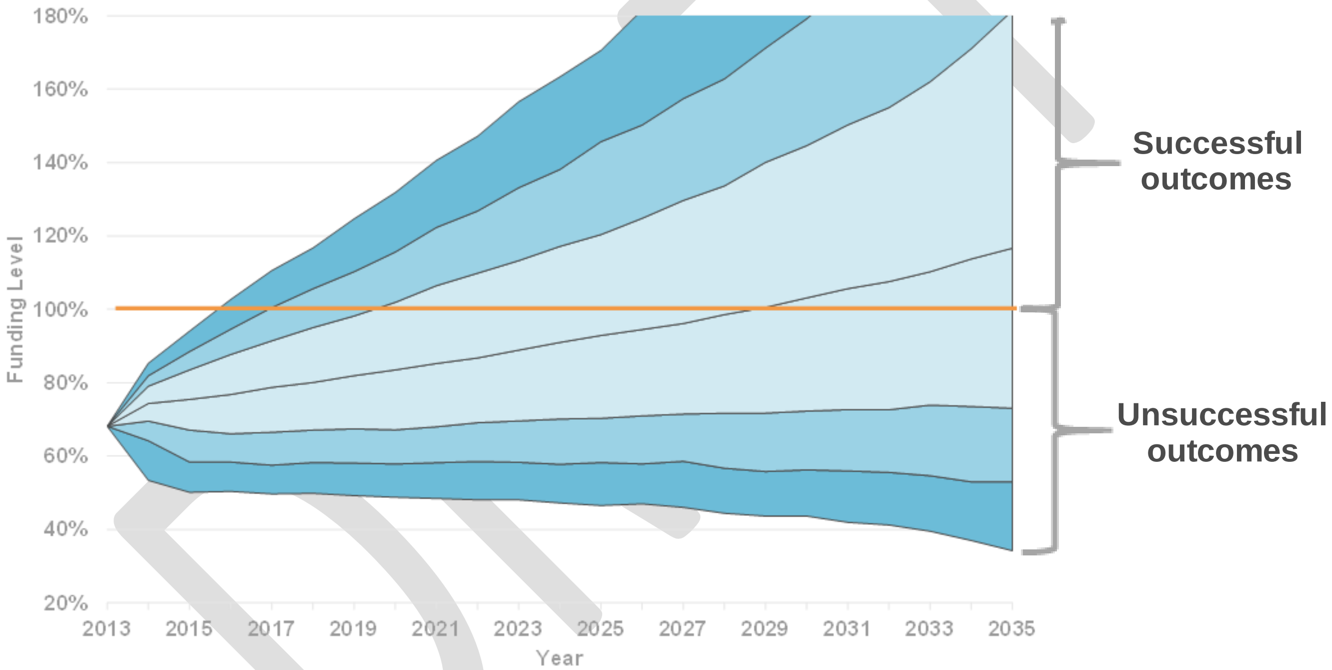
The inherent uncertainty in pension funding creates a risk that a funding plan will not be a success i.e. the funding target will not be reached over the agreed time period.

This risk can never be fully mitigated whilst invested in volatile assets and providing inflation linked benefits, however the main disadvantage of the traditional deterministic method is that it does not allow the Fund, employer, regulators or actuary to assess and understand the risk associated with the proposed funding plan and the likelihood of its success, or otherwise.

Risk Based Approach

At this valuation, we have adopted a 'risk based' approach when setting contribution rates. This approach considers thousands of simulations (or 'journeys') to be projected of how each employer's assets and liabilities may evolve over the future until we have a distribution of funding outcomes (ratio of assets to liabilities). Each simulation represents a different possible journey of how the assets and liabilities could evolve and they will vary due to assumptions about investment returns, inflation and other financial factors. Further technical detail about the methodology underlying these projections is set out in **Appendix F**.

Once we have a sufficient number of outcomes to form a statistically credible distribution (we use 5,000 outcomes), we can examine what level of contribution rate gives an appropriate likelihood of meeting an employer's funding target (usually a 100% funding level) within the agreed timeframe ('time horizon') (i.e. a sufficient number of successful outcomes). The picture below shows a sample distribution of outcomes for an employer.



Having this 'funnel' of outcomes allows the Fund to understand the likelihood of the actual outcome being higher or lower than a certain level. For example, there is 2/3rds chance the funding level will be somewhere within the light shaded area, and there is a 1 in 100 chance that the funding level will be outside the funnel altogether. Using this 'probability distribution', we then set a contribution rate that leads to a certain amount of funding outcomes being successful (e.g. 2/3rds).

Further details on the likelihoods used in employers' funding plans are set out in the Fund's Funding Strategy Statement.

Appendix D: Data

This section contains a summary of the membership, investment and accounting data provided by the Administering Authority for the purposes of this valuation (the corresponding membership and investment data from the previous valuation is also shown for reference). For further details of the data, and the checks and amendments performed in the course of this valuation, please refer to our separate data report.

Membership data – whole Fund

Employee members

	31 March 2013		31 March 2016		
	Number	Pensionable Pay* (£000)	Number	Pensionable Pay* (£000)	CARE Pot (£000)
Total employee membership	5,265	129,843	6,574	153,290	5,702

*actual pay (not full-time equivalent)

Deferred pensioners

	31 March 2013		31 March 2016	
	Number	Deferred pension (£000)	Number	Deferred pension (£000)
Total deferred membership	6,290	15,906	8,010	17,670

The figures above also include any “frozen refunds” and “undecided leavers” members at the valuation date.

Current pensioners, spouses and children

	31 March 2013		31 March 2016	
	Number	Pension (£000)	Number	Pension (£000)
Members	4,147	32,226	4,577	36,668
Dependants	904	2,586	944	4,299
Children	64	125	84	140
Total pensioner members	**5,115**	**34,937**	**5,605**	**41,107**

Note that the membership numbers in the table above refer to the number of records provided to us and so will include an element of double-counting in respect of any members who are in receipt (or potentially in receipt of) more than one benefit.

Membership Profile	Average Age (years)		FWL (years)	
	2013	2016	2013	2016
Employees (CARE)	-	49.2	9.7	9.4
Employees (Final Salary)	51.6	53.2		
Deferred Pensioners	51.0	52.3	-	-
Pensioners	66.6	67.6	-	-

The average ages are weighted by liability.

The expected future working lifetime (FWL) indicates the anticipated length of time that the average employee member will remain as a contributor to the Fund. Note that it allows for the possibility of members leaving, retiring early or dying before retirement.

Assets at 31 March 2016

A summary of the Fund's assets provided by the Administering Authority (excluding members' money-purchase Additional Voluntary Contributions) as at 31 March 2013 and 31 March 2016 is as follows:

Asset class	31 March 2013 (Market Value) (£000)	Allocation %	31 March 2016 (Market Value) (£000)	Allocation %
UK equities	162,000	22%	341,307	30%
UK fixed interest gilts	40,659	5%	0	0%
UK corporate bonds	46,747	6%	0	0%
UK index-linked gilts	49,898	7%	60,630	5%
Overseas equities	327,740	44%	445,156	40%
Overseas bonds	8,472	1%	0	0%
Property	73,458	10%	131,913	12%
Cash and net current assets	43,527	6%	147,123	13%
Total	**752,501**	**100%**	**1,126,129**	**100%**

Note that, for the purposes of determining the funding position at 31 March 2016, the asset value we have used also includes the present value of expected future early retirement strain payments (amounting to £0.3m)

Accounting data – revenue account for the three years to 31 March 2016

Consolidated accounts (£000)	Year to 31 March 2014	31 March 2015	31 March 2016	Total
Income				
Employer - normal contributions	24,779	26,855	26,812	78,446
Employer - additional contributions	16,500	18,500	20,500	55,500
Employer - early retirement and augmentation strain contributions	1,122	780	1,697	3,599
Employee - normal contributions	9,982	11,031	10,951	31,964
Employee - additional contributions	0	0	0	0
Transfers In Received (including group and individual)	3,527	1,719	2,166	7,412
Other Income	0	0	0	0
Total Income	**55,910**	**58,885**	**62,126**	**176,921**
Expenditure				
Gross Retirement Pensions	35,681	37,265	39,103	112,049
Lump Sum Retirement Benefits	7,136	6,713	11,695	25,544
Death in Service Lump sum	1,042	1,342	1,463	3,847
Death in Deferment Lump Sum	0	0	0	0
Death in Retirement Lump Sum	0	0	0	0
Gross Refund of Contributions	6	257	365	628
Transfers out (including bulk and individual)	2,778	7,263	4,092	14,133
Fees and Expenses	1,087	803	1,038	2,928
Total Expenditure	**47,730**	**53,643**	**57,756**	**159,129**
Net Cashflow	**8,180**	**5,242**	**4,370**	**17,792**
Assets at start of year	**926,871**	**1,012,930**	**1,138,199**	**926,871**
Net cashflow	**8,180**	**5,242**	**4,370**	**17,792**
Change in value	**77,879**	**120,027**	**-16,440**	**181,466**
Assets at end of year	**1,012,930**	**1,138,199**	**1,126,129**	**1,126,129**
Approximate rate of return on assets	**8.4%**	**11.8%**	**-1.4%**	**19.4%**

Note that the figures above are based on the Fund accounts provided to us for the purposes of this valuation, which were fully audited at the time of our valuation calculations.

Appendix E: Assumptions

Financial assumptions

Financial assumptions	31 March 2013 (% p.a.)	31 March 2016 (% p.a.)
Discount rate	4.6%	4.2%
Retail Price inflation	3.3%	3.2%
Pay increases*	3.8%	2.0%
Pension increases:		
pension in excess of GMP	2.5%	2.1%
post-88 GMP	2.5%	2.1%
pre-88 GMP	0.0%	0.0%
Revaluation of deferred pension	2.5%	2.1%
Revaluation of accrued CARE pension	2.5%	2.1%
Expenses	0.7%	0.6%

*An allowance is also made for promotional pay increases (see table below).

Mortality assumptions

Longevity assumptions	31 March 2016
Longevity - baseline	Vita Lite
Longevity - improvements	
CMI Model version used	CMI_2013
Starting rates	CMI calibration based on data from Club Vita using the latest available data as at January 2014.
Long term rate of improvement	Period effects: 1.25% p.a. for men and women. Cohort effects: 0% p.a. for men and for women.
Period of convergence	Period effects: CMI model core values i.e. 10 years for ages 50 and below and 5 years for those aged 95 and above, with linear transition to 20 years for those aged between 60 and 80. Cohort effects: CMI core i.e. 40 years for those born in 1950 or later declining linearly to 5 years for those born in 1915 or earlier.
Proportion of convergence remaining at mid point	50%

The baseline longevity assumptions that have been adopted at this valuation are a set of Vita Lite Curves that are specifically tailored to fit the membership profile of the Fund. These curves are based on the data the Fund has provided us with for the purposes of this valuation. Full details of these are available on request.

We have used a longevity improvement assumption based on the industry standard projection model calibrated with information from our longevity experts in Club Vita. The starting point for the improvements has been based on observed death rates in the Club Vita data bank over the period up to 2012.

We have used the 2013 version of the Continuous Mortality Investigation (CMI) longevity improvements model, instead of the more recent 2015 version, as we do not believe the increased mortality experience factored into the

2015 model is the start of a new trend. We believe it is more appropriate to use the 2013 version of the model for the 2016 valuation.

In the short term we have assumed that the improvements in life expectancy observed up to 2010 will start to tail off immediately, resulting in life expectancy increasing less rapidly than has been seen over the last decade or two. This could be described as assuming that improvements have 'peaked'.

In the longer term we have assumed that increases in life expectancy will stabilise at a rate of increase of 0.9 years per decade for men and women. This is equivalent to assuming that longer term mortality rates will fall at a rate of 1.25% p.a. for men and women.

However, we have assumed that above age 90 improvements in mortality are hard to achieve, and so the long term rate of improvement declines between ages 90 and 120 so that no improvements are seen at ages 120 and over. The initial rate of mortality is assumed to decline steadily above age 98.

Other demographic valuation assumptions

Retirements in normal health	We have adopted the retirement age pattern assumption as specified by the Scheme Advisory Board for preparing Key Performance Indicators. Further details about this assumption are available on request.
Retirements in ill health	Allowance has been made for ill-health retirements before Normal Pension Age (see tables below).
Withdrawals	Allowance has been made for withdrawals from service (see table below).
Family details	A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Husbands are assumed to be 3 years older than wives.
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 (equivalent 75% for service from 1 April 2008).
50:50 option	1.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

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

Death in Service tables:

Age	Deaths per 1000 active members per annum Female	Male
20	0.12	0.21
25	0.12	0.21
30	0.18	0.26
35	0.30	0.30
40	0.48	0.51
45	0.77	0.85
50	1.13	1.36
55	1.49	2.13
60	1.90	3.83
65	2.44	6.38

Ill Health Early Retirements tables

Tier 1

	Incidence per 1000 active members per annum			
Age	IH Tier 1 Female FT	IH Tier 1 Female PT	IH Tier 1 Male FT	IH Tier 1 Male PT
20	0.00	0.00	0.00	0.00
25	0.12	0.09	0.00	0.00
30	0.16	0.12	0.00	0.00
35	0.32	0.24	0.12	0.09
40	0.48	0.36	0.20	0.15
45	0.65	0.48	0.44	0.33
50	1.21	0.91	1.13	0.85
55	4.48	3.36	4.42	3.32
60	9.51	7.14	7.78	5.84
65	17.09	12.82	14.78	11.09

Tier 2

	Incidence per 1000 active members per annum			
Age	IH Tier 2 Female FT	IH Tier 2 Female PT	IH Tier 2 Male FT	IH Tier 2 Male PT
20	0.00	0.00	0.00	0.00
25	0.10	0.07	0.00	0.00
30	0.13	0.10	0.00	0.00
35	0.26	0.19	0.10	0.07
40	0.39	0.29	0.16	0.12
45	0.51	0.39	0.35	0.27
50	1.22	0.92	1.14	0.85
55	2.60	1.95	2.56	1.92
60	2.69	2.01	2.20	1.65
65	0.00	0.00	0.00	0.00

Withdrawal

	Withdrawals per 1000 active members per annum			
Age	Female FT	Female PT	Male FT	Male PT
20	151.58	252.63	219.73	439.47
25	101.99	169.97	145.14	290.28
30	85.50	142.46	102.98	205.93
35	73.79	122.91	80.46	160.88
40	61.42	102.26	64.78	129.48
45	57.31	95.41	60.85	121.60
50	48.32	80.35	50.16	100.12
55	36.05	60.02	39.50	78.88
60	29.06	48.31	35.20	70.28
65	0.00	0.00	0.00	0.00

Promotional salary scale

Age	Promotional Salary Scale
20	105
25	117
30	131
35	144
40	150
45	157
50	162
55	162
60	162
65	162

Appendix F: Technical appendix for contribution rate modelling

This appendix is provided for readers seeking to understand the technical methodology used in assessing the employer contribution rates.

In order to assess the likelihood of the employer's section of the Fund achieving full funding we have carried out stochastic asset liability modelling (ALM) that takes into account the main characteristics and features of each employer's share of the Fund's assets and liabilities. For stabilised employers a full ALM, known as comPASS has been used. For other employers a simplified ALM, known as TARGET has been used. Please refer to the Funding Strategy Statement to determine which method has been applied for each employer.

The following sections provide more detail on the background to the modelling.

Cash flows

In projecting forward the evolution of each employer's section of the Fund, we have used anticipated future benefit cashflows. These cashflows have been generated using the membership data provided for the formal valuation as at 31 March 2016, the demographic and financial assumptions used for the valuation and make an allowance for future new joiners to the Fund (if any employer is open to new entrants).

For comPASS we have estimated future service benefit cash flows and projected salary roll for new entrants (where appropriate) after the valuation date such that payroll remains constant in real terms (i.e. full replacement) unless otherwise stated. There is a distribution of new entrants introduced at ages between 25 and 65, and the average age of the new entrants is assumed to be 40 years. All new entrants are assumed to join and then leave service at SPA, which is a much simplified set of assumptions compared with the modelling of existing members. The base mortality table used for the new entrants is an average of mortality across the LGPS and is not specific to the Fund, which is another simplification compared to the modelling of existing members. TARGET uses a similar but simplified approach to generating new entrants. Nonetheless, we believe that these assumptions are reasonable for the purposes of the modelling given the highly significant uncertainty associated with the level of new entrants.

We do not allow for any variation in actual experience away from the demographic assumptions underlying the cashflows. Variations in demographic assumptions (and experience relative to those assumptions) can result in significant changes to the funding level and contribution rates. We allow for variations in inflation (RPI or CPI as appropriate), inflation expectations (RPI or CPI as appropriate), interest rates, yield curves and asset class returns. Cashflows into and out of the Fund are projected forward in annual increments and are assumed to occur in the middle of each financial year (April to March). Investment strategies are assumed to be rebalanced annually.

Asset liability model (comPASS)

These cashflows, and the employer's assets, are projected forward using stochastic projections of asset returns and economic factors such as inflation and bond yields. These projections are provided by the Economic Scenario Service (ESS), our (proprietary) stochastic asset model, which is discussed in more detail below.

In the modelling we have assumed that the Fund will undergo valuations every three years and a contribution rate will be set that will come into force one year after the simulated valuation date. For 'stabilised' contributions, the rate at which the contribution changes is capped and floored. There is no guarantee that such capping or flooring will be appropriate in future; this assumption has been made so as to illustrate the likely impact of practical steps that may be taken to limit changes in contribution rates over time.

Unless stated otherwise, we have assumed that all contributions are made and not varied throughout the period of projection irrespective of the funding position. In practice the contributions are likely to vary especially if the funding level changes significantly.

Investment strategy is also likely to change with significant changes in funding level, but we have not considered the impact of this.

In allowing for the simulated economic scenarios, we have used suitable approximations for updating the projected cashflows. The nature of the approximations is such that the major financial and investment risks can be broadly quantified. However, a more detailed analysis would be required to understand fully the implications and appropriate implementation of a very low risk or 'cash flow matched' strategy.

We would emphasise that the returns that could be achieved by investing in any of the asset classes will depend on the exact timing of any investment/disinvestment. In addition, there will be costs associated with buying or selling these assets. The model implicitly assumes that all returns are net of costs and that investment/disinvestment and rebalancing are achieved without market impact and without any attempt to 'time' entry or exit.

Asset liability model (TARGET)

TARGET uses a similar, but simplified, modelling approach to that used for comPASS.

Contribution rates are inputs to the model and are assumed not to vary throughout the period of projection, with no valuation every three years or setting of 'stabilised' contribution rates.

In allowing for the simulated economic scenarios, we have used more approximate methods for updating the projected cash flows. The nature of the approximations is such that the major financial and investment risks can be broadly quantified.

When projecting forward the assets, we have modelled a proxy for the Fund's investment strategy by simplifying their current benchmark into growth (UK equity) and non-growth (index-linked gilts) allocations, and then adjusting the volatility of the resultant portfolio results to approximately reflect the diversification benefit of the Fund's investment strategy.

Economic Scenario Service

The distributions of outcomes depend significantly on the Economic Scenario Service (ESS), our (proprietary) stochastic asset model. This type of model is known as an economic scenario generator and uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. Some of the parameters of the model are dependent on the current state of financial markets and are updated each month (for example, the current level of equity market volatility) while other more subjective parameters do not change with different calibrations of the model.

Key subjective assumptions are the average excess equity return over the risk free asset (tending to approximately 3% p.a. as the investment horizon is increased), the volatility of equity returns (approximately 18% p.a. over the long term) and the level and volatility of yields, credit spreads, inflation and expected (breakeven) inflation, which affect the projected value placed on the liabilities and bond returns. The market for CPI linked instruments is not well developed and our model for expected CPI in particular may be subject to additional model uncertainty as a consequence. The output of the model is also affected by other more subtle effects, such as the correlations between economic and financial variables.

Our expectation (i.e. the average outcome) is that long term real interest rates will gradually rise from their current low levels. Higher long-term yields in the future will mean a lower value placed on liabilities and therefore our median projection will show, all other things being equal, an improvement in the current funding position (because of the mismatch between assets and liabilities). The mean reversion in yields also affects expected bond returns.

While the model allows for the possibility of scenarios that would be extreme by historical standards, including very significant downturns in equity markets, large systemic and structural dislocations are not captured by the model. Such events are unknowable in effect, magnitude and nature, meaning that the most extreme possibilities are not necessarily captured within the distributions of results.

Expected Rate of Returns and Volatilities

The following figures have been calculated using 5,000 simulations of the Economic Scenario Service, calibrated using market data as at 31 March 2016. All returns are shown net of fees. Percentiles refer to percentiles of the 5,000 simulations and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the (simulated) yields in force at that time horizon. Only a subset of the asset classes are shown below.

The current calibration of the model indicates that a period of outward yield movement is expected. For example, over the next 20 years our model expects the 17 year maturity annualised real (nominal) interest rate to rise from -1.0% (2.2%) to 0.8% (4.0%).

		Annualised total returns												
		Index Linked Gilts (long dated)	UK Equity	Overseas Equity	Private Equity	Property	Senior Loans	Diversified Credit	Absolute Return Bonds (near zero duration)	Diversified Alternatives	Hedge Funds	Inflation	17 year real yield	17 year yield
5 years	16th %'ile	-2.9%	-3.7%	-5.6%	-7.2%	-3.8%	-0.8%	0.2%	-2.6%	-2.0%	-3.7%	1.2%	-1.6%	1.7%
	50th %'ile	0.5%	4.5%	4.1%	5.3%	2.0%	2.2%	2.3%	2.0%	2.6%	2.1%	2.6%	-0.7%	3.0%
	84th %'ile	4.1%	12.7%	14.3%	19.4%	8.3%	5.3%	4.5%	6.8%	7.5%	8.2%	4.2%	0.2%	4.5%
10 years	16th %'ile	-1.8%	-1.1%	-2.6%	-3.4%	-1.8%	0.7%	1.3%	-0.8%	-0.1%	-1.3%	1.4%	-1.5%	1.9%
	50th %'ile	0.3%	5.0%	4.6%	5.9%	2.8%	3.1%	3.0%	2.6%	3.4%	3.0%	2.8%	-0.3%	3.5%
	84th %'ile	2.7%	11.1%	12.1%	16.0%	7.5%	5.6%	4.7%	6.2%	7.2%	7.5%	4.5%	0.9%	5.5%
20 years	16th %'ile	-1.0%	1.3%	0.2%	0.3%	0.1%	2.1%	2.4%	1.0%	1.8%	0.7%	1.7%	-0.7%	2.3%
	50th %'ile	0.5%	5.9%	5.6%	7.0%	3.7%	4.2%	4.0%	3.6%	4.5%	4.1%	3.0%	0.8%	4.0%
	84th %'ile	2.2%	10.7%	11.2%	14.0%	7.6%	6.5%	5.8%	6.5%	7.5%	7.8%	4.4%	2.3%	6.3%
	Dispersion (1 yr)	9%	16%	19%	29%	14%	6%	6%	10%	10%	12%	1%		

Appendix G: Events since valuation date

Post-valuation events

These valuation results are in effect a snapshot of the Fund as at 31 March 2016. Since that date, various events have had an effect on the financial position of the Fund. Whilst we have not explicitly altered the valuation results to allow for these events, a short discussion of these "post-valuation events" can still be beneficial in understanding the variability of pension funding.

In the period from the valuation date to early March 2017, the Fund asset returns have been significantly better than expected. However, global expectations for future asset returns have fallen in light of events such as the Brexit vote. Both events have roughly cancelled each other out in terms of the impact on the funding position. However, the day to day volatility is significant

Overall, employer contributions continue to be subject to upwards pressure as a result of post-valuation events.

It should be noted that the above is for information only: the figures in this report have all been prepared using membership data, audited asset information and market-based assumptions all as at 31 March 2016. In particular, we do not propose amending any of the contribution rates listed in the Rates & Adjustments Certificate on the basis of these market changes, and all employer contribution rates are based on valuation date market conditions. In addition, these rates are finalised within a risk-measured framework as laid out in the Fund's Funding Strategy Statement (FSS). We do not propose altering the FSS or valuation calculations to include allowance for post-valuation date market changes since a long term view has been taken.

Other events

Other than investment conditions changes above, I am not aware of any material changes at whole fund level or events occurring since the valuation date.

Appendix H: Rates and Adjustments certificate

In accordance with regulation 62(4) of the Regulations we have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2017 to 31 March 2020 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments certificate are detailed in the Funding Strategy Statement dated TBC and our report on the actuarial valuation dated 7 March 2017.

The required minimum contribution rates are set out below.

Employer code	Employer/Pool name	Contributions currently in payment 2016/17		Primary rate (%) 1 April 2017 - 31 March 2020	Minimum Contributions for the Year Ending					
					Secondary Rate (%/£)			Total Contribution rate (%/£)		
					2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
	London Borough of Tower Hamlets Pool									
1	London Borough of Tower Hamlets (non-schools)	15.8%	£22,000,000	19.9%	£15,000,000	£15,000,000	£15,000,000	19.9% plus £15,000,000	19.9% plus £15,000,000	19.9% plus £15,000,000
	London Borough of Tower Hamlets (schools)	15.8%		19.9%	-2.6%	-1.1%	0.4%	17.3%	18.8%	20.3%
	Tower Hamlets Community Housing Pool	37.6%	£0	28.4%	9.2%	9.2%	9.2%	37.6%	37.6%	37.6%
3	Tower Hamlets Community Housing Limited									
8	Tower Hamlets Community Housing Limited (Open)									
	Paridigm Trust Pool	35.7%	£0	17.9%	13.0%	8.2%	3.4%	30.9%	26.1%	21.3%
895	Solebay									
896	Culloden									
897	Old Ford									
	Individual Employers									
4	Redbridge Community Housing Limited	17.7%	£0	30.3%	-12.6%	-12.6%	-12.6%	17.7%	17.7%	17.7%
6	East End Homes Limited	33.6%	£0	29.4%	0.0%	0.0%	0.0%	29.4%	29.4%	29.4%
7	Greenwich Leisure Limited	17.7%	£0	20.0%	£13,000	£14,000	£14,000	20.0% plus £13,000	20.0% plus £14,000	20.0% plus £14,000
9	Swan Housing Association Limited	26.2%	£11,000	30.5%	£11,000	£11,000	£11,000	30.5% plus £11,000	30.5% plus £11,000	30.5% plus £11,000
10	Gateway Housing Association (Bethnal Green & Victor	25.6%	£28,000	30.0%	£28,000	£28,000	£28,000	30.0% plus £28,000	30.0% plus £28,000	30.0% plus £28,000
11	One Housing Group (Toynbee Island Homes)	41.4%	£0	45.1%	-3.7%	-3.7%	-3.7%	41.4%	41.4%	41.4%
13	Tower Hamlet Homes	23.1%	£0	18.4%	0.0%	0.0%	0.0%	18.4%	18.4%	18.4%
17	Bethnal Green Academy	20.6%	£152,000	15.6%	8.9%	8.9%	8.9%	24.5%	24.5%	24.5%
18	Sir William Burrough Primary School	21.8%	£0	16.4%	0.0%	0.0%	0.0%	16.4%	16.4%	16.4%
19	St Pauls Way Trust School	18.9%	£0	15.5%	3.4%	3.4%	3.4%	18.9%	18.9%	18.9%
21	Canary Wharf College	15.9%	£0	13.8%	2.1%	2.1%	2.1%	15.9%	15.9%	15.9%
22	Agilysis	16.8%	£0	27.8%	-11.0%	-11.0%	-11.0%	16.8%	16.8%	16.8%
23	London Enterprise Academy	15.9%	£0	18.0%	-0.4%	-0.4%	-0.4%	17.6%	17.6%	17.6%
24	Wapping High School	21.8%	£0	15.2%	0.9%	0.9%	0.9%	16.1%	16.1%	16.1%

Further comments

Ill health liability insurance

Note that, if an employer has ill health liability insurance in place with a suitable insurer and provides satisfactory evidence to the Administering Authority, then their Minimum Total Contribution Rate may be reduced by their insurance premium, for the period the insurance is in place.

Signature:

Date: 7 March 2017

Name: Barry McKay

Qualification: Fellow of the Institute and Faculty of Actuaries

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London Borough of Tower Hamlets Pension Fund

DRAFT Funding Strategy Statement

February 2017

Contents

DRAFT Funding Strategy Statement

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Tower Hamlets Pension Fund ("the Fund"), which is administered by London Borough of Tower Hamlets Council, ("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. It is effective from 1 April 2017.

1.2 What is the London Borough of Tower Hamlets Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Tower Hamlets Pension Fund, in effect the LGPS for the London Borough of Tower Hamlets area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

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

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are determined in accordance with the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and with no certainty. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- Long term solvency of the Fund,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- ;all Fund's policies which can be found on the Fund's website [Client URL]
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- 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.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact the Pensions Manager email: pensionsLBTH@towerhamlets.gov.uk or call telephone number 020 7364 4251.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a large part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8..

2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund will seek to moderate short term increases in contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3 Calculating contributions for individual Employers

3.1 General comments

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, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution is likely to lead to higher contributions in the long-term; and
- it is likely to take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	**Council**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No
Maximum time horizon – Note (c)	20 years	20 years	20 years	Future working lifetime	Future working lifetime	Outstanding contract term
Secondary rate – Note (d)	% of payroll or monetary amount	Monetary amount	% of payroll	% of payroll or monetary amount	% of payroll or monetary amount	% of payroll or monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority				Preferred approach: contributions kept at future service rate. However, contractors may be permitted to reduce contributions by spreading the surplus over the remaining contract term
Probability of achieving target – Note (e)	66%	70%	70%	66% if guaranteed, 75% otherwise	66% if guaranteed, 75% otherwise	66% if guaranteed, 75% otherwise
Phasing of contribution changes	Covered by stabilisation arrangement	At the discretion of the Administering Authority		None	None	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) 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 from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and 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 or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies to London Borough of Tower Hamlets Council as a tax raising body:

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), total contributions have been set to ensure that stabilised employers have at least a 66% chance of being fully funded in 20 years under the 2016 formal valuation assumptions.

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund’s policies on academies’ funding issues are as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy’s figures will be calculated as below but can be combined with those of the other academies in the MAT;

ii. The new academy’s past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council’s assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members’ funding level, having first allocated assets in the council’s share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy’s active Fund membership on the day prior to conversion;

iv. The new academy’s initial contribution rate will be calculated using market conditions, the council funding position and membership data, all as at the day prior to conversion;

The Fund’s policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (iv) and (v) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, agreed in conjunction with the Administering Authority, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

The Fund's standard approach is for the TAB to be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- 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 an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) 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", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee. The approach to calculating the cessation payment will be as per the Admission Body's Admission Agreement.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, 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. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. Currently the pools in place within the Fund are as follows:

- Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced probability of achieving funding target, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

The payment will be paid immediately, unless otherwise agreed with the Administering Authority.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

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 3 will damp down, but not remove, the effect on employers' contributions.

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

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

Affordability – how much can employers afford;

Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, annually. It reports this to the regular Pensions Committee meetings.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) 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.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

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.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers 13th February 2017 for comment;

b) Comments were requested within 21 days;

c) Following the end of the consultation period the FSS was updated where required and then published, on 31st March 2017.

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website, at [CLIENT URL];

A copy sent by /e-mail to each participating employer in the Fund;

Copies sent to investment managers and independent advisers;

Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles/Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at [CLIENT URL].

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a SIP/ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

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

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this

Risk	Summary of Control Mechanisms
	risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate

Risk	Summary of Control Mechanisms
	contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.

Risk	Summary of Control Mechanisms
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
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, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;

3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details),

3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. within the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

The Administering Authority, after taking advice from the Fund's actuary, may choose to calculate Primary and Secondary contribution rates differently if particular circumstances apply to an employer.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);

3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses 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".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. 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, including but not limited to:

1. the actual timing of employer contributions within any financial year;
2. the effect of the premature payment of any deferred pensions on grounds of incapacity.

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

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 it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. 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.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 2.0% per annum greater than gilt yields at the time of the valuation (this is higher than that used at the 2013 valuation, which therefore gives a lower funding target, all other things being equal). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. 0.7% p.a. below the retail prices index (RPI) p.a. thereafter.

This gives a single “blended” assumption of Consumer Price Index (CPI) less 0.1% (equivalent to RPI less 1.2%) per annum. This is a change from the previous valuation, which assumed a flat assumption of RPI plus 0.5% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we have used a reduction of 1.0% per annum. This is a larger reduction than at 2013 (which was 0.8%), which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is to reduce life expectancy by around 0.4 years on average, which reduces the funding target all other things being equal. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong

	as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary	The difference between the employer's actual and **Primary contribution rates**. In

contribution rate	broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

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Appendix 3

Appendix H: Rates and Adjustments certificate

In accordance with regulation 62(4) of the Regulations we have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2017 to 31 March 2020 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments certificate are detailed in the Funding Strategy Statement dated TBC and our report on the actuarial valuation dated 7 March 2017.

The required minimum contribution rates are set out below.

Employer code	Employer/Pool name	Contributions currently in payment 2016/17		Primary rate (%) 1 April 2017 - 31 March 2020	Minimum Contributions for the Year Ending					
					Secondary Rate (%/£)			Total Contribution rate (%/£)		
					2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
	London Borough of Tower Hamlets Pool									
1	London Borough of Tower Hamlets (non-schools)	15.8%	£22,000,000	19.9%	£15,000,000	£15,000,000	£15,000,000	19.9% plus £15,000,000	19.9% plus £15,000,000	19.9% plus £15,000,000
	London Borough of Tower Hamlets (schools)	15.8%		19.9%	-2.6%	-1.1%	0.4%	17.3%	18.8%	20.3%
	Tower Hamlets Community Housing Pool	37.6%	£0	28.4%	9.2%	9.2%	9.2%	37.6%	37.6%	37.6%
3	Tower Hamlets Community Housing Limited									
8	Tower Hamlets Community Housing Limited (Open)									
	Paridigm Trust Pool	35.7%	£0	17.9%	13.0%	8.2%	3.4%	30.9%	26.1%	21.3%
895	Solebay									
896	Culloden									
897	Old Ford									
	Individual Employers									
4	Redbridge Community Housing Limited	17.7%	£0	30.3%	-12.6%	-12.6%	-12.6%	17.7%	17.7%	17.7%
6	East End Homes Limited	33.6%	£0	29.4%	0.0%	0.0%	0.0%	29.4%	29.4%	29.4%
7	Greenwich Leisure Limited	17.7%	£0	20.0%	£13,000	£14,000	£14,000	20.0% plus £13,000	20.0% plus £14,000	20.0% plus £14,000
9	Swan Housing Association Limited	26.2%	£11,000	30.5%	£11,000	£11,000	£11,000	30.5% plus £11,000	30.5% plus £11,000	30.5% plus £11,000
10	Gateway Housing Association (Bethnal Green & Victo	25.6%	£28,000	30.0%	£28,000	£28,000	£28,000	30.0% plus £28,000	30.0% plus £28,000	30.0% plus £28,000
11	One Housing Group (Toynbee Island Homes)	41.4%	£0	45.1%	-3.7%	-3.7%	-3.7%	41.4%	41.4%	41.4%
13	Tower Hamlet Homes	23.1%	£0	18.4%	0.0%	0.0%	0.0%	18.4%	18.4%	18.4%
17	Bethnal Green Academy	20.6%	£152,000	15.6%	8.9%	8.9%	8.9%	24.5%	24.5%	24.5%
18	Sir William Burrough Primary School	21.8%	£0	16.4%	0.0%	0.0%	0.0%	16.4%	16.4%	16.4%
19	St Pauls Way Trust School	18.9%	£0	15.5%	3.4%	3.4%	3.4%	18.9%	18.9%	18.9%
21	Canary Wharf College	15.9%	£0	13.8%	2.1%	2.1%	2.1%	15.9%	15.9%	15.9%
22	Agilysis	16.8%	£0	27.8%	-11.0%	-11.0%	-11.0%	16.8%	16.8%	16.8%
23	London Enterprise Academy	15.9%	£0	18.0%	-0.4%	-0.4%	-0.4%	17.6%	17.6%	17.6%
24	Wapping High School	21.8%	£0	15.2%	0.9%	0.9%	0.9%	16.1%	16.1%	16.1%

CIPFA The Chartered Institute of Public Finance & Accountancy

Preparing and Maintaining a

funding strategy statement

in the LGPS

2016 edition

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

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Foreword

Ensuring that an LGPS pension fund has sufficient assets to meet pensions liabilities in the long term is the primary responsibility of those charged with managing the fund. Getting the funding strategy right is critical to achieving this. The purpose of the funding strategy statement, as set out by the Department for Communities and Local Government (DCLG) in 2003, is *"to establish a clear and transparent fund specific funding strategy which would identify how employers' pension liabilities are best met going forward"*.

To support the requirement for a funding strategy statement, CIPFA produced its 2004 *Guidance on Preparing and Maintaining a Funding Strategy Statement,* and in 2012 updated this guidance to reflect changes in the LGPS Regulations and the wider investment landscape. While much of this guidance from the original version remains relevant, the context in which the LGPS operates has changed a great deal.

Given the increasing focus on the affordability and sustainability of public sector pensions since the Hutton Report, the funding strategy statement has become a key document in defining how an administering authority will meet its responsibilities in managing an LGPS fund.

Users of this guidance will find that the purposes and principles that underpin the funding strategy statement are fundamentally unchanged. However, in updating the guidance, CIPFA has sought to place these purposes and principles in the context of the LGPS as it stands in 2016.

Mike Ellsmore
Chair of the CIPFA Pensions Panel

Acknowledgements

This guidance has been developed by the CIPFA Pensions Panel, supported by Neil Sellstrom (CIPFA Pensions Technical Manager).

The panel would like to thank colleagues at DCLG and the Government Actuary's Department, particularly Bob Holloway and John Bayliss for their contributions to the guidance. In addition, colleagues at the major actuarial firms of Mercer, AON Hewitt, Barnett Waddingham and Hymans Robertson have provided significant technical support.

The panel would also like to thank all those who took the time to review the guidance during its preparation. CIPFA Pensions Panel members are:

- Mike Ellsmore (Chairman)
- Mike Allen – London Pension Fund Authority
- Paul Dale – London Borough of Merton
- Geoff Dobson – Suffolk County Council (Society of County Treasurers)
- Geik Drever – West Midlands Pension Fund
- Nick Eveleigh – Chelmsford City Council (Society of District Treasurers)
- Jeff Houston – Local Government Employers Pensions Committee
- Nicola Mark – Norfolk Pension Fund
- Paul Mayers – National Audit Office
- Richard McIndoe – Glasgow City Council (representing Scotland)
- Chris Megainey – Department for Communities and Local Government
- Graeme Russell (Vice Chairman) – Torfaen County Borough Council (representing Wales)
- Trevor Salmon – Northern Ireland Local Government Officers' Superannuation Committee (representing Northern Ireland)
- Mark Taylor – Audit Scotland
- Chris West – Coventry City Council (Society of Metropolitan Treasurers)
- Ian Williams – London Borough of Hackney (Society of London Treasurers)
- John Wright – Hymans Robertson

Contents

Status

This guidance should be regarded as statutory guidance and replaces that referred to at:

- Regulation 58(4)(a) of the Local Government Pension Scheme Regulations 2013
- Regulation 56(4)(a) of the Local Government Pension Scheme (Scotland) Regulations 2014
- Regulation 64(4)(a) of the Local Government Pension Scheme Regulations (Northern Ireland) 2014.

Introduction

CIPFA has produced this guidance to support LGPS pension fund administering authorities in the preparation and maintenance of the funding strategy statement (FSS) that they are required to produce under LGPS Regulations.

This revised and updated guidance replaces the CIPFA Pensions Panel guidance *Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme* that was issued in October 2012. That guidance has now been withdrawn.

As the overriding statutory requirements with regard to the FSS have not changed since they were introduced in 2004, much of the detail in the 2004 guidance remains relevant and has been retained. However, over the course of the last 12 years, there have been a number of regulatory, industry and environmental changes, which cumulatively require that the 2004 guidance be updated. In particular:

- the introduction of the Public Service Pensions Act 2013 and the Public Service Pensions Act (Northern Ireland) 2014, in particular Section 13 of those Acts
- the new 2014 scheme (2015 in Scotland and Northern Ireland) and associated regulations
- changes to the LGPS Investment Regulations
- the changing maturity profile of the LGPS
- the growth in the number of admitted bodies and the evolving nature of the provision of public services
- the growth in the number of scheduled bodies (in particular academies)
- the investment landscape, the global economic downturn and the effect on investment yield
- public sector austerity and the effects on fund membership, scheme maturity and cash flow profiles.

For consistency and ease of reference, this updated guidance follows the same layout as the 2012 version, with certain sections enhanced to reflect the above changes.

Statutory Background

Regulation 58 of the Local Government Pension Scheme Regulations 2013 provides the statutory framework from which LGPS administering authorities are required to prepare and maintain an FSS. The corresponding regulations in Scotland and Northern Ireland are:

- Regulation 56 of the Local Government Pension Scheme (Scotland) Regulations 2014
- Regulation 64 of the Local Government Pension Scheme Regulations (Northern Ireland) 2014.

In preparing the FSS the key points that an administering authority should address are as follows:

- After consultation with all relevant interested parties involved with the fund – for example, local authority employers, admitted bodies, scheduled/resolution bodies – the administering authority will prepare and publish its funding strategy.
- In preparing the FSS, the administering authority must have regard to:
  - a. this guidance
  - b. its statement of investment principles or investment strategy statement, whichever is appropriate.
- 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, statement of investment principles or investment strategy statement.
- The revised FSS should be completed and approved by the pensions committee (or equivalent) prior to the completion of each valuation.
- Each fund actuary must have regard to the FSS as part of the fund valuation process.

STATUTORY REFERENCES

Throughout this guidance reference is made to the LGPS Regulations. In the context of the guidance, this term refers to the following sets of regulations:

- the Public Service Pensions Act 2013
- the Public Service Pensions Act (Northern Ireland) 2014
- the Local Government Pension Scheme Regulations 2013
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
- the Local Government Pension Scheme (Scotland) Regulations 2014
- the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015
- the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010

- the Local Government Pension Scheme (Amendment) Regulations (Northern Ireland) 2016
- the Local Government Pension Scheme (Governance) (Amendment) Regulations (Northern Ireland) 2015
- the Local Government Pension Scheme (Amendment No 2) Regulations (Northern Ireland) 2015
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations (Northern Ireland) 2000.

Preparing the Funding Strategy Statement

The FSS should be prepared having regard to the following guidance given on the matters to be included:

- **purpose of the FSS in policy terms**
- **aims and purpose of the pension fund**
- **responsibilities of the key parties**
- **solvency issues, target funding levels and long-term cost efficiency**
- **links to investment policy set out in the statement of investment principles (SIP) or investment strategy statement (ISS)**
- **identification of risks and countermeasures.**

The following sections of the guidance consider each of the above headings.

The following key issues should be borne in mind when preparing, reviewing and revising the FSS:

- The FSS is a useful description of the actual decision-making processes of administering authorities in relation to how they manage ongoing employers' pension costs and risks in the context of their legal and fiduciary relationships with scheme employers. It should therefore contain sufficient detail on how funding strategy and associated funding risks are managed in respect of the main categories of employer (eg scheduled and admitted) and other pension fund stakeholders.
- The highest standards of transparency are expected in public sector pensions, particularly in the current context of public and political interest in pensions. The FSS should demonstrate clearly the connection between pension provision and the cost and risks to the taxpayer, local authority and other scheme employer budgets.
- The FSS should also enable a closer degree of longer-term scrutiny at all levels of the process by which employer contributions are set, which the current scheme regulations already require, and provide a necessary framework within which the statutory valuation exercises for each fund take place.
- The FSS will provide a necessary context for communication on funding, contribution rates and funding risks with scheme employers and other pension fund stakeholders in a local government context. Participating employers need to understand fully their obligations to the fund.
- The FSS will also provide a clear understanding of the issues to be faced locally by individual funds and set them within the local political context, particularly in the case of local authority scheme employers.

Purpose of the Funding Strategy Statement in Policy Terms

The purpose of the FSS should be clearly set out. This is best defined by reference to the discussion paper issued by the ODPM on 23 July 2003, *Local Government Pension Scheme – Strategy Proposals: Stocktake Discussion Paper – Funding Strategy Statement Proposals*.

Based on the principles set out in this paper, the purpose of the FSS is to document the processes by which the administering authority:

- establishes a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward
- supports the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the LGPS Regulations 2013
- ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the fund are met
- takes a prudent longer-term view of funding those liabilities.

This framework is designed to ensure the funding strategy is both cohesive and comprehensive for the fund as a whole, recognising that there will be conflicting objectives that need to be balanced and reconciled. Whilst the funding strategy applicable to individual employers or categories of employers must be reflected in the FSS, its focus should at all times be on those actions that are in the best long-term interests of the fund. Consequently the FSS should remain a single all-employer-encompassing strategy for the administering authority to implement and maintain, for it is to the administering authority that the obligation to pay pension benefits ultimately falls. It is the strength of the relationship between the interested parties that will support the long-term sustainability of each pension fund and the appropriate funding of its liabilities. Good communication between all parties and stakeholders is essential in building strong relationships.

Aims and Purpose of the Pension Fund

So that all parties to the FSS share a common understanding, the FSS should set out clearly the aims and purpose of the pension fund.

Although not collated in one place, various references to the aims and purposes of the pension fund are to be found throughout the LGPS Regulations, related pensions legislation and associated briefings. For example, the LGPS investment regulations specify what monies are to be paid into the fund and from it, the Public Service Pensions Act 2013 imposes the requirement for contributions to be set to ensure solvency and long-term cost efficiency, while the LGPS Regulations express the desirability that the primary rates of employer contributions be kept as stable as possible.

From these various references, the aims and purposes can be summarised as follows.

The aims of the fund are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the fund and employers, and the risk appetite of the administering authority and employers alike
- seek returns on investment within reasonable risk parameters.

The purpose of the fund is to:

- receive monies in respect of contributions, transfer values and investment income
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the Local Government Pension Scheme Regulations 2013 and as required in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (or the equivalent in Scotland and Northern Ireland).

Responsibilities of the Key Parties

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently.

There are a wide range of stakeholders in LGPS funds, all of whom have a role in its effective management. Bankers, custodians, investment managers, auditors and legal, investment and governance advisors all form part of the fund management process. Consequently the FSS should recognise these roles and define the responsibilities attached to them. However, the primary parties to the FSS are the administering authority, scheme employers and the actuary to the fund, and the FSS should document their specific roles in greater detail.

Many of the roles and responsibilities of administering authorities, scheme employers and actuaries are set out in various parts of LGPS legislation. Others are defined in guidance and professional standards or by agreement between the parties (such as the contractual relationship between administering authority and actuary, and, where stipulated in any pensions administration agreement, between the administering authority and a scheme employer). These are of particular relevance and should be included in the FSS as a specific reference.

The administering authority is required to:

- operate a pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in LGPS Regulations
- pay from the pension fund the relevant entitlements as stipulated in LGPS Regulations
- invest surplus monies in accordance with the LGPS Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the fund's actuary
- prepare and maintain an FSS and an SIP/ISS, both after proper consultation with interested parties
- monitor all aspects of the fund's performance and funding, and amend the FSS/ISS accordingly
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and scheme employer
- enable the local pension board to review the valuation process as set out in their terms of reference.

The individual employer is required to:

- deduct contributions from employees' pay correctly
- pay all ongoing contributions, including employer contributions determined by the actuary and set out in the rates and adjustments certificate, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain
- notify the administering authority promptly of all changes to active membership that affect future funding
- pay any exit payments on ceasing participation in the fund.

The fund actuary should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the LGPS Regulations
- prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc
- provide advice and valuations on the exiting of employers from the fund
- provide advice to the administering authority on bonds or other forms of security against the financial effect on the fund of employer default
- assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the regulations
- ensure that the administering authority is aware of any professional guidance or other professional requirements that may be of relevance to his or her role in advising the fund.

Solvency Issues and Target Funding Levels

A comprehensive statement of the key assumptions and aspirations that make up the funding strategy is a fundamental element of the FSS.

LGPS Regulations require each administering authority to secure fund solvency and long-term cost efficiency by means of employer contribution rates established by mandatory valuation exercises and express the desirability of maintaining as nearly constant a primary employer contribution rate as possible. LGPS administering authorities prudentially seek to achieve an appropriate balance, in the light of actuarial advice, to ensure the income stream from contributions and investments achieves the ultimate aim of ensuring that the administering authority can meet its liabilities to pay pension benefits as and when they fall due over the life of the pension scheme.

Given the statutory position of LGPS administering authorities, the tax-backed nature of the employing authorities who make up the core of the scheme and the statutory basis of the scheme, the LGPS remains outside the solvency arrangements established for private sector occupational pension schemes. It may therefore be appropriate for LGPS administering authorities to establish longer-term deficit recovery periods than those in the private sector where this was thought to be:

- prudentially appropriate
- relevant to local circumstances
- balanced with the short- and long-term funding requirements of the pension fund, including the ability to meet pensions obligations as they fall due.

However, administering authorities are reminded that securing solvency and long-term cost efficiency is a regulatory requirement whereas as constant as possible a primary contribution rate remains only a desirable outcome.

The FSS is designed to provide a framework within which such periods can be established, set and monitored, and for the parallel actuarial valuation exercise to have regard to the policies established and set out in the individual FSS. The future funding strategy adopted for local authorities and the other major government bodies such as the fire authorities and police and crime commissioners and chief constables should be based on a prudential approach after a thorough consideration of all relevant factors.

Administering authorities, in conjunction with contributing local authority employers, will need to consider carefully how best to utilise the opportunities their constitutional permanence affords them when formulating the FSS.

Local authority employers may face the prospect of either having to increase council tax locally to help pay for increased contribution levels to the LGPS, for example, or to consider reducing local services (or even both in some circumstances). Consideration may be given to extend their liability recovery periods or to increase the level of risk inherent in the funding plan, ie take credit for a higher level of future investment returns in order to smooth contribution increases. Such action should only be taken where it is prudentially appropriate, a proper assessment of the risks has been undertaken and where the use of such an approach is properly disclosed.

As with the disclosure requirements on assumptions, funds should be clear on the level of risk inherent in, for example, the length of deficit recovery periods assumed in the FSS, and also on the circumstances where such an approach would no longer be appropriate. Administering authorities should avoid continually extending deficit recovery periods at each and subsequent actuarial valuations. Over time and given stable market conditions, administering authorities should aim to reduce deficit recovery periods.

Under Section 13(4)(c) of the Public Service Pensions Act 2013, the Government Actuary's Department (GAD) (as the person appointed by the responsible authority) must, following an actuarial valuation, report on whether the rate of employer contributions to the pension fund is set at an appropriate level to ensure the solvency of the pension fund and long-term cost efficiency of the scheme so far as relating to the pension fund. These terms are defined below.

In developing the funding strategy, the administering authority should have regard to the likely outcomes of the subsequent review under Section 13(4)(c). It should also consider implications for its key performance indicators as determined by the Scheme Advisory Board where appropriate, ie in England and Wales.

The LGPS consists of three separate schemes: one in England and Wales, one in Scotland and one in Northern Ireland. These schemes are made up of one or more funds. Section 13 requires each fund's valuation to be compared with other funds' valuations within the same scheme. Such comparisons are not applicable for Northern Ireland, where there is only one fund in the scheme.

DEFINITIONS

Solvency

The notes to the Public Service Pensions Act 2013 state that solvency means that the rate of employer contributions should be set at "such level as to ensure that the scheme's liabilities can be met as they arise". It is not regarded that this means that the pension fund should be 100% funded at all times. Rather, and for the purposes of Section 13 of the Public Service Pensions Act 2013, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- the rate of employer contributions is set to target a funding level for the whole fund (assets divided by liabilities) of 100% over an appropriate time period and using appropriate actuarial assumptions; and either
- employers collectively have the financial capacity to increase employer contributions, and/or the fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

- there is an appropriate plan in place should there be, or if there is expected in future to be, no or a limited number of fund employers, or a material reduction in the capacity of fund employers to increase contributions as might be needed.

If the conditions above are met, then it is expected that the fund will be able to pay scheme benefits as they fall due.

Long-term cost efficiency

The notes to the Public Service Pensions Act 2013 state:

> *Long-term cost-efficiency implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time.*

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long-term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

In assessing whether the above condition is met, GAD may have regard to the following considerations:

- the implied average deficit recovery period
- the investment return required to achieve full funding over different periods, eg the recovery period
- if there is no deficit, the extent to which contributions payable are likely to lead to a deficit arising in the future
- the extent to which the required investment return above is less than the administering authority's view of the expected future return being targeted by a fund's investment strategy, taking into account changes in maturity/strategy as appropriate.

Data

In order for GAD to carry out its function under Section 13 of the Public Service Pensions Act 2013, GAD will request data to be provided by the local administering authorities/local fund actuaries, and it is assumed that this data will be provided promptly and accurately.

Primary rate of the employers' contribution

The primary rate for each employer is that employer's future service contribution rate, which is the contribution rate required to meet the cost of the future accrual of benefits, expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit but allowing for any employer-specific circumstances, such as the membership profile of that employer, the funding strategy adopted for that employer (including any risk-sharing arrangements operated by the administering authority), the actuarial method chosen and/or the employer's covenant.

The primary rate for the whole fund is the weighted average (by payroll) of the individual employers' primary rates.

Secondary rate of the employers' contribution

The secondary rate is an adjustment to the primary rate to arrive at the rate each employer is required to pay. It may be expressed as a percentage adjustment to the primary rate, and/or a cash adjustment in each of the three years beginning with 1 April in the year following that in which the valuation date falls. The secondary rate is specified in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the primary and secondary rates.

The actuary should also disclose the secondary rates for the whole scheme in each of the three years beginning with 1 April in the year following that in which the valuation date falls. These should be calculated as a weighted average based on the whole scheme payroll in respect of percentage rates and as a total amount in respect of cash adjustments. The purpose of this is to facilitate a single net rate of contributions expected to be received over each of the three years that can be readily compared with other rates and reconciled with actual receipts.

SOLVENCY ISSUES AND NON-LOCAL-AUTHORITY EMPLOYERS

The number and type of non-local-government bodies operating within the LGPS has grown significantly since this guidance was first produced in 2004. In recent years, academies, private sector contractors and, to a lesser extent, local authority spin-off/spin-out companies have grown significantly and now feature heavily within the LGPS employer community.

When considering the application of FSS principles to non-local-authority employers such as admission bodies (who have no local tax-raising powers), administering authorities will need to balance carefully:

- the need to set appropriate employer contribution levels and deficit recovery periods
- the underlying investment strategy of the assets backing the liabilities of these employers (if different from the strategy adopted by other employers)
- the financial standing of those employers (and where applicable, the parent company or any guarantor) and:
  - their ability to meet the cost of current membership
  - their longer-term commitment to fund any deficit, including any potential deficit at exit; and
  - their ability to insure against default
- the short- and long-term effects of high contribution rates on the non-local-authority employer in terms of its financial viability.

To assist in this process, administering authorities should consider building up a knowledge base on their non-local-authority employers and their legal status (charities, companies limited by guarantee, group/subsidiary arrangements) and use this information to inform the FSS.

In the interests of transparency, the FSS should clearly set out the risk assessment methodology and criteria by which the administering authority will assess the long-term financial health of employers, and how this will be monitored. The outcome should inform the decision-making process as to the appropriate employer contribution rate and deficit recovery period. The FSS should also explicitly state the fund's policy on employers leaving the fund, either at the end of the term of an admission agreement or for any other reason.

Where a pooling approach is adopted to group employers to recognise common characteristics (for example, size of membership, closed or defunct, similar financing base, etc), the FSS should set out what risks are shared within the pool and how this policy relates to the administering authority's policy in regard to achieving a common funding strategy and contribution rate.

SOLVENCY ISSUES AND FUND MATURITY

When this guidance was first published in 2004, fund maturity was very much seen as a long-term issue and not one of immediate concern. However, over the course of recent years, many LGPS funds have matured more quickly than might have been expected.

The proportion of deferred and pensioner membership in the LGPS has been steadily increasing, prompted by opt-outs and large scale reductions in local authority employment. Experience such as a prolonged period of pay growth restraint has had a consequential impact on contribution income. At the same time, benefits expenditure has increased faster than expected, as many who have left local authority employment have taken up benefit entitlements.

The FSS should explicitly recognise the funding risks presented by the changing maturity profile of the LGPS and its impact on future investment strategy, and bear this in mind when it comes to determining employer contribution rates and deficit recovery periods.

CONCLUSIONS

Neither the LGPS Regulations nor this guidance seek to prescribe an optimum funding target or period for securing full funding. Rather, the emphasis is on:

- the need to avoid short-term horizons
- the need for employers' contributions recommended and paid to be set at a level to ensure solvency and long-term cost efficiency
- the desirability for primary contributions to be as stable as possible; and
- recognition of the constitutional permanence of local authority employers and other public sector employers and the scheme's statutory status, within a prudent risk framework. This includes, for local authority employers, a particular focus on the interdependence of LGPS employer contribution levels and public funding.

Links to Investment Policy Set Out in the Statement of Investment Principles or Investment Strategy Statement

After employer and employee contributions, investment returns are the third key pillar of LGPS funding. The required investment returns to meet the aspirations set out in the FSS must be compatible with the investment policy as set out in the SIP/ISS, and this should be confirmed and explained in the FSS.

Many authorities use asset liability studies, or some other form of stochastic model, in order to assist the process of formulating a strategic asset allocation. Clearly, whatever method is used, the outcome needs to be consistent with achieving the appropriate, locally determined solvency and deficit recovery targets and the ability to meet pensions obligations when they fall due.

In formulating a fund's overall investment strategy, account should be taken of the funding position in relation to the liabilities of the fund assessed on an appropriate and prudent basis. The FSS should state the extent to which the solvency objective is embedded in the strategic asset allocation and linked directly to the SIP/ISS, and the risks of different strategies.

The Identification of Risks and Countermeasures

Awareness of the risks that may impact on the funding strategy and expectations of future solvency is crucial to determining the appropriate measures to mitigate those risks. The FSS should identify those risks specific to the pension fund and the measures to be taken or assumptions made to counter those risks.

Risk management is central to the LGPS. LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

While the activity of pension fund management exposes administering authorities to a wide range of risks, those most likely to impact upon the funding strategy are:

- **Investment risk** – the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:
  - assets not delivering the required return (for whatever reason, including manager underperformance)
  - systemic risk with the possibility of interlinked and simultaneous financial market volatility
  - insufficient funds to meet liabilities as they fall due
  - inadequate, inappropriate or incomplete investment and actuarial advice taken and acted upon
  - counterparty failure.

  The specific risks associated with assets and asset classes are:
  - equities – industry, country, size and stock risks
  - fixed income – yield curve, credit risks, duration risk and market risks
  - alternative assets – liquidity risk, property risk, alpha risk
  - money market – credit risk and liquidity risk
  - currency risks
  - macroeconomic risks.
- **Employer risk** – those risks that arise from the ever-changing mix of employers; from short-term and ceasing employers; and the potential for a shortfall in payments and/or orphaned liabilities.
- **Liquidity/maturity risk** – the LGPS is going through a series of changes, each of which will impact upon the maturity profile of the LGPS and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery, which result in active members leaving the LGPS; transfers of responsibility between different public sector bodies; scheme changes that might lead

to increased opt-outs; the implications of spending cuts (the ONS recently reported that employment in local government was at its lowest levels since 1999[1]) – all of these will result in workforce reductions that will reduce membership, reduce contributions and prematurely increase retirements in ways that may not have been taken account of fully in previous forecasts.

- **Liability risk** – inflation, life expectancy and other demographic changes, and interest rate and wage and salary inflation will all impact upon future liabilities.
- **Regulatory and compliance risk** – occupational pensions in the UK are heavily regulated, with thousands of pages of both general and LGPS-specific legislation that must be complied with.

Administering authorities should ensure that funding risks are included within their overarching risk management framework and strategy, linking to their risk register and risk management policy as appropriate. This should include defining a role for the local pension board within this framework.

The CIPFA publication *Managing Risk in the Local Government Pension Scheme* (2012) provides more detail on the nature, identification and management of risk in the LGPS.

1. *ONS Statistical Bulletin: Public Sector Employment*, September 2015.

Consultation and Publication

LGPS Regulations with regard to the FSS, in effect, provide that the written statement setting out an administering authority's funding strategy can only be considered **after** consultation with such persons as the authority considers appropriate.

Given the policy context of the FSS, it is clear that this must include a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers.

Administering authorities should consult on the proposed methodology for the review of the FSS, and the circulation of this guidance should help inform that process. In particular, they should indicate how they intend to deal with individual employers or groups of employers in their strategy document. This will ensure that employers know where they stand in relation to the FSS and also afford them the opportunity to comment upon the methodologies and overall funding policy adopted by the administering authority on their behalf.

Following the introduction of local pension boards in the Public Service Pensions Act 2013, administering authorities should consider how they will inform their local pension board of the valuation process and provide an explanation of the outcomes.

Responses should be invited over a reasonable timescale and consideration given to any counter-proposals prior to preparing the draft FSS as an integral part of the valuation exercise.

The next stage in the process will be to prepare the draft revised FSS based on the expectation of key assumptions and factors for the valuation and to circulate that draft for comment, indicating the estimated impact of variations in the funding strategy.

Again, all responses should be fully considered but ultimately, responsibility for finalisation and publication of the FSS by the due date and as revised subsequently lies with the administering authority.

The following forms of publication/dissemination should be considered (this list is not definitive):

- publication via the administering authority website
- publication via social media
- local publicity – eg local authority/community newspapers
- copies to each employer
- summary statement to all scheme members
- include full statement or summary in final accounts
- add to the agenda of pension fund AGMs
- copy to members of the local pension board
- copy to employee/pensioner representatives
- copy to investment managers and independent advisers
- make copies freely available on request.

Monitoring and Review

The FSS should be reviewed formally at least every three years and in advance of the completion of the triennial valuation. The valuation exercise will establish contribution rates for all employers contributing to the fund for the following three years within the framework provided by the strategy.

Improvements in technology have simplified the process of monitoring the funding level and employer contribution requirement between valuations. As with the actuarial valuation, monitoring the FSS in the inter-valuation period may be appropriate, for example:

- if there has been significant market volatility
- where employers wish to make additional (voluntary) contributions to the fund
- if there have been significant changes to the fund membership and/or fund maturity profile
- if there have been changes to the number, type or individual circumstances of any of the employing authorities to such an extent that they impact on the funding strategy
- if there has been a material change in the affordability of contributions and/or employer financial covenant strength.

In undertaking such reviews, the administering authority should consider:

- looking at experiences in relation to long-term funding assumptions (in terms of both investment income and forecast contributions income) and consequences of actions taken by employers (eg pay awards and early retirements)
- the implications for the funding strategy and, if significant, determine what action should be taken to review the FSS
- the implications arising from the funding strategy for meeting the liabilities of individual employers for investment strategy and any amendments required to the ISS
- consulting with individual employers as an integral part of the monitoring and review process.

The regulations require that the FSS shall be revised and published to reflect any material change in policy or to the ISS, and it would be appropriate to consult on any such changes.

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Non-Executive Report of the: **PENSIONS COMMITTEE** **16 March 2017**	TOWER HAMLETS
Report of: Zena Cooke, Corporate Director of Resources	**Classification:**
Pension Fund Administration Update	

Originating Officer(s)	George Bruce, Interim Pensions Manager
Wards affected	All

Introduction

Until recently the Pension Committee has received a quarterly report from the Pensions Manager, mainly focusing on Key Performance Indicators. With the quality of pensions administration being actively monitored by the Pensions Regulator, the purpose of this report is to provide assurance that processes are in place to ensure a high quality administration service is provided to Scheme Members and Employers. The report covers the following areas:

- Team staffing [3.5]
- Workload and performance [3.10]
- Employer developments – new and ceased [3.14]
- Report to the Pensions Regulator [3.33]
- Internal Disputes Resolution Procedure [3.35]
- Internal Audit and Data Quality [3.40]
- Projects [3.56]
    - I-Connect
    - Member self-Service
    - GMP reconciliations
- Administration strategy statement [3.78]
- Review of actuarial data processes [3.84]
- Extension of transfer in rights [3.90]

At the time of drafting the report, input from Internal Audit, the Actuary and Aquila Heywood relating to audit and data quality reviews were awaited. These are anticipated prior to the Committee meeting and findings will be summarised at the meeting.

Recommendations:

Members of the Pensions Committee are asked to:

(1) Note the five academies that will join the Pension Fund as new employers and agree to the participation of Enterprise Limited, provided that the latter signs an acceptable admission agreement and also a satisfactory bond / guarantor (see paragraph 3.20 to 3.25).
(2) Approve the admission of the seven companies appointed to provide home care services provided that they meet the conditions of admission (sign Council's admission agreement, agree to pay contribution calculated by the Scheme Actuary and provide a satisfactory bond or guarantee).
(3) Note that the breach of Regulations in connection with the issue of annual benefit statements has been reported to the Pensions Regulator (see paragraph 3.33 to 3.34).
(4) Approve the additional annual costs of £21,000 associated with Member Self-Service and i-Connect (paragraphs 3.59 & 3.66).
(5) Note the additional Actuarial costs of £4,000 incurred re GMP reconciliations (paragraph 3.73)
(6) Comment on and agree to circulate the draft Administration Strategy Statement to employers and delegate authority to the Chair of the Committee to agree any minor amendments prior to publication (paragraphs 3.78 to 3.83).
(7) Note the extension of the time limit to transfer in service from other pension schemes (paragraph 3.90)

1. REASONS FOR THE DECISIONS

1.1 The proposed decisions to accept new employers into the pension fund are in accordance with LGPS Regulations. The Committee sets the conditions for participation but provided these are met, there are no grounds to refuse admission of new employers.

1.2 The remaining recommendations are designed to enhance the governance of the pension fund.

2. ALTERNATIVE OPTIONS

2.1 Where relevant, alternative options are discussed in the paper. The most obvious alternative for recommendations (2) to (7) is to do nothing. In each case, as explained below, the outcomes and costs of 'do nothing' are deemed less attractive than the proposal.

3. DETAILS OF REPORT

Introduction

3.1 A core part of the role of running a pension fund is the maintenance of scheme membership records that enable scheme benefits to be calculated and paid and staff to be notified of their future entitlements. This activity is carried out in-house by the pension's administration team within HR department. This team also deals with employer related issues, including new employers and cessation.

3.2 Best practice is for the Pensions Committee to receive a quarterly report on activities, performance and projects being undertaken by the pension administration team. That has not happened in the last 12 months due to staff absences. This report is therefore intended to be the first of regular quarterly reports concerning pension administration activities. Due to recent absence of regular reports the note is partially a catch up and is longer than will be normal, referring to some historical issues.

3.3 Historically, most pension committees have focused on investment issues due to limited time availability, although much of the regulations concern governance standards and dealing with scheme members. Breaches in regulations arising from investment issues are rare, whereas breaches due to administration issues are common for pension schemes in general due to the number of demanding regulations. This report is designed to help the Committee ensure that scheme administration remains on a solid foundation.

3.4 As always, it will be helpful to have feedback on the report contents and the information that the Committee would like to see in future.

Staffing

3.5 Pension administration staff work within the HR team at Tower Hamlets. A team of seven has until recently comprised of:

- Pensions manager;
- Two team leaders;
- Two pensions officers; and
- Two pension administrators

3.6 The five most senior members of the team have worked together at Tower Hamlets for over 10 year, bringing considerable experience.

3.7 There have recently been a number of temporary changes in staffing which has resulted in technical responsibilities for pension matters being shared between the two team leaders. An interim pensions manager has been appointed to support the team, in particular to deal with employer issues, reporting, interface with external bodies and project management. In addition, an interim Pensions Officer with ten years local government experience has been recruited to undertake some of the day-to-day activities to allow the team leaders to devote time to the projects and enhancements discussed below.

3.8 Finally, two replacement pension administrators have been recruited to replace one who has been seconded to another team within the Council and the second who has just commenced maternity leave.

3.9 The core of the team handling day-to-day activities remains unchanged and highly experienced. The regular production of activity and performance statistics will be used to ensure that the team continues to maintain high standards.

Activity and Performance

3.10 Prior to 2016, the Committee received quarterly reports on the activity levels within administration of the pension scheme and the performance compared with the key performance indicators. The table in appendix 1 measures the number of days taken to complete tasks in the quarter to December 2016 compared with the performance targets and the twelve months to March 2016. Comments are included below the table.

3.11 The data used to calculate the performance statistics is questionable due to problems using the workflow recording process within Altair as discussed in appendix 1. This means that process end dates were not always accurately recorded. While it would be possible to review key dates for past cases this will be time consuming. Workflow procedures have been revised in the current quarter to ensure that the data being captured is more accurate, which will enhance the usefulness of the statistics in future.

3.12 It is intended that KPIs will be presented to the Committee each quarter in future.

3.13 During March, we will be moving to the new version of our pension administration system, Altair. The main change is the availability of a management 'workflow dashboard' providing a summary of activity and performance. It is intended that this dashboard will be the core of future reports to the Committee.

Employer developments – admissions and cessations

3.14 Although the Council is the pre-eminent employer within the Scheme there were 17 employers as at March 2016 as listed in the annual accounts. This section discussed new employers and cessations.

<u>New employers</u>

3.15 There are a growing number of employers participating within the Scheme mainly due to schools moving to academy status. In addition, the outsourcing of council or school activity that involves the transfer of staff will normally result in a new employer joining the fund. Details of all new or potential new employers are given below.

3.16 Academies are identified as scheduled bodies and must participate within the pension fund. As the terms of their participation are determined by regulations, they are not required to apply for admission or sign an admission agreement. Bodies who are admitted to the scheme because they are employers of staff that have transferred to them with the relevant service or activity (under legislation known as TUPE) are referred to as admitted bodies and must sign the Council's admission agreement that set out the terms under which they will participate. Although new admitted bodies are brought to the attention of the committee for approval to participate, the Committee is not able to refuse providing the employer signs the admission agreement, pays contributions on time, provides a satisfactory bond or guarantor and abides by the other scheme policies.

3.17 Community Admission Bodies (CABs) are a sub-set of Admission Bodies. They are described in the Regulations as "a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise)".

3.18 Traditionally, CABs are charities operating within the borough, often undertaking work in support of the local authorities' priorities. The definition of a CAB is vaguely defined and thus there is greater room for discretion than for outsourcing contractors. Because of the precarious funding position of many charities and the need to protect other employers, most pension schemes are wary about admitting new CABs. The above comments are relevant as one charity, Tower Hamlets Youth Sports Foundation, is considering a re-organisation that will involve transferring staff who are currently LGPS members as discussed below.

3.19 In all cases, the Actuary calculates the employer's contribution rate in accordance with the funding strategy statement and admission policy. In the case of academies they currently inherit a deficit based on the Council's funding level for actives. Admitted bodies are, by their contractual nature, fully funded for past service liabilities at commencement. CABs are an exception, and the initial funding level for transferred staff (if any) is usually determined on a case by case basis.

<u>Academy Schools</u>

3.20 The following schools have indicated an intention to become academies and join the pension scheme. Shown below is the number of employees transferring and initial employers' contribution rate.

Mulberry Academy – 61 staff. Initial contribution rate 22.1%.

Ian Mikardo High School – 13 staff. Initial contribution rate 26.5%.

Stebon School– 34 staff. Initial contribution rate 21.9%.

Bygrove School– 18 staff. Initial contribution rate 22.1%.

City Gateway – 41 staff – Initial contribution rate 16.3%.

3.21 The first four schools have been allocated an initial funding level of 43%, using the Council's 'active' funding levels as at March 2016. Each new academy is allocated the actuarial liabilities for current staff and a proportional share of the Council's pension fund assets after allowing for pensioners and deferred members to be fully funded. A deficit recovery period of 20 years has been used.

3.22 As mentioned above, academies automatically become employers with no admission agreement.

3.23 While the first three are existing council schools converting to academies, City Gateway Alternative Provision is a recently established school (https://www.citygatewayap.org.uk) working in conjunction with a charity of the same name (https://home.citygateway.org.uk). They describe themselves as "a Tower Hamlets based Alternative Provision Free School, working to transform the lives of young people aged 14-19, unable to thrive within mainstream education." None of the staff involved were previously LGPS members, thus there is no allocation of past service liabilities, explaining the lower contribution rate. The School has been paying contributions to the Council since September 2016, initially applying the Council's employer's contribution rate. The school is listed on the DfE web site as a free school based in Tower Hamlets.

3.24 Two further schools, Clara Grant and Stepney Green, have recently received approval to convert to academies. Conversion will not take place before 1st September 2017.

Admitted Bodies

3.25 Eleven entities, including one Community Admission Bodies are in various stages of becoming employers within the Scheme. The position of each is discussed below.

Energy Kidz

The Pensions Committee received a report at the December 2016 meeting and agreed to admit Energykidzs Limited as a new scheme employer following the transfer of four staff members from St Luke's Church of England Primary School involved in the after school club. The Scheme Actuary has calculated the initial contribution rate as 27.2% and the admission agreement has been sent to the contractor and school for signature.

Enterprise Limited

Green Spring Academy (formerly Bethnal Green Academy) has appointed Enterprise to provide cleaning services, with two staff members with minimal past service are transferring to the new scheme employer. The Actuary is currently calculating the initial contribution rate and a specimen admission agreement has been provided to the school and the new contribution.

Home Care Workers

A procurement exercise has been underway to appoint external companies to provide home care services to residents. This will involve the transfer of 100+ Council staff who are members of the pension scheme. The Pensions team have been notified that seven entities have been appointed, with contract commencement anticipated to be during March 2017. These are:

Careworld London Ltd
Unique Personnel UK Ltd
Diversity Health and Social Care Ltd
Apasenth
Three Sisters Care Ltd
Care Solution Bureau Ltd
Excelcare Ltd

Details of the affected staff have been requested so that employers' contributions rates can be calculated by the Actuary. In addition, specimen admission agreements have been made available. It is likely all the new employers will join the Tower Hamlets scheme, although some may seek to utilise alternative arrangements.

It is regrettable, but unfortunately common, that pension issues are not identified prior to the contract award so that the Committee's consent to the employer's admission can be requested prior to the start of the contract. As mentioned in para 3.17 above, there are no grounds for refusing admission once the new employer has agreed to pay the contribution rates calculated by the Actuary, signed an admission agreement and provided a satisfactory bond or guarantor.

Cleaning contract out-sourcing

The Council are retendering the contract for cleaning services in Council offices. Of the 135 individuals involved, only 15 are Council staff, the remainder working for the current contractor. Discussions continue with potential bidders and the Actuary has yet to be asked to calculate an employer's contribution rate.

Tower Hamlets Youth Sports Foundation

THYSF is a registered charity which coordinates and supports PE and sport for young people in the London Borough of Tower Hamlets and parts of the City of London. It currently has a staff of 18 who are all employed by Langdon Park School and able to participle in the Tower Hamlets LGPS being classified as non-teaching staff. THYSF are working towards becoming independent with staff employed by the charity. Following independence, the hope is that THYSF will undertake work commissioned by LBTH. They are exploring pension options, including joining the LGPS. No decisions are required at this time.

<u>Employer Cessations</u>

3.26 Recently four employers have ceased to participate in the fund and two others have indicated that they may cease later this year. A cessation occurs when either a contract to provide services has ended or because the staff who were members of the pension fund have left and been replaced by new staff who do not have the right to join the pension fund.

3.27 When an employer ceases to have active members in the pension fund, a cessation valuation is undertaken. The purpose of the cessation valuation is to calculate the funding position for that employer. In particular whether there is a surplus or deficit of assets at the date of cessation. This is a one off calculation that enables the employer to close their account with the pension fund.

3.28 Should a surplus exist at cessation, this is retained in the pension fund as there is no provision to return contributions to employers. Should there be a deficit, this is payable by the employer.

3.29 There are two ways to calculate a cessation deficit; on-going and gilt based. An ongoing basis would use similar assumptions to the triennial valuation, in particular a discount rate that assumed a level of asset returns in excess of Government gilts. A gilts basis valuation does not incorporate any assumed asset outperformance in excess of gilts and may also have greater prudence in the other assumptions. The gilt based valuation normally results in a considerably higher value being place on the pension fund liabilities and can generate a significant cessation deficit even in cases where an ongoing surplus exists.

3.30 The basis of the cessation calculation; on-going or gilt, is determined by the employers admission agreement. In cases where a gilt basis would historically have been applied, there is flexibility for the Committee to allow an on-going basis with periodic reviews if the Committee are satisfied that the employer is sufficiently solvent to meet any future fund contributions.

3.31 The position of each of the employers who have recently ceased is discussed below.

Capita

Capita ceased to be an active employer on 24th June 2015 when its last active member left service. The admission agreement provided for an ongoing basis to be used for the cessation deficit. On this basis there is a surplus of £24,000 that will be retained in the fund. Capita's share of assets and pension liabilities are £400,000 and £376,000 respectively. These have been included within the Council's share of the fund at the 2016 valuation.

Ecovert

Ecovert ceased to be an active employer on 15th August 2015 when its last active member left service. The admission agreement provided for an ongoing basis to be used for the cessation deficit. On this basis there is a surplus of £125,000 that will be retained in the fund. Ecovert's share of assets and pension liabilities are £361,000 and £236,000 respectively. These have been included within the Council's share of the fund at the 2016 valuation.

Circle Anglia

Circle Anglia ceased to be an active employer on 1st November 2016 when its last active member left service. The admission agreement does not specify the basis of the cessation valuation and the Actuary has used a gilt basis. On this basis there is a deficit of £1,175,000 payable by Circle Anglia with pension liabilities of £2,909,000 and assets of £1,734,000. This compares with an ongoing deficit of £181,000 as at March 2016.

Circle Anglia has accepted the Actuary's report and has been billed for payment.

Look Ahead Housing

Look Ahead Housing ceased to be an active employer on 22nd May 2014 when its last active member left service. The Actuary has used a gilt basis to calculate the cessation deficit. On this basis there is a deficit of £48,000 that will be retained in the fund. Look Ahead's share of assets and pension liabilities are £366,000 and £414,000 respectively. This compares with a surplus on an ongoing basis of £124,000 as at the same date. The deficit contribution has been received by the Fund.

Future Cessations

3.32 Two employers have asked for indicative cessation deficits. These are One Housing Group (Tonybee Island Homes) who have a £774,000 ongoing surplus as at March 2016 and Gateway Housing that has a £134,000 ongoing deficit as at that date. Both ongoing and deficit based cessation valuations have been requested for One Housing Group who has proposed consideration be given to a longer term funding arrangement as discussed in paragraph 3.30 above.

Report to the Pensions Regulator

3.33 At the last Committee meeting a report was given as to the circumstances that resulted in the late issue of annual benefit statements to some scheme members. In accordance with Reporting Breaches Policy agreed June 2016, a formal report was made to the Pensions Regulator on 3rd January 2017. There has been no response from the regulator.

3.34 The use of spreadsheets in the preparation of the annual benefits statement was due to concern that the addresses held within the pension administration system (Altair) were out of date. We are currently ensuring that changes of addresses are promptly updated in Altair and checking that members addresses held are consistent with the Council's payroll system. This will enable benefit statement to be produced directly from Altair in 2017 and thereafter.

Internal Disputes Resolution Procedures

3.35 Scheme members and relatives who are unhappy with decisions made in respect of the Scheme, normally in connection with the awarding of benefits, have the right to ask for the decision to be reviewed under the Scheme's formal complaints procedure, referred to as Internal Disputes Resolution Procedure (IDRP). The procedure is published on the Council's web site and sent to any scheme member or related parties who make a compliant.

3.36 The IDRP has two stages, with each stage the decision being reviewed by someone who was not involved in the original decision. If the compliant is not happy with the first stage decision they can request a second review. Complaints relating to decisions made by the Council are normally reviewed by the Head of HR (stage 1) and Corporate Director Law Probity and Governance (stage 2). Following stage two, the compliant is able to refer the dispute to the independent Pensions Ombudsman who can adjudicate on the reasonableness of the process followed in making the original decisions.

3.37 It is intended that in future a summary of current complaints received and the outcomes will be reported to the Committee.

3.38 Subsequent to the last Committee, five IDRP's have been received. In summary these are:

- Two appeals are stage one following a decision by a doctor appointed by the Council that the members were not entitled to ill-health retirement benefits. The cases have been sent to an independent occupational health doctor for a second opinion.

- One stage one appeal relates to a pensioner diagnosed with a significant medical condition after resigning and taking early pension benefits. The stage one decision was that the member has no entitlement to ill-health benefits under the scheme rules.

- One stage one decision relates to the division of death grant following a death in service. The paperwork is being reviewed prior to deciding who should undertake the stage one review.

- One stage one decision related to an individual who claims that they did not receive a refund of contributions in 1980. As the available records indicate that a refund was made, the stage one decision is to uphold the original decision that a refund was paid

3.39 The details above are minimised to maintain Scheme member confidentiality. Outcomes for those cases still to be determined and new IDRPs will be reported at subsequent meetings.

Internal Audit and Data Quality

3.40 In this section, details are provided of recent reviews undertaken of the Pension Administration Function, the quality of the data held within Altair and the Regulators requirements for procedures are in place to ensure good data quality. Five reviews of the work of the Pension Administration team have been undertaken in the last five months. These are:

- Annual review of pension administration by internal audit.

- Additional review by Internal Audit of issues concerned with annual benefit statements.

- Review of working practices by the Local Government Association.

- The Actuary’s feedback on the quality of the data provided to enable the triennial actuarial review.

- A health check of administration procedures by Aquila Heywood, the supplier of Altair.

3.41 The work undertaken and a summary of the findings are given below:

<u>Annual Review by Internal Audit</u>

3.42 Each year Internal Audit undertakes a review to provide assurance as to whether the system of control around pensions systems is sound, secure and adequate. The scope of the audit covers:

- Procedures and policies,
- Joiners and leavers
- Refunds of contributions
- Adjustments and amendments

3.43 The work was undertaken January / February 2017 and the report is due w/c 27th February 2017. A verbal report will be made on findings and the Auditor's conclusion as to the overall level of assurance provided.

3.44 During the audit, the Auditors commented that the timeliness of the workload has improved over the last 12 months.

Additional Review by Internal Audit

3.45 Internal Audit undertook a review during October & November 2016 of the problems encountered in producing the 2016 annual benefit statements (see para 3.33 above). The purpose of the audit and the audit recommendations were discussed at the last Committee meeting. Subsequently, management actions have been agreed and these are included within the formal response to Internal Audit (appendix 3).

3.46 There were positive comments within the report, for example "Our testing showed that the quality of data on Altair with the exception of addresses was satisfactory". The auditor confirmed that the pension calculations they reviewed were correct.

3.47 The comments from the Internal Auditor have been accepted as can be seen from the responses to the recommendation. The submission of a quarterly administration report to management and the Committee is intended to address the comments on improving reporting. The one area in which the Auditor's recommendations have not been actioned to date is in the development of an effective risk management process centred on defined objectives and a risk register. This needs to be taken forward across all the activities of the scheme.

Review of Processes by Local Government Association

3.48 The Local Government Association was invited to review the operation of the Pension Administration Section and suggest areas for improvement. The work was undertaken during October 2016. A summary of the recommendation and action taken to address the weaknesses identified are attached (appendix 4).

3.49 In addition to the recommendations, the LGA recorded a number of positive comments arising from interviews with each team member:

- It’s a good team to work in
- The service is good at paying pensions on time
- The service is good at providing the “personal touch”
- The team have good working relationships with payroll and HR
- The manager is very flexible – staff are trusted
- The team is stable and the staff are dedicated

3.50 Consideration will be given to inviting LGA to undertake a follow up visit once the various projects discussed below have been implemented.

Actuarial Feedback on Data Quality

3.51 [Report not yet received]

Aquila Heywood Health Check

3.52 Aquila Heywood is the supplier of the pension administration system, Altair. They spent a day reviewing our operating procedures with the aim of identifying areas in which the team are not making best use of Altair. The findings included ‘housekeeping issues together with a number of more significant issues:

Review of audit reports
Clearing rejections on new starter interface files
Users and password access
Issuing statutory notices.
Use of auto scheduling to increase efficiency
Revising workflows (recording of tasks) to improve reporting

These issues are being investigated and procedures will be amended. It is intended to ask Aquila Heywood to undertaken annual reviews in future to provide assurance that corrective action is effective.

Annual Assessment of Data Quality

3.53 The Pensions Regulator places great importance on schemes maintaining complete and accurate records and operating effective internal controls. Poor record-keeping can result in schemes failing to pay benefits in accordance with scheme regulations, processing incorrect transactions and ultimately paying members incorrect benefits. To avoid administration problems that Regulator requires that schemes should continually review their data and carry out a data review exercise at least annually. This should include an assessment of the accuracy and completeness of the member information data held. Where schemes identify poor quality or missing data, they should put a data improvement plan in place to address these issues.

3.54 The findings from the above reviews indicate that, addresses apart, the data held within the administration system is of good quality and sufficient for the purposes of calculating members’ entitlement. We are tackling the issue of addresses through recording changes in Altair and undertaking a match with the Council's payroll system. Within the pension administration system there are various reports that can be used to interrogate the database. This will be used to undertake a data quality review later in 2017 once the various projects discussed below have been completed and the updated version of Altair with the improved management tools installed.

Conclusion

3.55 The various reviews undertaken indicate that the Pensions team has suffered a recent lack of co-ordination. However, the additional resources now available to the team will allow it to move forward and tackle the issues identified.

Projects

3.56 For some time the Pensions team has been reviewing how to improve operational efficiency by increasing automation and reducing the volume of enquiries that require staff intervention. Two opportunities have been evaluated that are described below for which permission to proceed is requested.

Member Self-Service

3.57 Currently information flowing to and from Scheme Members is via traditional communications channels (letter and telephone) and each enquiry requires the involvement of members of the Pensions Team. We have been discussing with Aquila Heywood, the acquisition of Altair's Member Self-Service (MSS). This allows Scheme Members to directly access their personalised pension data. All employees, past, present and future, are able to view all the details they need in real time and carry out 'What if…?' modelling on demand without needing to speak to the Pensions team. Members can amend their own contact information to keep it current, updating the administration system automatically and improving data accuracy. Pensions and pay documentation can be issued electronically, reducing the overheads and costs associated with printing and postage.

3.58 MSS functionality includes the ability for member requests to generate tasks within the Altair workflow system. This significantly lowers the administration time and costs for the Pension team in addition to improving the engagement experience of the members.

3.59 The annual cost of MSS is just under £6,000. It will operate in conjunction with a scheme web site, potentially the web scheme site being developed by Capita, although the functionality needs to be checked for compatibility.

3.60 To access the system, we will need to collect members email addresses and enable members to set up password controlled access to MSS. It is intended that MSS will enable annual benefit statements and payslips to be phased out and for benefit estimates to be provided only through MSS.

3.61 Cost savings are always difficult to estimate, but other schemes who have implemented MSS have reported that it as a positive financial impact.

3.62 Recommendation 3, above seeks permission to purchase MSS.

Payroll Data Exchange (i-Connect)

3.63 Each month data is received from employer's payroll providers that require input into Altair. This includes starters, leavers, earnings and amendments (posts, hours of work, addresses etc). With the growth in the number of employers (academies and outsourced service providers) there is an increase in the number of payroll providers generating data using different formats. Information received from employers is often inaccurate and missing detail. Manually inputting payroll data has significant resource implications for the Scheme.

3.64 To reduce the administrative burden of dealing with payroll updates, we have developed in-house software that can be used with the Council's payroll system to transfer data into Altair. While this solution has generated administrative benefits it is not as fully developed a solution as that offered by Altair's i-Connect.

3.65 I-Connect is a data exchange system that enables the uploading of bulk payroll data to Altair. i-Connect validates the payroll data and manages the events generated by the payroll extract file through to Altair. I-Connect will be made mandatory for the provision of payroll data to the Scheme. It is already in use by the larger external payroll providers. Reducing manual processing of payroll data will mitigate against errors in data transfer and mean that the Scheme's records are up to data. At present when there are identification errors with payroll updates, the pension team is required to make the correction manually. With i-Connect, the external payroll provider will be required to correct any rejections before the data can be submitted.

3.66 The annual cost of i-Connect is £14,850, also covered by recommendation 3.

3.67 Both the above systems are provided by the supplier / developer of Altair. This will ensure that the systems are compatible and minimise implementation issues. Reference calls have been made to existing users (Redbridge, Southwark and Berkshire) who have reported successful implementations. There may be some implementation costs (max 13 days consultancy) associated with MSS and i-Connect. Until the project plans are fully scoped the extent of the external support required is uncertain. The contract with Aquila Heywood to operate Altair is on a rolling six month notice period. We are working with IT to renew the contract but due to the terms of the Council's overall IT contract with Agilisys this cannot be progressed at the moment.

GMP Reconciliations

3.68 Prior to April 1997 the minimum level of benefit the DB scheme had to provide was known as a Guaranteed Minimum Pension (or GMP), which still forms part of many members' benefits. The National Insurance Contributions Office (NICO) of HMRC maintains a record of GMPs held under each scheme. The GMP amount they hold is used to calculate the 'contracted-out deduction' they make from Additional State Pension so it is important this figure is correct and agrees with the amount the scheme holds.

3.69 When contracting-out ends in April 2016, HM Revenue and Customs (HMRC) will no longer track contracted-out rights and will issue closure schedules to schemes so they can compare these against GMP amounts held on scheme records. This is known as a GMP reconciliation. Following this, from December 2018 HMRC is planning to send individuals information about their contracting-out history. In particular details of which scheme will pay and the value of their GMPs entitlement.

3.70 Over time a number of factors may mean the payroll data supplied to HMRC and the scheme administrator differs. Thus the records that HMRC may hold of GMPs payable by Tower Hamlets Pension Fund may differ from our own records.

3.71 When HMRC notifies Scheme Members of their GMP entitlement after December 2018, this will be taken as the definitive record and the Scheme will be expected to pay the liabilities recorded by HMRC, be they correct or not. There is a limited window of opportunity to identify discrepancies between our records and those of HMRC and take corrective action, such as notify HMRC of transfers to other schemes, to avoid the scheme incurring additional liabilities.

3.72 Recognising the tight timescales involved HMRC has launched a Scheme Reconciliation Service (SRS) to enable schemes to start comparing their non-active GMP amounts (e.g. for deferred and pensioner members) in advance of the scheme ceasing to contract-out in April 2016. The Scheme has signed up to access the GMP data held by HMRC. Identifying and resolving GMP differences involves three stages;

- Matching of records at individual level and identification of mismatches.
- Detailed investigation of each mismatch and where appropriate providing information to HMRC to amend their records.
- Altering our records to record the GMP liability that the scheme has agreed to accept.

3.73 Stage one, the comparison, of Scheme and HMRC records is a relatively straightforward data match. The Scheme's Actuary has been asked to undertake this match and to quantify the extent and impact of the mismatches. The initial cost of the review is £4,000. Results from stage one are anticipated by mid-March.

3.74 Once we have identified the differences at individual member level, the time consuming second stage can commence to identify the source of the discrepancy and determine what action should be taken. Hymans having undertaken numerous similar reviews has indicated that they will be able to identify common themes and suggest practical steps to inefficiently tackle the discrepancies. One consultancy has estimated a timescale of 1-2 years for a 1,000 member scheme to resolve the discrepancies.

3.75 It will probably not be efficient to investigate very small GMPs that HMRC have allocated to the Scheme. This suggests we identify a tolerance level below which we will accept HMRCs records as being correct. This tolerance level can range from a few pence per week to a couple of pounds per week depending on what the Committee feel comfortable accepting based on the financial consequence. This will be considered when we have the stage one results.

3.76 HMRC has stated that they will deal with enquires from scheme up until December 2018. Many schemes have been slow to start the process and HMRC are likely to be deluged with enquires as we approach the cut-off date. They have already indicated that the response time has increased from 3 to 8 months, thus it is imperative that the project is commenced immediately.

3.77 Further reports will be brought to the Committee as the reconciliation process progresses.

Administration Strategy Statement

3.78 The Local Government Pension Scheme Regulations 2013 provide for schemes to issue a pension administration strategy statement (ASS). The potential contents of the ASS are set out in the Regulations (see appendix 5).

3.79 The purpose of the ASS is to promote good working relationships, improve efficiency and ensure agreed standards of quality in delivery of the pension administration service amongst the employers and the Fund. It does so by clearing setting out the roles and responsibilities of both the Fund and employer, in particular the level of services the parties will provide to each other and the performance measures used to evaluate them. The ASS should be implemented following consultation with scheme employers.

3.80 Although the preparation of an ASS is optional, it does reflect best practice in that it clarifies the interaction between the administration authority and all the employers. As the number of employers grows, it becomes more important that there are clear procedures, including timescales, governing this interaction. The administration authority is required to provide a service to scheme members in line with the deadlines set out in the Scheme Regulations. It can only do this with the co-operation of scheme employers. The ability through the levying of charges for non-compliance with the deadline and processes set out in the ASS provides incentive to employers to follow agreed procedures.

3.81 The draft ASS reflects current working practices and KPIs and looks forward to increased automation in the transfer of information from employers to the Pensions team. The ASS will be kept under review and revised where appropriate. Changes will be subject to consultation with employers.

3.82 Should the Committee be content with the drafting of the ASS (appendix 6) the next stage is to circulate to all scheme employers for consultation.

3.83 Once the ASS is finalised, we will be using this and the funding strategy statement to develop an admission policy statement that will provide clear guidance to Scheme Employers on how their liabilities to the Scheme will be determined.

Review of Actuarial Data Processes

3.84 This section discusses two initiatives that have the prospect of providing more accurate and timely information for the Committee and the Scheme Actuary. One concerns the frequency of information provision to the Actuary and the second the process of allocating assets to individual employers. Both are linked in that they will enable actuarial calculations to be made quickly and accurately and are prerequisites for employer level investment strategies, a potential future development from the increasing number of employers in the pension scheme.

3.85 The first initiative, the timing of information flows to the Actuary has no cost implication and is mentioned for information only. The Scheme provides accounting data to the actuary to enable contribution rates and funding levels to be calculated. The current timing on providing data is on an 'as required' basis. Thus data will be submitted when it is time to undertake specific calculations e.g. immediately before an employer's year end or triennial valuation. The Actuary is then required to upload this information and validate for reasonableness, which means that calculations take longer. We are looking to move to providing data on a regular cycle, monthly or quarterly updating directly via an interface with the Actuary's systems. This will mean that there are no sudden rushes to prepare and transfer data and that the Actuary is able to verify data as received, thus reducing data queries at a time when reports are being requested. Ad-hoc enquires will not require data to be provided so will be answered quickly and actuarial timescales will be reduced. The aim is to work with the Actuary over the next 12 months as resources are freed by the projects discussed earlier.

3.86 The second initiative concerns the basis on which each employer within the pension scheme is allocated a share of the fund's assets, being required to calculate the funding level and the required contribution rate. Actuaries have not traditionally discussed in detail the method of calculating the share of assets for each employer, but when they do it is far from being as precise as would be expected. The current method for asset tracking (known as the "analysis of surplus" method) is focuses on using changes in the actuarial funding position to allocate assets to individual employers. The calculations are only undertaken at triennial valuations and calculations at intervening points are based on rolling forwards from the previous triennial valuation. Even the Actuary acknowledges that the calculations are not precise. In particular the Actuary has listed the following deficiencies in the current approach:

- It is not possible to accurately analyse at employer level all the items which are required to carry out a complete "analysis of surplus" due to data constraints, and the number of employers which would result in additional costs. This approach does lead to some cross-subsidies between employers.

- The "analysis of surplus" method uses fund averages for some experience items (e.g. allocating investment return on monthly cash flows), leading to cross-subsidies since there are large differences in membership profile between fund employers.

- Manual intervention is required to ensure asset allocation reflects certain inter-valuation events not captured by the "analysis of surplus" method e.g. share of deficit transfers for academy schools.

- Accurate employer assets are only available every three years when a formal valuation is carried out.

3.87 So far the process used is common practice across the industry, particular when there are relatively few employers within the scheme. To date no employers within the Tower Hamlets scheme has questioned the allocation of assets. However, some schemes are moving to a more robust 'unitised' process to record asset movements as explained in the attached report from the Actuary. Unitisation means that wherever possible cashflows e.g. contributions, benefits, expenses are allocated to individual employers, sometimes using precise formula e.g. expenses. Investment returns are allocated based on units held each month, thus providing a robust process to calculate individual employers share of assets. This approach is referred to as Hymans Employer Asset Tracker [HEAT]. A one page summary of its features is attached (appendix 7).

3.88 Looking forward a single investment strategy for all employers in the fund is less likely to be accepted by all. Employers may increasingly take a differing view to pension risk and look for asset strategies that reflect their risk tolerance. Only by having monthly employer level asset information will it be possible to operate bespoke investment policies.

3.89 Moving to HEAT does have cost implications. Costs are quoted by Hymans as £1,500 per month (£18,000 a year) plus £10,000 set up costs. The savings in ongoing actuarial costs are unlikely to be significant. As the topic is somewhat academic it is probably best explained by an actuary. It is proposed that any decision is deferred until the Committee is able to hear directly from the Actuary.

Extension of the transfer-in deadline

3.90 New employees are able to transfer in past service with other pension schemes in order to consolidate their pension entitlements. The Regulations set a time limit of 12 months or such longer period as the employer and administering authority agree. Historically, not all new starters were notified of their right to transfer in past service and as a consequence the 12 month time limit has been waived in some cases. As it is not known those who did not receive notification of their transfer rights, It is proposed to extent an opportunity to all active employees to transfer in past service in order that the Fund can revert to the standard 12 month time limit. The Pension team will write to all active staff offering to accept transfers in provided that the appropriate form is completed within three months. It is not expected that take up will be significant. The Committee will be informed of the number of scheme members who accept the offer.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 The cost of the Pensions team detailed under section 3.5 is budgeted at £312k per annum and is funded through recharges to the Pensions fund.

4.2 The additional annual cost of £21k referred to under sections 3.59 and 3.66 above for member self-service and i-connect software and the one off actuarial cost of £4k for GMP reconciliations referred to in 3.73 will also need to be met through charges to the Pensions fund.

5. LEGAL COMMENTS

5.1 The Pensions Committee is required to consider pension matters and ensure that the Council meets its statutory duties in respect of the fund. It is appropriate having regard to these matters for the Committee to receive information from the Pensions Administration team about the performance of the administration function of the pension fund.

5.2 As detailed in Appendix 5 to the report, the Council may in accordance with regulation 59(1) of the Local Government Pension Scheme Regulations 2013, have an Administration Strategy which covers matters such as the setting and review of performance targets, communication between the administering authority and employers and such other matters which the Authority deems suitable for inclusion in the Strategy. The Authority is required to publish its Strategy and keep it under review. The Authority and employers must have regard to the Administration Strategy when carrying out their functions under the 2013 regulations. The draft Administration Strategy covers the criteria set out in regulation 59(1) of the 2013 regulations and should assist the Council to fulfil its legal obligations in respect of administration of the pension fund.

5.3 Article 3.3.10 sets out the functions of the Pensions Committee. It does not allow for delegations of any of its functions to officers. As such the Committee does not have the ability to delegate to the section 151 officer the function of agreeing admissions of new members to the pension fund.

5.4 When carrying out its functions as the administering authority of its pension fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 The administration costs of running the pension scheme are a very small part of the contributions paid. An efficient administration function will contain costs over the long term, minimising the costs falling on the scheme employers, including the Council.

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

7. BEST VALUE (BV) IMPLICATIONS

7.1 In each case decisions to acquire additional services have followed the Council's procurement procedures. All costs are paid for from the assets of the Pension Fund.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

9. RISK MANAGEMENT IMPLICATIONS

9.1 Risks arising from poor administration tend to be reputational but can include additional expenditure through inaccurate benefits, delays in collecting contribution, fines and interest on late payments. This and future reports are designed to provide the Pensions Committee with assurance that pension risks are being adequately managed.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 There are no crime and disorder reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1- Activity and performance, quarter to 31st December 2016
- Appendix 2 - Annual Internal Audit Report (to follow)
- Appendix 3 - Recommendation and actions from Annual Benefit Statement Review
- Appendix 4 - Recommendations and actions from LGA review.
- Appendix 5 - Extract from Pensions Regulations – Pension Administration Strategy
- Appendix 6 - Draft Administration Strategy Statement
- Appendix 7 - Hymans Employer Asset Tracker [HEAT]

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

- NONE

Officer contact details for documents:

- George Bruce – Interim Pensions Manager x4248
- Mulberry House, 5 Clove Crescent E14 2BG

Appendix 1

Key Performance Indicators quarter to 31st December 2016

Key Performance Indicators Quarter to 31st December 2016 compared with 12 months to 31st March 2016

Process	Target days	Total Cases		within target		% within target		Trend Analysis	average days	
		Q3, 2016-17	2015-16	Q3, 2016-17	2015-16	Q3, 2016-17	2015-16		Q3, 2016-17	2015-16
Address Changes	10	76		71		93.42			3.27	
Bank Account Changes	10	24		22		91.67			3.33	
Death of a Pensioner	5	17	102	17	99	100.00	97.06%	↑	1.59	3.70
Deferred Calculations	15	120	408	62	344	51.67	84.31%	↓	23.51	5.09
Estimates	10	28	160	27	144	96.43	90.00%	↑	1.14	3.65
General Enquiries	10	167		131		78.44			8.14	
Lump Sum Payments	5	57	271	48	200	84.21	73.80%	↑	4.44	5.47
Nomination Updates	10	133		121		90.98			3.48	
Refund Calculations	15	64		50		78.13			14.48	
Refund Payments	10	102	226	80	202	78.43	89.38%	↓	6.75	1.60
Retirements	10	35	204	35	185	100.00	90.69%	↑	1.43	4.79
Transfers In (Actual)	10	4	28	3	22	75.00	78.57%	↓	4.50	4.79
Transfers In (Quotes)	10	14	62	12	54	85.71	87.10%	↑	5.14	5.55
Transfers Out (Actual)	10	10	52	5	38	50.00	73.08%	↓	31.70	5.42
Transfers Out (Quotes)	10	23	139	15	130	65.22	93.53%	↓	19.09	3.70
		874	1,652	699	1,418					

Notes

The KPIs indicate areas of improvement and deterioration, with more of the latter. In particular the statistics for deferred calculations, refunds and transfers out indicate a reduction in performance. However, the capture of data to measure performance has been hampered by poorly designed workflows making the above data questionable. Revised workflows have been designed and are now in use, which will improve the quality of future reporting of KPIs.

There are two other issues that are reflected in the above statistics. Firstly, since the introduction of the CARE scheme the recording of earnings has reverted to being a manual process as some members have calculation based on three different types of schemes (1/80th, 1/60th and CARE). While the use of in-house developed interfaces has reduced the volume of information to be manually input, the proposal to acquire and use the payroll data interface, i-Connect, will mainly eliminate the use of manual processes to record members earnings.

Secondly, the performance of the pensions team has also was also impacted by the staff shortages discussed in the paper. Action has now been taken to provide additional resources, which has enabled day-to-day tasks to be completed in accordance with targets and projects to be progressed as will be reflected in the March 2017 statistics.

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Appendix 3

Action Plan

An Independent Review of Annual Pensions Statements

Ref. No.	*Recommendation*	*Delegated / Responsible Officer*	*Implement / Action Date*	*Current Status / Comments*
R1	It should be ensured that addresses and other data held on Altair is regularly updated on a planned programmed basis so that the relevant employee details on Resource Link reconciles with employee details held on Altair. The completion of each update should be checked by another officer and signed off by both officers and a record of this should be retained.	Ken Fontenard Pension Team Leader	Completed March 2017 July 2017	Since November 2016 Altair has been updated monthly from Resource Link. Work is underway to identify disprecencies between Altair and Resource Link. An annual check will be undertaken and verified prior to the issue of Annual Benefits Statements that addresses in Altair are consistent with Agresso.
R2	The production of annual pensions benefit statements should be automated. A project for this change should be initiated in accordance with the Council's project management procedures.	Ken Fontenard Pension Team Leader	June 2017	Agreed. Investigation has commenced to identify the steps required to enable automated ABS. We are also progressing the implementation of member self-service that will allow members to access benefit statements at will on-line from Altair.
R3	New starters joining the Pensions scheme should be captured on Altair within 1 month of the joining date.	Ken Fontenard Pension Team Leader	Completed	Processes have been changed to comply with this recommendation.

R4	The data contained in ABS2016v7 work book 'New Address' should be examined and scrutinized in detail with reference to the data in Column C, Row 61 and Column N, Row 61 and all the subsequent rows which seems to be the underlying cause of incorrect addresses and data corruption.	Ken Fontenard Pension Team Leader	Completed	Efforts have concentrated on issues apologies, ensuring those that did not receive ABS have now received one and maintaining data within Altair to enable the automatic production of ABS for 2017 and beyond. There is little to be gained by further examination of the deficient spreadsheets. Subsequently, scheme Members upon request have been provided with benefit details.
R5	A full interrogation and analysis of data in ABS2016v7 work book 'New Address' and ABS2016 (Final Proof) should be carried out by the Pensions Team assisted by an officer who is proficient in spread sheet analysis to identify the true extent of incidences of statements posted to incorrect addresses which includes addresses of officers not on the pensions scheme.	Ken Fontenard Pension Team Leader	Completed	Staff from the Business information team were involved in comparing the spreadsheets used for ABS with the payroll system to ensure that all discrepancies have been identified.

Ref. No.	***Recommendation***	***Delegated / Responsible Officer***	***Implement / Action Date***	***Current Status / Comments***
R6	Once the true extent of incorrect addresses is identified, those who have not previously been sent an Apology letter should be sent one together with their correct statement. This should include those employees who are not on the pensions scheme but have received some other employees' statements.	Ken Fontenard / Tim Dean Pension Team Leaders	Completed	We are satisfied that all those who wrongly received ABS have been sent apology letters.

R7	A separate list should be prepared of addresses where multiple employees' statements had been sent, and this should be reported to higher level management for any further action/decision that might be required.	Ken Fontenard / Tim Dean Pension Team Leaders	N/A	Apology letters send to all multiple addresses. The purpose of the recommendation is not understood.
R8	The facility within Resource Link for pre –filled addresses from a drop down menu should be explored to ensure the validity of the address data held on the system is automatically checked.	Ken Fontenard / Tim Dean Pension Team Leaders	N/A	This functionality is not currently available but representations will be made to the software supplier.
R9	Addresses data on Altair for deferred members should be updated correctly and promptly once a change in address is notified to ensure that the statements are not sent to incorrect addresses.	Ken Fontenard / Tim Dean Pension Team Leaders	Complete	Agreed. Process is now in place.
R10 Page 229	As part of good governance, regular management reports on pensions team's work plans, key risks, KPIs etc. should be produced and reported to the HR and WD SMT and Resources DMT for information and monitoring purposes.	Stuart Young, (Interim HR, OD & Transformation Manager	N/A	Monitoring of the work of the Pension Administration Team is undertaken by senior managerment (Interim HR, OD & Transformation Manager) and by the Pension Committee and Pension Board. This is considered to be the appropriate monitoring arrangements given the roles of the Pension Committee and Board.
R11	The project risks for the automated production of pensions statements and the upgrade of Altair system should be identified, assessed and managed via JCAD risk register.	Ken Fontenard Pension Team Leader	June 2017.	It is agreed that risks should be identified and managed. The correct place for this is the Pension Scheme risk register with reporting to the Pension Committee and Pension Board.

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Appendix 4

Recommendations and Action from LGA Review

Noted below are the issues identified by the LGA when they reviewed the Pension Administration function, during October 2016 together with the actions taken to address each issue.

1) Delays in allocating incoming work as this task falls on team leaders

   Action - Work allocation is no undertaken across the team to avoid delays.

2) Workflow processes within Altair are not sufficiently understood to enable activity to be monitored.

   Action - Workflows have been redesigned to reflect the various steps within each procedure and enable more accurate monitoring of activity.

3) Checking of calculations and updates falls solely to one team leader. Processing of activity is sometime completed without the checking being evidenced.

   Action – The checking of activity is now undertaken by Pension Officers as well as the team leaders. It has been emphasised that checking processes completed must be recorded on Altair and tasks signed off as complete.

4) There have been delays in issuing new starter information to joiners. As a consequence requests to transfer in past service have been accepted after the normal 12 month deadline has passed.

   Action - New joiner letters are now issued within two month of joining the pension scheme. Consideration is being given to writing to all scheme members offering to accept transfer of past service more beyond the normal 12 month request period for a limited time.

5) Workload planning is poor and training insufficient to allow staff to undertake a variety of tasks.

   Action - The period when LGA visited coincided with the prolonged absence of the Pensions Manager and thus a lack of team planning is not a surprise. The four most senior members of the team have each been in post for over 10 years and are thus highly experienced. The two junior members have recently been replaced (one maternity leave) and cross training has been improved. Weekly team leader meetings and monthly team as a whole meetings seek to address concerns on communication and planning.

6) Monthly data from payroll requires manual input into Altair taking a significant portion of staff time

Action - A temporary interface between the Council's payroll and the most common external payroll provider used by schools has been implemented resulting in greater automation of the data transfer from payroll.

A longer term solution is the implementation of software provided from the supplier of Altair, which is called i-Connect. The process to acquire and implement this solution is discussed in the project section of the report.

7) Scheme guides, forms and the Council's intranet site are out of date.

Action - A standalone pension web site has been developed by the Council's pension investment team and is currently being populated. For this site, scheme forms and information provided to scheme members have been updated.

8) Reconciliations between Altair and the General Ledger (Agresso) are not up to date and when prepared are not checked.

Action - The delays in reconciliation are linked to workload issues due to the absence of the Pension Manager. Prior to the January 2017 Internal Audit visit, reconciliations were brought up to date and successfully reviewed as part of the audit. It is planned when resources permit to transfer responsibility for reconciliations to the treasury team to ensure that they are independently completed. In the meantime, reconciliations will be reviewed by the Interim Pensions Manager.

Appendix 5

Extract from the Local Government Pension Scheme Regulations 2013

Clause 59 - Pension administration strategy

(1) An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.

(2) The matters are—

(a) procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ("its Scheme employers");

(b) the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions by—
(i) the setting of performance targets,
(ii) the making of agreements about levels of performance and associated matters, or
(iii) such other means as the administering authority considers appropriate;

(c) procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;

(d) procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;

(e) the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);

(f) the publication by the administering authority of annual reports dealing with—
(i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and
(ii) such other matters arising from its pension administration strategy as it considers appropriate; and

(g) such other matters as appear to the administering authority after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

(3) An administering authority must—

(a) keep its pension administration strategy under review; and
(b) make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

(4) In preparing or reviewing and making revisions to its pension administration strategy, an administering authority must consult its Scheme employers and such other persons as it considers appropriate.

(5) An administering authority must publish—

(a) its pension administration strategy; and
(b) where revisions are made to it, the strategy as revised.

(6) Where an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.

(7) An administering authority and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.

(8) In this regulation references to the functions of an administering authority include, where applicable, its functions as a Scheme employer.

TOWER HAMLETS

Local Government Pension Scheme

London Borough of Tower Hamlets

Pension Administration Strategy Statements

1st April 2017

Introduction

This is the pension administration strategy of London Borough of Tower Hamlets Pension Fund (the Fund) in relation to the Local Government Pension Scheme (LGPS), which is administered by the London Borough of Tower Hamlets (the administering authority).

This document sets out a framework by way of outlining the policies and performance standards to be achieved when providing a cost-effective inclusive and high quality pensions administration service. The pension administration strategy is kept under review and revised to reflect changes to LGPS regulations and Fund policies. It has been developed following consultation with employers who participate in the Fund and schools who employ their own payroll providers.

The Fund comprises 17 employers and approximately 19,600 scheme members. The efficient delivery of the benefits of the LGPS is dependent on reliable administrative procedures being in place between the administering authority and scheme employers.

The effective date is 1st April 2017.

Any enquires in relation to the pension administration strategy should be sent to the Pensions Manager, London Borough of Tower Hamlets at:

Pensions.LBTH@towerhamlets.gov.uk

This strategy when approved (and any significant amendments thereafter) will be sent to all scheme employers and the Secretary of State.

Regulatory context

The LGPS is a statutory scheme, established by an Act of Parliament and governed by regulations. The most recent of such regulations, appertaining to administration are the LGPS (Administration) Regulations 2014. Regulation 59(1) of the (Administration) Regulations 2014 covers the requirement for an administering authority to prepare a written statement of policies as it considers appropriate in the form of a Pensions Administration Strategy. This regulation outlines the primary matters which should be covered to include:

- administration standards
- performance measures
- communication with scheme employers

In addition, Regulation 70 of the (Administration) Regulations 2014 covers the ability of an administering authority to recover additional costs arising from scheme employers' level of performance. Furthermore, Regulation 71 of the same regulations allows the administering authority to apply interest on late payments by scheme employers.

The administering authority and scheme employers must have regard to the pension administration strategy when carrying out their functions under the LGPS Regulations

Aims

The aim of this pension administration strategy is to set out the quality and performance standards expected of the Fund, its scheme employers and payroll providers. It seeks to promote good working relationships and improve efficiency between the Fund, scheme employers and payroll providers.

The efficient delivery of the benefits of the scheme is reliant upon sound administrative procedures being in place between stakeholders, including the Fund and scheme employers. This administration strategy sets out the expected levels of performance of the Fund and the scheme employers, and provides details about the monitoring of performance levels and the action(s) that might be taken where persistent non-compliance occurs.

Implementation

The administration strategy is effective from 1 April 2017 and is kept under review and revised to keep abreast of changes in scheme and Fund regulations.

London Borough of Tower Hamlets Pension Administration

Responsibility

The London Borough of Tower Hamlets, as administering authority, is responsible for administering the Council's LGPS fund. The administering authority has delegated this responsibility to the Pensions Committee (the Committee). The Committee monitors the activity and performance of the administration function on a quarterly basis. The Committee will monitor and review this administration strategy on a regular basis.

Objective

The Fund's objective in relation to administration is to deliver an efficient and value for money service to its scheme employers and scheme members. Operationally, the administration of the Fund is carried out by staff employed by the administering authority.

Communications

The Fund has published a Communication Policy Statement, which details the way the Fund communicates with Committee, scheme members, prospective scheme members, scheme employers and other stakeholders. The latest version is accessible from the Fund website:

http://towernet/staff_services/hr_workforce_development/pensions/

Telephone: 020 7364 4251

Performance Standards

Administration of the LGPS is maintained at local level by a number of regional pension funds and, as such, certain decisions must be made by either the Fund or the scheme employer, in relation to the rights and entitlements of individual scheme members. In order to meet these obligations in a timely and accurate manner, and also to comply with overriding disclosure requirements, the Fund has service level agreements between itself and scheme employers which are set out below.

Overriding legislation

In carrying out their roles and responsibilities in relation to the administration of the LGPS, the Fund and scheme employers will, as a minimum, comply with overriding legislation.

Internal quality standards

The Fund and scheme employers will ensure that all functions and tasks are carried out to agreed quality standards. In this respect, the standards to be met are:

- information to be legible and accurate
- communications to be in a plain language style
- information provided to be checked for accuracy by an appropriately qualified member of staff
- information provided to be authorised by an appropriate officer
- actions carried out, or information provided, within the timescales set out in this Administration strategy

Punctuality

Overriding legislation dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the LGPS. The LGPS itself sets out a number of requirements for the Fund and scheme employers to provide information to each other, scheme members and prospective scheme members, dependants, other pension arrangements or other regulatory bodies. The following sections on responsibilities set out the locally agreed timescales for these requirements.

Fund Responsibilities

This section outlines the key responsibilities of the Fund and the performance standards scheme employers and scheme members should expect. It is focussed on the key activities which scheme employers and scheme members are involved in and should not be viewed as an exhaustive list.

Fund administration

This details the functions which relate to the whole Fund, rather than individual scheme members' benefits.

Ref	Function / Task	Performance Target
1	Publish and keep under review the pensions administration strategy.	Within three months of any changes being agreed with scheme employers.
2	Publish and keep up to date all forms required for completion by scheme members, prospective scheme members or scheme employers.	30 days from any revision. New employers to receive within three months of admission.

3	Host meetings for all scheme employers.	Twice per annum (usually June/July and November/December each year).
4	Organise coaching sessions for scheme employers.	Upon request from scheme employers or as required.
5	Provide bespoke meetings for scheme employers.	As required.
6	Notify scheme employers and scheme members of changes to the scheme rules	Within one month of the change(s) coming into effect.
7	Issue scheme member / employer bulletin.	At least once a year.
8	Notify a scheme employer of issues relating to the scheme employer's non-compliance with performance standards.	Within ten days of a performance issue becoming apparent.
9	Notify a scheme employer of decisions to recover additional costs associated with the scheme employer's poor performance (including any interest that may be due).	Within ten days of scheme employer failure to improve performance, as agreed.
10	Issue annual benefit statements to active and deferred members as at 31 March each year.	By 31 August following the year-end.
11	Issue formal valuation results (including individual employer details).	No later than 1 March following the valuation date.
12	Carry out valuation assessments on cessation of admission agreements or a scheme employer ceasing participation in the Fund.	Upon each cessation or occasion where a scheme employer ceases participation on the Fund.
13	New admission agreement, where required (including the allocation of assets and notification to the Secretary of State).	Within three months of agreement to set up provided prospective employer adheres to certain prescribed timescales
14	Publish, and keep under review, the Fund's governance compliance statement.	By 30 September, following the year-end as part of the Fund's annual report and accounts, or within 30 days of the policy being agreed by the Pensions Committee.
15	Publish, and keep under review the Fund's funding strategy statement	To be reviewed at each triennial valuation, following consultation with scheme employers and the Fund's actuary. Revised statement to be published by 31 March following valuation date or as required.
16	Publish the Fund's annual statement of accounts.	By 30 September following the year-end or following the issue of the auditor's opinion.
17	Publish the Fund's annual report	By 30 September following the year-end
18	Publish, and keep under review, the Fund's communication policy statement.	By 30 September, following the year-end, as part of the Fund's annual report and accounts, or within 30 days of the policy

		being agreed by the Pensions Committee.
19	Publish, and keep under review, the Fund's termination policy statement.	Within 30 days of any changes being made to the policy
20	Publish, and keep under review, the Fund's charging policy.	Within 30 days of any changes being made to the policy.

Scheme administration

This details the functions which relate to scheme member benefits from the LGPS.

Ref	Function / Task	Performance Target
21	Provide an answer or acknowledgement to scheme members/scheme employers/ personal representatives/ dependents and other authorised persons.	Five days from receipt of enquiry.
22	Set up a new starter and provide statutory notification to the member.	Twenty days from receipt of correctly completed starter form from a scheme employer.
23	Non-LGPS inward transfers processed.	Ten days of receipt of request from scheme member.
24	Non-LGPS transfer out quotations processed.	Ten days of receipt of request.
25	Non-LGPS transfer out payments processed.	Ten days of receipt of completed forms.
26	Internal and concurrent transfers processed.	Ten days of receipt of request.
27	Estimates for divorce purposes.	Ten days of receipt of request.
28	Notify the scheme employer of any scheme member's election to pay additional pension contributions, including all required information to enable deductions to commence.	Ten days of receipt of election from scheme member.
29	Process scheme member requests to pay/amend/ cease additional voluntary contributions.	Five days of receipt of request from scheme member.
30	Provide requested estimates of benefits to employees/employers including any additional fund costs in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency.	15 days from date of request. Note: bulk requests of more than 20 estimates per month will be subject to further agreement.
31	Deferred benefits calculated.	Fifteen days from receipt of all necessary information.
32	Deferred benefits processed for payment following receipt of election	Five days from receipt of all necessary information.
33	Refund payments	Five days from receipt of all necessary information.

34	Provision of new retirement letters detailing member options.	Fifteen days from receipt of all necessary information.
35	Payment of retirement benefits following receipt of election	Lump-sum payment within five days of receipt of all necessary documentation. First pension payment on next available payroll run.
36	Notification of death processed	Within ten days of receipt of all necessary documentation.
37	Calculate and pay death grant.	Within ten days of receipt of all necessary documentation.
38	Processing of dependants' pensions for payment.	Within ten days of receipt of all necessary documentation.
39	Calculate and pay transfer out payments to receiving fund and notify scheme member.	Ten days following receipt of election form from scheme member.
40	Provide payslips to scheme members in receipt of a pension.	Twice a year in paper format unless specifically requested, otherwise available online.
41	Process all stage 2 pension internal dispute resolution applications	Within two months of receipt of the application, or such longer time as is required to process the application where further information or clarification is required.
42	Answer all calls to pensions during office hours.	85%.
43	Answer calls to pensions in office hours at first point of contact.	95%.
44	Formulate and publish policies in relation to areas where the administering authority may exercise a discretion within the scheme and keep under review.	Any changes to be published within one month.

Scheme Employer Responsibilities

This section outlines the responsibilities of all scheme employers in the Fund and the performance standards scheme employers are expected to meet to enable the Fund to deliver an efficient, quality and value for money service. All information must be provided in the format prescribed by the Fund within the prescribed timescales.

<u>Fund administration</u>

This details the functions which relate to the whole Fund, rather than individual events.

45	Confirm a nominated representative to receive information from the Fund and to take responsibility for disseminating it within the organisation.	30 days of employer joining fund or change to nominated representative.
46	Formulate and publish policies in relation to all areas where the	To be kept under review and a revised statement published within one month of

	employer may exercise a discretion within the LGPS (including providing a copy of the policy document to the Fund).	any changes.
47	Respond to enquiries from the Fund / Administering Authority.	Ten days from receipt of enquiry
48	Remit employer and employee contributions to the Fund and provide schedule of payments in the format stipulated by the Fund.	Schedules by the 19th calendar day of the month after deduction. Cleared funds to be received by 22nd calendar day of the month after deduction or 19th if by cheque.
49	Implement changes to employer contribution rates as instructed by the Fund.	At date specified on the actuarial advice received by the Fund.
50	Provide year-end information required by the Fund in the format stipulated in the instructions issued March each year.	By 30 April following the year-end.
51	To ensure optimum accuracy of year-end information	With no less than 90% accuracy across all members.
52	Distribute any information provided by the Fund to scheme members/potential scheme members	Within 10 days of its receipt.
53	Notify the Fund if contracting out services which will involve a TUPE transfer of staff to another organisation.	At the time of deciding to tender so that information can be provided to assist in the decision.
54	Work with the Fund to arrange for an admission agreement to be put in place when contracting out a service and assist in ensuring it is complied with.	Agreement to be in place no later than date of contract
55	Notify the Fund if the employer ceases to admit new scheme members or is considering terminating membership of the Fund.	As soon as the decision is made, so that the Fund can instruct the actuary to carry out calculations, if applicable.
56	Refer new/prospective scheme members to the Fund's website.	Ten days of commencement of employment or change in contractual conditions.
57	Make additional fund payments in relation to early payment of benefits from flexible retirement, redundancy or business efficiency retirement or where a member retires early with employer's consent.	Within 30 days of receipt of invoice from the Fund.
58	Make payment of additional costs to the Fund associated with non-compliance with performance standards of the scheme employer.	Within 30 days of receipt of invoice from the Fund.

59	All new prospective admitted bodies to undertake, to the satisfaction of the administering authority and the scheme employer, a risk assessment of the level of the bond required in order to protect other scheme employers.	To be completed before the body can be admitted to the Fund.
60	All admitted bodies to undertake a review of the level of the bond or indemnity required to protect the other scheme employers.	Annually, or such other period as may be agreed with the administering authority.

Scheme administration

This section details the functions which relate to scheme member benefits from the LGPS.

61	Use online forms or web portal for all relevant scheme administration tasks as required by the administering authority.	Within one month of employer being set up to use the online system.
62	Notify the Fund of new starters.	Six weeks of member joining or such shorter periods as required by auto-enrolment obligations under the Pensions Act 2008.
63	Arrange for the correct deduction of employee contributions from a member's pensionable pay.	Immediately on joining the scheme, opting in or out or change in circumstances.
64	Ensure correct employee contribution rate is applied.	Immediately upon commencing scheme membership and in line with the employer's policy and as a minimum in each April payroll thereafter.
65	Ensure correct deduction of pension contributions during any period of child related leave, strike absence or other forms of leave or absence from duty.	Immediately, following receipt of election from scheme member to make the necessary pension contributions
66	Commence deduction of additional regular contributions or amend such deductions, as appropriate.	Month following election to pay contributions or notification received from the Fund.
67	Cease deduction of additional regular contributions.	Immediately following receipt of election from scheme member.
68	Arrange for the deduction of AVCs and payment over of contributions to AVC provider(s).	Commence deduction of AVCs in month following the month of election. Pay over contributions to the AVC provider(s) by the 22nd of the month following the month of election or 19th if by cheque.
69	Provide the Fund with details of all changes to members' working hours using the method stipulated by the Fund.	Six weeks of change for protected members only.

70	Notify the Fund of other material changes in employees' circumstances (e.g., marital or civil partnership status) using the method stipulated by the Fund.	Immediately, following notification by the scheme member of a change in circumstances
71	Notify the Fund of leaves of absence with permission (maternity, paternity, career break, etc) using the method stipulated by the Fund.	Within 20 days of notice from employee for protected members only.
72	Notify the Fund when a member leaves employment including an accurate assessment of final pay using the method stipulated by the Fund.	Six weeks of month end of leaving where payroll service not provided by the London Borough of Tower Hamlets.
73	Notify the Fund when a member is due to retire including an accurate assessment of final pay and authorisation of reason for retirement using the method stipulated by the Fund.	At least one month before retirement date.
74	Notify the Fund of the death of a scheme member using the method stipulated by the Fund.	As soon as practicable, but within ten days.
75	Appoint person for stage 1 of the pension dispute process and provide full details to the Fund	Within 30 days of becoming a scheme employer or following the resignation of the current adjudicator.
76	Review 3rd tier ill-health retirement cases.	Notify administering authority immediately a member retired with a third tier ill-health benefits returns to paid employment or outcome of the 18 month review, whichever is earlier.

Monitoring Performance and Compliance

Ensuring compliance with the LGPS regulations and this administration strategy is the responsibility of the Fund and scheme employers. This section describes the ways in which performance and compliance will be monitored.

Audit

The Fund is subject to an annual external audit of the accounts by extension the processes employed in calculating the figures for the accounts. The key findings of their work are presented to the Pension Committee in an annual report, and the Committee / Administering Authority is provided with an action plan of recommendations to implement. In addition the Fund is subject to internal audits by the LB Tower Hamlets internal auditors of its processes and internal controls. Any subsequent recommendations made are considered by the Fund and, where appropriate, duly implemented.

Both the Administering Authority and Scheme Employers will be expected to comply with requests for information from internal and external audit in a timely manner.

Performance monitoring

The Fund monitors its performance utilising its own internal key performance indicators. Monitoring occurs on a monthly basis and the key performance indicators are reported to Committee via a quarterly report on administration of the Fund allowing them to monitor the performance of the Fund's in-house staff. A high level overview of performance is provided to Committee on an annual basis. The performance of Scheme Employers against the standards set out in this document will be incorporated into the reporting to the Committee, as appropriate, to include data quality.

Feedback from employers

Employers who wish to provide feedback on the performance of the Fund against the standards in this administration strategy should email comments to Pensions.LBTH@towerhamlets.gov.uk This feedback will be incorporated into the quarterly reports to the Committee.

Annual report on the strategy

The scheme regulations require the Fund to undertake a formal review of performance against the administration strategy on an annual basis. This report will be produced annually and incorporated within the annual report and accounts.

Policy on Charging Employers for Poor Performance

The scheme regulations provide pension funds with the ability to recover from a scheme employer any additional costs associated with the administration of the scheme incurred as a result of the poor level of performance of that scheme employer. Where a fund wishes to recover any such additional costs, they must give written notice stating:

- the reasons in their opinion that the scheme employer's poor performance contributed to the additional cost
- the amount of the additional cost incurred
- the basis on how the additional cost was calculated
- the provisions of the administration strategy relevant to the decision to give notice.

Circumstances where costs might be recovered

It is the policy of the Fund to recover additional costs incurred in the administration of the scheme as a direct result of the poor performance of any scheme employer (including the administering authority). The circumstances where such additional costs will be recovered from the scheme employer are:

- failure to provide relevant information to the Fund, scheme member or other interested party in accordance with specified performance targets in this administration strategy (either as a result of punctuality of delivery or quality of information)
- failure to pass relevant information to the scheme member or potential members, either due to poor quality of information or not meeting the agreed timescales outlined in the performance targets in this administration strategy

- failure to deduct and pay over correct employee and employer contributions to the Fund within the stated timescales
- instances where the performance of the scheme employer results in fines being levied against the Fund by the Pension Regulator, Pensions Ombudsman or other regulatory body.

Approach to be taken by the Fund

The Fund will seek, at the earliest opportunity, to work closely with scheme employers in identifying any areas of poor performance, provide the necessary support or training and put in place appropriate processes to improve the level of service delivery in the future. Therefore, scheme employers will be afforded the time to address the causes of non-compliance with performance standards in order that they do not become persistent, before any fines are levied. Employers should be aware that in the case of late payment of contributions and non-submission of monthly contribution forms, penalties will be incurred for persistent instances of non-compliance with performance standards.

The process for engagement with scheme employers will be as follows:

1) Write to the scheme employer, setting out area(s) of non-compliance with performance standards and offer support and, where applicable, further training.

2) If no improvement is seen within one month of the support or training or no response is received to the initial letter, the scheme employer will be asked to attend a conference call/meeting with representatives of the Fund to discuss area(s) of non-compliance with performance standards and to agree an action plan to address them. Where appropriate, the originating employer will be informed and expected to work with the Fund to resolve the issues.

3) If no improvement is seen within one month or a scheme employer is unwilling to attend a meeting to resolve the issue, the Fund will issue a formal written notice, setting out the area(s) of non-compliance with performance standards that have been identified, the steps taken to resolve those area(s) and notice that the additional costs will now be reclaimed.

4) An invoice will then be issued to the scheme employer clearly setting out the calculations of any loss resulting to the Fund, or additional cost, taking account of time and resources in resolving the specific area(s) of poor performance, in accordance with the charging scale set out in this document.

A report will be presented to the quarterly Committee meeting detailing charges levied against scheme employers and outstanding payments.

Charging scales for administration

The table below sets out the charges which the Fund will levy on a scheme employer whose performance falls short of the standards set out in this document. Each item is referenced to the 'Scheme Employer Responsibilities' section.

Item	Charge	Ref
Late payment of employee and employer contributions	£50 plus interest*	48
Non-provision of the correct schedule	£50 per occasion.	48

accompanying the contributions		
Underpayment of employee or employer contributions.	£50 plus interest*	49, 63, 64.
Late or non-provision of year-end information or the poor quality of year-end information.	£250 plus £100 for every month the information is late.	50
Failure to use the notified process to provide member amendment and earnings information to the administration authority.	Recharge of the additional costs incurred by the administering authority.	60
Late or non-provision of starter forms.	£100 per month for forms not received or late.	62
Late or non-provision leaver forms.	£100 per month for forms not received or late.	72, 73, 74.

*Interest will be charged in accordance with Regulation 44 of the LGPS administration regulations, which states interest should be charged at Bank of England base rate plus one per cent.

Service and Communication Improvement Planning

As set out earlier in this administration strategy, the Fund's objective in relation to administration is to deliver an efficient, quality and value for money service to its scheme employers and scheme members. This can only be achieved through continuously reviewing and improving the service. Communication between the Fund and scheme employers is key to providing the service and is, therefore, an important aspect of service improvement planning.

The Fund's staff work together on a programme of continuous improvement to the service and meet quarterly to review progress against the action plan agreed.

The monitoring of the performance standards set out in this document will inform the programme going forward, and feedback from scheme employers on the service and the way in which the Fund communicates is welcomed in developing plans. Feedback should be emailed to Pensions.LBTH@towerhamlets.gov.uk

The Fund will take responsibility for improving the service and determining the balance between implementing service improvements and the goal of providing a value for money service for the Fund.

Employers will be informed of any changes to the service provision which affect the way they interact with the Fund through the monthly briefing note.

Consultation and Review Process

In preparing this administration strategy, the Fund will place it upon its website and open up consultation with scheme employers with a closing date of 28 February 2017. The strategy will be reviewed every year and more frequently if there are changes to the scheme regulations or Fund policies. All scheme employers will be consulted before any changes are made to this document.

The latest version of this document can be accessed from the Fund website at: http://towernet/staff_services/hr_workforce_development/pensions/

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Hymans Robertson Employer Asset Tracker

Hymans Robertson Employer Asset Tracker (HEAT) provides an efficient way of accurately apportioning assets to individual employers. It allows for employer cash flows and investment returns achieved by London Borough of Tower Hamlets Pension Fund ("the Fund") in the same way as a bank account or investment fund operates. It is a simpler, pragmatic form of an unitisation process proportionate to the needs of LGPS funds.

Why do we need HEAT?

The LGPS has changed and continues to change! The Administering Authority has more to do, often with less resource, such as:

- there is more reporting and more scrutiny on LGPS funds and the bar has been raised in relation to governance, auditability and transparency
- there are lots more employers participating in the Fund that need information and advice
- the characteristics of the employers are more diverse
- the benefits are becoming increasingly complicated to administer

The requirements and responsibilities are more onerous and complicated and therefore there is a need for more robust processes and greater transparency for stakeholders. The current method for asset tracking is becoming increasingly limited.

Benefits of HEAT

By moving to HEAT's asset tracking approach, there will be particular benefits to the Fund:

- Assets would be based on the Fund's ledger which is still within control of the Council so there is significantly less reliance on third parties keeping data up to date and correct.
- Assets allocated to employers would be readily auditable and more accurately reflect the employer's assets through a reduction in the level of cross-subsidies across participating employers (and so reduce the risk of the potential challenge by employers).
- Improve the record keeping, financial accounting and administration of the Fund.
- Have a system for allocating assets that is robust and more accurate than the current approach, while retaining a level of pragmatism proportionate to the needs of the Fund.
- Benefit from efficiencies in the longer term, resulting in lower future costs on formal valuation and other actuarial work.
- Increased engagement from employers as the approach would be easier to understand and more transparent.
- Allow the Administering Authority to give investment flexibility to employers as appropriate and offer more bespoke investment strategies to meet the needs of particular employers which improve consistency with the existing bespoke funding strategies already in place.

Barry McKay FFA

For and on behalf of Hymans Robertson LLP

February 2017

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