

## ***Pension Fund Account and Report 2010-11***

### **Message from Chris Naylor: Corporate Director Resources**

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

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

The Investment Strategy allocates assets across a range of asset classes and further attempts to minimise exposure to significant movements within each asset class by appointing fund managers that pursue contrasting but complementary investment strategies. This approach ensures a diversified and balanced portfolio that targets steady and sustainable growth. After a review of the Fund Strategy four new managers were appointed to invest under 3 different mandates. The changes should ensure even more diversification and preserve the Fund's assets through different market cycles.

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

It is worth noting that the Council is a long term investor both because a high proportion of pension benefits do not become payable until far in the future and the Council has a relatively secure long term income stream, unlike pension providers in the private sector.

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

These issues do not affect scheme member entitlements as current legislation provides that the level of Scheme members' basic pension entitlement and contributions are not affected by the financial position of the Fund. It is the responsibility of the Council to ensure that pension entitlements are fully funded and that the impact on Council Tax is minimised.

**Chris Naylor**

## ***Pension Fund Account and Report 2010-11***

### **Governance of the Pension Scheme**

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

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

### **MANAGEMENT AND ADVISERS TO THE PENSION FUND**

#### **Pensions Committee:**

Councillors:

Councillor Anwar Khan(Chairman)  
Councillor Craig Aston  
Councillor Shiria Khatun  
Councillor Shafiqul Haque  
Councillor Mohammed Abdul Mukit MBE  
2 vacancies

Trade Union Representative (non-voting): John Gray (Unison)

#### **Investment Advisers**

Hymans Robertson

Raymond Haines (Independent Investment Adviser)

#### **Actuarial Services**

Hymans Robertson

#### **Custodian**

State Street Bank

#### **Investment Performance**

WM Company

#### **Investment Managers**

Aberdeen Asset Management

Auriel Capital Management Limited

Baillie Gifford

GMO UK Limited

Investec Asset Management

Legal & General Investment Management

Martin Currie Investment Management

Record Currency Management Limited

Ruffer LLP

Schroders Investment Management

## ***Pension Fund Account and Report 2010-11***

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

During 2010-11 the members of the Investment Panel were: -

### **Investment Panel**

Raymond Haines, Independent Adviser (Chairman)

Councillor Anwar Khan

Councillor Craig Aston

Councillor Shiria Khatun

Councillor Shafiqul Haque

Councillor Mohammed Abdul Mukit MBE

2 Vacancies

John Gray (Unison)

David O'Hara, Hymans Robertson

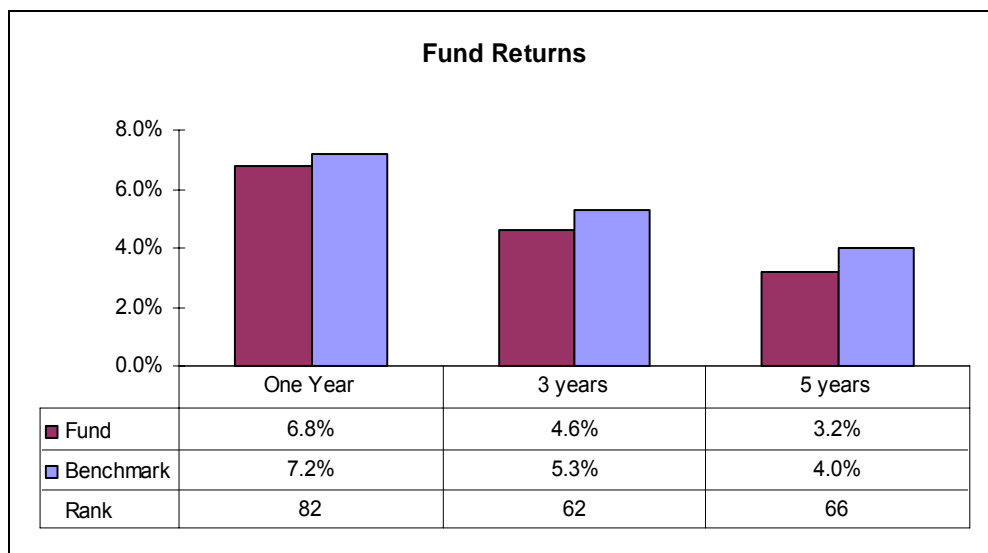
Alan Finch, Head of Corporate Finance

## ***Pension Fund Account and Report 2010-11***

### **Investment Performance of the Fund**

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

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



### **Fund Management Activity**

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

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

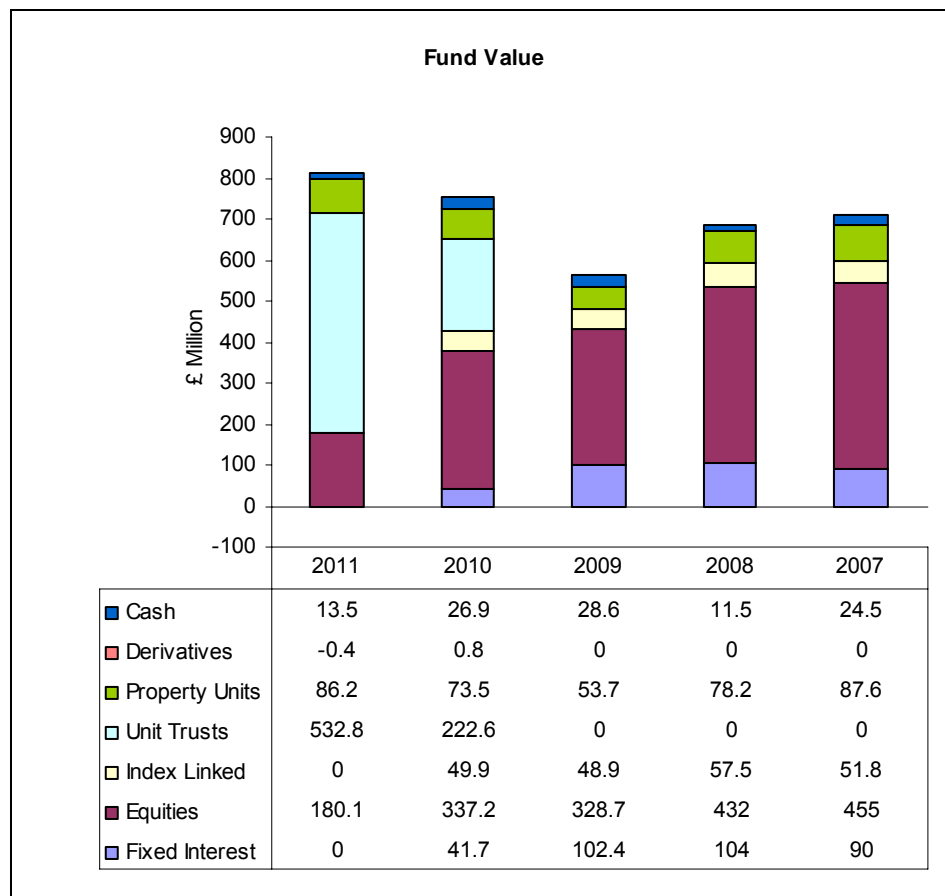
The Panel also decided to disinvest all of the funds that were held in the currency manager portfolios due to the unsuitability of this type of investment in prevailing market conditions.

## ***Pension Fund Account and Report 2010-11***

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

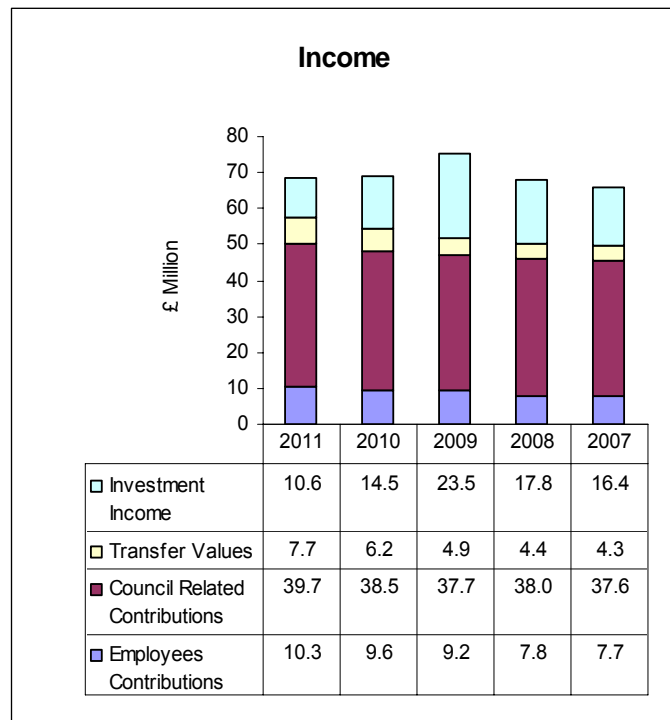
### **Financial Accounts**

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



## Pension Fund Account and Report 2010-11

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



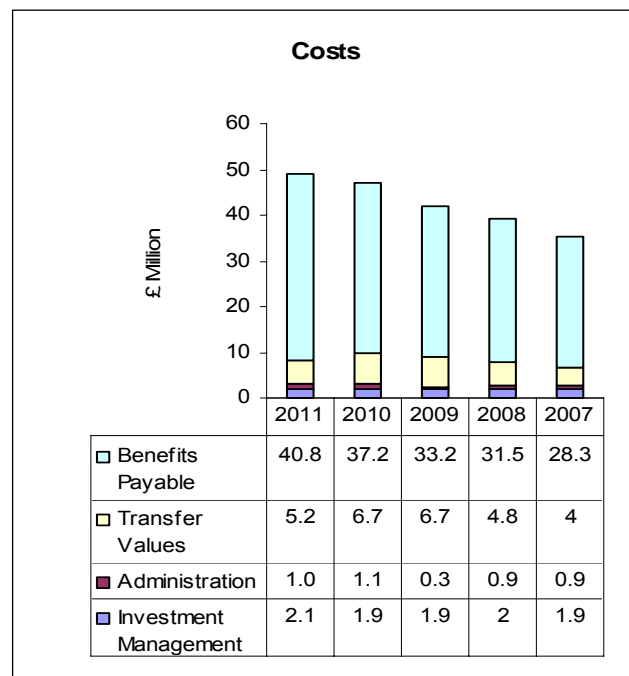
Over the year costs have increased by £2.2 million (4.7%). This increase is principally attributable to a rise in benefits payable of £3.6 million (9.7%).

Benefits payable comprise pensions payments and lump sum payments.

The pensions paid over the year increased by 3.1% from £28.5m (2009/10) to £29.4m (2010/11), whilst lump sums increased by 31.2% from £8.7m (2009/10) to £11.4m (2010/11). The increase in lump sums payable is due to the Council making a significantly higher number of redundancies in the year as part of its commitment to reduce costs. Transfer values paid out over the year have decreased by £1.5m (22.4%).

There has been a 12.5% reduction in investment management costs as a result of the restructure of the fund. This does not show in the

table due to investment management fees totalling £0.5m having been disclosed in 2010/11 which were not shown in previous years. Administration fees have also reduced by 9% in the year.

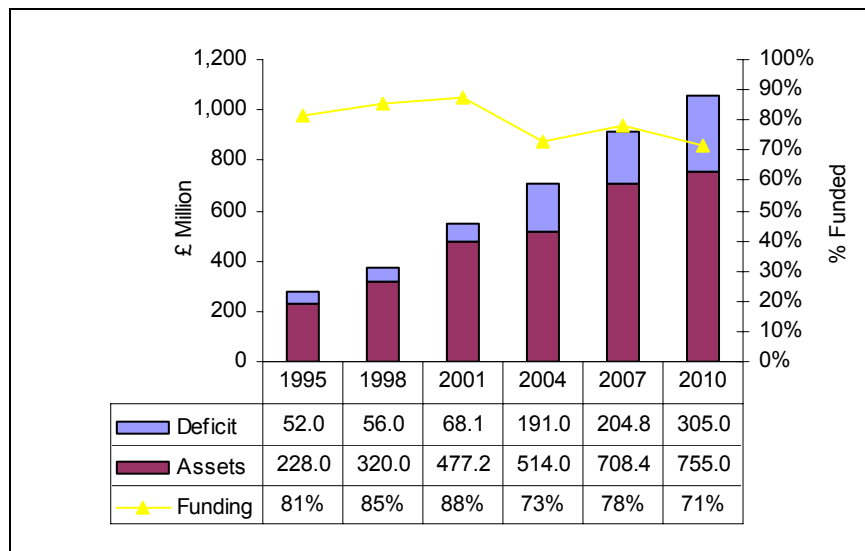


## ***Pension Fund Account and Report 2010-11***

### **Funding Level**

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

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



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

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

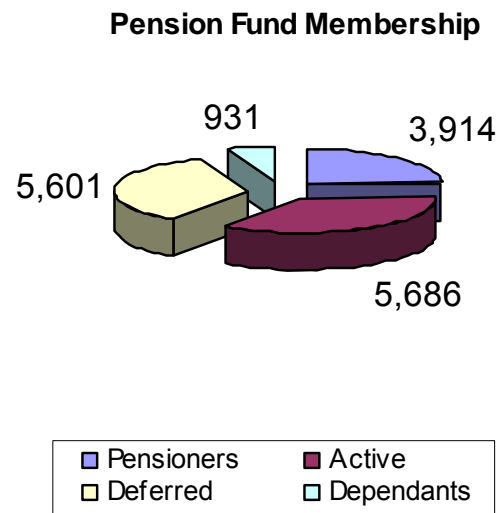
The 2010 valuation exercise identified continuing improvements in the life expectancy of scheme members which is increasing the pension fund costs. Although this additional cost has necessitated an increase in the monetary amounts payable by the Council, the contribution rate has remained stable at 15.8%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

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

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

## ***Pension Fund Account and Report 2010-11***

The Fund currently has a membership of 16,132 comprising the elements as set out in the graph.



Active members are those currently contributing to the Fund. Deferred members are those who have contributed in the past but who have not yet become entitled to their benefits.

The full accounts are as set out in Appendix 1.



## ***Pension Fund Account and Report 2010-11***

### **Statement from the Actuary**

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

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

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

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

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

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

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

## ***Pension Fund Account and Report 2010-11***

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

Appendix 2 Statement of Investment Principles

Appendix 3 Funding Strategy Statement

Appendix 4 Communications Strategy Statement

Appendix 5 Governance Compliance Statement

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

# Pension Fund Account and Report 2010-11

PENSION FUND ACCOUNTS			
	Note	2009/10 £'000	2010/11 £'000
<b>FUND ACCOUNT</b>			
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME</b>			
<b>Contributions</b>			
From employers	3	38,455	39,659
From members	3	9,612	10,266
<b>Transfers in</b>			
Individual transfers in from other schemes		6,214	7,704
<b>Benefits</b>			
Pensions	4	(28,510)	(29,407)
Lump sum benefits	4	(8,692)	(11,406)
<b>Payments to and on account of leavers</b>			
Refunds of contributions		(6)	(2)
State scheme premiums		6	(2)
Individual transfers out to other schemes		(6,692)	(5,167)
<b>Administrative expenses</b>	14	(1,075)	(1,003)
<b>NET ADDITIONS FROM DEALINGS WITH MEMBERS</b>		<b>9,312</b>	<b>10,642</b>
<b>RETURN ON INVESTMENTS</b>			
		2009/10 £'000	2010/11 £'000
Investment income	11	14,527	10,562
Change in market value of investments			
Realised		3,999	70,468
Unrealised	10	164,201	(29,888)
Investment management expenses	15	(1,871)	(2,118)
<b>NET RETURN ON INVESTMENTS</b>		<b>180,856</b>	<b>49,024</b>
Net increase in the Fund during the year		190,168	59,666
Add: Opening net assets of the scheme		562,333	752,501
<b>CLOSING NET ASSETS OF THE SCHEME</b>		<b>752,501</b>	<b>812,167</b>
<b>NET ASSETS STATEMENT AS AT 31ST MARCH</b>			
		2010 £'000	2011 £'000
<b>Investments Assets</b>			
Fixed interest securities			
Public sector		40,659	0
Other		1,071	0
Equities		337,215	180,091
Index linked securities			
Public sector		49,898	0
Pooled Investment Vehicles			
Unit Trusts		222,597	452,951
Property		73,458	86,158
Other		0	79,839
Derivative Contracts			
Forward Foreign Exchange Contracts		774	292
	10	<b>725,672</b>	<b>799,331</b>
Cash deposits	6	19,606	9,362
Other investment balances	5	4,213	1,096
<b>Investments Liabilities</b>			
Forward Foreign Exchange Contracts	10	0	(699)
Other investment balances	5	(2,116)	0
<b>Current Assets</b>	5	<b>5,851</b>	<b>4,385</b>
<b>Current Liabilities</b>	5	<b>(725)</b>	<b>(1,308)</b>
<b>TOTAL NET ASSETS</b>		<b>752,501</b>	<b>812,167</b>

## **NOTES TO THE PENSION FUND ACCOUNTS**

### **1. INTRODUCTION**

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

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

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

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

### **2. ACCOUNTING POLICIES**

(a) **Accounts**

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

(b) **Basis of preparation**

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

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

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

(d) **Investments**

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

- (i) Listed securities are shown by reference to bid price at the close of business on 31st March 2011.
- (ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March
- (iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2011.
- (iv) The Fund does not hold any direct property holdings and therefore does not employ a separate property valuer.
- (v) Investments designated in foreign currencies are valued in sterling at the exchange rates ruling on 31st March 2011. Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.
- (vi) Foreign exchange contracts are recognised in the net asset statement at their fair value. The amounts included in the accounts represent unrealised gains or losses on forward contracts.

(e) **Management Expenses**

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

# ***Pension Fund Account and Report 2010-11***

## **3. CONTRIBUTIONS**

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

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

The Council is required to operate an Additional Voluntary Contributions (AVC) scheme for employees. In 2010/11 employees made contributions of £60,530.28 into the AVC Scheme not administered by the Council but provided by Aviva (Norwich Union) and £9,455.96 to Equitable Life. The contributions are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 N° 1831) but are deducted from salaries and remitted directly to the provider.

# Pension Fund Account and Report 2010-11

## 4. BENEFITS, REFUNDS OF CONTRIBUTIONS AND TRANSFER VALUES

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year. Transfers out/in are those sums paid to, or received from, other pension schemes and relate to the period of previous pensionable employment. Transfer values are brought into the accounts on a cash basis. Benefits payable are analysed below.

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

## 5. DEBTORS AND CREDITORS

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

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

## 6. CASH

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

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

# Pension Fund Account and Report 2010-11

## 7. TAXATION

### UK Income Tax

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

### Value Added Tax

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

### Overseas Tax

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

## 8. MEMBERSHIP OF THE FUND

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

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

The following bodies have been admitted into the Fund:

### Admitted Bodies

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

### Scheduled Body

Tower Hamlets Homes Limited is a scheduled body contributing to the Fund.

## 9. STATEMENT OF INVESTMENT PRINCIPLES

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish a Statement of Investment Principles (SIP) in accordance with the Local Authority Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. The SIP is published as part of the Local Government Pensions Scheme Annual Report which was submitted to the Council's Pensions Committee on 21st July 2011.

## 10. INVESTMENTS

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

### Manager

GMO UK Ltd.  
 Schroders Asset Management Property Fund  
 Legal & General Investment Management  
 Investec Asset Management  
 Baillie Gifford Life Ltd.  
 Ruffer LLP  
 Auriel Capital Management  
 Record Currency Management

### Mandate

Global Equity  
 Property  
 UK Equity, Index Linked Gilts  
 Absolute Return Bonds  
 Global Equity, Diversified Growth  
 Diversified Growth  
 Currency  
 Currency

# Pension Fund Account and Report 2010-11

## 10. INVESTMENTS (continued)

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

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

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

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

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

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

A further analysis of investments assets is as follows.

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



# Pension Fund Account and Report 2010-11

## 10. INVESTMENTS (continued)

### Derivative Contracts

The fund managers GMO UK Ltd is permitted to use forward foreign exchange contracts to mitigate the effect on returns of appreciation or depreciation of Sterling against the local currencies of the assets held or to adjust the foreign currency exposure of the portfolio. The only derivative contracts held at 31st March 2011 were forward foreign exchange contracts.

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

The amounts included in the accounts represent the unrealised gains or losses arising from the closing out of the contract at the reporting date.

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

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

### Forward Foreign Exchange Contracts

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

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

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

# Pension Fund Account and Report 2010-11

## 11. INVESTMENT INCOME

Investment income is broken down as follows.

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

## 12. SECURITIES

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

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

## 13. ACTUARIAL POSITION

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

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

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

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

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

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

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

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

# Pension Fund Account and Report 2010-11

## 13. ACTUARIAL POSITION (continued)

In accordance with the funding policy, the Actuary determines the employer contribution requirement for future service for the Fund as a whole, and for employers who continue to admit new members. The cost of future service benefits is assessed, taking into account expected future salary increases. In order to place a current value on future benefit cashflows the Actuary "discounts" the future cashflows to the valuation date at a suitable rate. The Actuary adopts a "gilt-based" valuation which uses the yield on suitably dated Government bonds as the discount rate. This is then uplifted to the "funding basis discount rate" taking into account the Fund's current and expected future investment strategy to reflect the percentage by which the Fund is anticipated to "outperform" the yield on Government bonds. The contribution rate required to meet the expected cost of future service benefits is derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay. This is known as the "Projected Unit method". The future contribution rate for 2010-11 was 15.8%.

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

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

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

### Actuarial Value of Promised Retirement Benefits

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

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

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

### Actuarial Value of Promised Retirement Benefits

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

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

# ***Pension Fund Account and Report 2010-11***

## **14. ADMINISTRATIVE EXPENSES**

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

## **15. RISK MANAGEMENT**

### **Nature and extent of risks arising from financial instruments**

#### **Credit risk**

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

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

#### **Liquidity risk**

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

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

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

#### **Market risk**

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

##### Interest rate risk

Cash deposits held in the Pension Fund bank account are invested in accordance with the Council's approved Treasury Management Strategy.

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

##### Currency risk

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

##### Other Price risk

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

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

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

# Pension Fund Account and Report 2010-11

## 16. FINANCIAL INSTRUMENTS DISCLOSURES

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

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

### Fair Value Hierarchy

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

Level 1 - inputs that reflect quoted prices for identical assets or liabilities in active markets

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

Level 3 - inputs that are not based on observable data

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

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

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

# ***Pension Fund Account and Report 2010-11***

## **17. INVESTMENT MANAGEMENT EXPENSES**

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

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

## **18. RELATED PARTY TRANSACTIONS**

Information in respect of material transactions with related parties is disclosed elsewhere within the Council's accounts.

During the year no trustees or Council chief officers with direct responsibility for Pension Fund issues, have undertaken any declarable transactions with the Pension Fund, other than administrative services undertaken by the Council on behalf of the Pension Fund.

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

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

## **19. CONTINGENT LIABILITIES**

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

## **20. POST BALANCE SHEET EVENTS**

There are no significant post balance sheet events to report.

## **Appendix 2**

### **Statement of Investment Principles**

This is the Statement of Investment Principles adopted by the London Borough of Tower Hamlets Pension Fund ("the Scheme") as required by the Local Authority Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. It is subject to periodic review by the Pensions Committee which acts on delegated authority of the London Borough of Tower Hamlets. The Pensions Committee receives recommendations and advice from the Investment Panel which oversees the investment management of the Scheme on a day to day basis.

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

### **The Myners Code of Investment Principles**

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

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

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

### **Fund Objective**

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

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

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



### **Investment Strategy**

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

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

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

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

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

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

**Balance between different kinds of investments:** The Scheme's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market the managers will maintain diversified portfolios of investments through direct holdings or pooled vehicles.

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



## ***Pension Fund Account and Report 2010-11***

**Expected return on investments:** Over the long term, the overall level of investment returns is expected to exceed the rate of return assumed by the actuary in funding the Scheme.

**Realisation of investments:** The majority of investments held within the Scheme may be realised quickly if required.

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

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

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

## ***Pension Fund Account and Report 2010-11***

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

## ***Pension Fund Account and Report 2010-11***

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

## ***Pension Fund Account and Report 2010-11***

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

## ***Pension Fund Account and Report 2010-11***

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

## **Appendix 3**

### THE LONDON BOROUGH OF TOWER HAMLETS PENSION FUND – FUNDING STRATEGY STATEMENT

#### **1. Introduction**

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

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

#### **1.1 Regulatory Framework**

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

1.1.2 The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Regulations 1997 (Regulations 76A and 77 are particularly relevant); replaced from 1 April 2008 with the Local Government Pension Scheme (Administration) Regulations 2008, regulations 35 and 36;
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary’s triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

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

1.1.4 The key requirements relating to the FSS are that:

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

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

### **1.2 Reviews of FSS**

- 1.2.1 The FSS is reviewed in detail at least every three years as part of the triennial valuation being carried out, with the next full review due to be completed by 31 March 2014. More frequently, Annex A is updated to reflect any changes to employers.
- 1.2.2 The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Oladapo Shonola in the first instance at [Oladapo.Shonola@towerhamlets.gov.uk](mailto:Oladapo.Shonola@towerhamlets.gov.uk) or on 020 7364 4733.

## **2. Purpose**

### **2.1 Purpose of FSS**

- 2.1.1 The department for Communities and Local Government (CLG), formally the Office of the Deputy prime Minister, has stated that the purpose of the FSS is:
- *"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*
  - *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
  - *to take a **prudent longer-term view** of funding those liabilities".*

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

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

### **2.2 Purpose of the Fund**

- 2.2.1 The fund is a vehicle by which scheme benefits are delivered. The Fund:
- receives contributions, transfer payments and investment income;

- pays scheme benefits, transfer values and administration costs.

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

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

### **2.3 Aims of the Funding Policy**

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

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

## **3. Solvency Issues and Target Funding Levels**

### **3.1 Derivation of Employer Contributions**

3.1.1 Employer contributions are normally made up of two elements:

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

3.1.2 The Fund's actuary is required by the regulations to report the *Common Contribution Rate*<sup>1</sup>, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common

---

<sup>1</sup> See Regulation 77(4)



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

- 3.1.3 The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer<sup>2</sup>. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.
- 3.1.4 In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.
- 3.1.5 For some employers it may be agreed to pool contributions, see Section 3.7.8.
- 3.1.6 Annex A contains a breakdown of each employer's contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14. It includes a reconciliation of each employer's rate with the *Common Contribution Rate*. It also identifies which employers' contributions have been pooled with others.
- 3.1.7 Any costs of non ill-health early retirements must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision).
- 3.1.8 Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

### **3.2 Solvency and Target Funding Levels**

- 3.2.1 The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.
- 3.2.2 "Solvency" for ongoing employers is defined to be the ratio of the current market value of assets on the value placed on accrued benefits on the Fund Actuary's *ongoing funding basis*. This quantity is known as a funding level.
- 3.2.3 The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority. The ongoing funding basis assumes employers in the Fund are an ongoing concern and is described in the next section.

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

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

---

<sup>2</sup> See Regulation 77(6)

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

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

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

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

### **3.3 Ongoing Funding Basis**

- 3.3.1 The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds advised by the Fund actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Employers should be aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profiles of employers
- 3.3.2 The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.
- 3.3.3 In the light of the statutory requirement for the Actuary to consider the stability of employer contributions it is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.
- 3.3.4 Given the very long-term nature of the liabilities, a long-term view of prospective returns from equities is taken. For the 2010 valuation, it is assumed that the Fund's equity investments will deliver an average additional real return of 1.4% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation.

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

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

### **3.4 Future Service Contribution Rates**

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

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

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

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

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

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

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

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

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

### **3.5 Adjustments for Individual Employers**

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

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

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

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

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

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

- the actual timing of employer contributions within any financial year;
- the effect of refunds of contributions or individual transfers to other Funds;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

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

### **3.6 Asset Share Calculations for Individual Employers**

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

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

### **3.7 Stability of Employer Contributions**

#### **3.7.1 Solvency Issues and target Funding Levels**

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

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

#### **3.7.2 Stabilisation**

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

In view of this possibility, the Administering Authority has commissioned the Pension Fund actuary to carry out extensive modelling to explore the long term effect on the Pension Fund of capping future contribution increases. The results of this modelling indicate that it

is justifiable to limit employer contribution rate changes, subject to the following conditions being met:

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

In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Pension Fund actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been “stabilised” and are currently paying less than their theoretical contribution rate should be aware of the risks of this approach and should consider making additional payments to the Pension Fund if possible.

The Pension Fund currently has a strong net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.

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

### **3.7.3 Deficit Recovery Periods**

- 3.7.3.1 The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.
- 3.7.3.2 The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table below:

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

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

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

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

### 3.7.4 Surplus Spreading Periods

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

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

### 3.7.5 Phasing in of Contribution Rises

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

### 3.7.6 Phasing in of Contribution Reductions

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

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

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

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



### **3.7.8 Pooled Contributions**

#### **3.7.8.1 Smaller Employers –**

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

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

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

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

#### **3.7.8.2 Other Contribution Pools –**

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

### **3.8 Admission Bodies Ceasing**

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

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

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

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



## ***Pension Fund Account and Report 2010-11***

- 3.8.4 In addition either party can voluntarily terminate the Admission Agreement by giving the appropriate period of notice as set out in the Admission Agreement to the other party (or parties in the case of a TAB).
- 3.8.5 If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation as required under Regulation 78 of the 1997 regulations (38 of the 2008 regulations) to determine whether there is any deficit.
- 3.8.6 The assumptions adopted to value the departing employers' liabilities for this valuation will depend upon the circumstances. For example:
- (1) For Transferee Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with the assumptions used to calculate the initial transfer of assets to accompany the active member liabilities transferred.
  - (2) For admission bodies that are not Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or which triggers a cessation event, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. Where there is a guarantor, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis" with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required.
  - (3) For admission bodies with guarantors, it is possible that any deficit could be transferred to the guarantors in which case it may be possible to simply transfer the assets and liabilities relating to the former admission bodies to the respective guarantors, without needing to crystallise any deficit.

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

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

- a) In the case of Transferee Admission Bodies the awarding authority will be liable. At its absolute discretion, the Administering Authority may agree to recover any outstanding amounts via an increase in the awarding authority's contribution rate over an agreed period.
- b) In the case of admission bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the

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

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

### **3.9 Early Retirement Costs**

#### **3.9.1 Non Ill-Health Retirements**

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

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

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

#### **3.9.2 Ill Health Monitoring**

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

### **4. Links to Investment Strategy**

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

#### **4.1 Investment Strategy**

- 4.1.1 The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.
- 4.1.2 The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property.
- 4.1.3 The investment strategy of lowest risk – but not necessarily the most cost-effective in the long-term – would be 100% investment in index-linked government bonds.
- 4.1.4 The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns, than from index-linked bonds. The Administering Authority's strategy recognises the secure nature of most employers' covenants.
- 4.1.5 The same investment strategy is currently followed for all employers. The Administering Authority does not have the facility to operate different investment strategies for different employers.

### **4.2 Consistency with Funding Basis**

- 4.2.1 The Fund's investment adviser's current *best estimate* of the long-term real return from equities is around 3% a year in excess of the return available from investing in index-linked government bonds.
- 4.2.2 In order to reduce the volatility of employers' contributions, the funding policy currently anticipates returns of 2% a year, that is 1% a year less than the *best estimate* return.
- 4.2.3 The anticipated future returns from equities used to place a value on employers' liabilities only relate to the part of the Fund's assets invested in equities (or equity type investments), currently around 70% of all the Fund's assets.
- 4.2.4 Non equity assets invested in bonds and cash are assumed to deliver long-term returns of 0.25% pa more than the prevailing redemption yield on Government bonds.
- 4.2.5 In this way, the employer contributions anticipate returns from Fund assets which in the Fund actuary's opinion there is a better than 50:50 chance of delivering over the long-term (measured over periods in excess of 20 years).
- 4.2.6 However, in the short-term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 5 will damp down, but not remove, the effect on employers' contributions.
- 4.2.7 The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

### **4.3 Balance between Risk and Reward**

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

### **4.4 Intervaluation Monitoring of Funding Position**

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

## **5. Key Risks and Controls**

### **5.1 Types of Risks**

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

- financial
- demographic;
- regulatory; and
- governance

### **5.2 Financial Risks**

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

### **5.3 Demographic Risks**

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

## 5.4 Regulatory

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

## 5.5 Governance

Risk		Summary of Control Mechanisms
5.5.1	Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements)	<i>The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.</i>
5.5.2	Administering Authority not advised of an employer closing to new entrants	<i>The Actuary may be instructed to consider revising the Rates and Adjustments Certificate to increase an employer's contributions (under Regulation 78 of the 1997 Regulations; 38 of the 2008 Regulations)) between triennial valuations.</i>  <i>Deficit contributions are expressed as monetary amounts (see Annex A).</i>
5.5.3	Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt	<i>In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with Best Value contractors to inform it of forthcoming changes.</i>  <i>It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements.</i>
5.5.4	An employer ceasing to exist with insufficient funding or adequacy of a bond	<i>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</i>  <i>The risk is mitigated by:</i> <ul style="list-style-type: none"> <li><i>• Seeking a funding guarantee from another scheme employer, or external body, wherever possible.</i></li> <li><i>• Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</i></li> <li><i>• Vetting prospective employers before admission.</i></li> <li><i>• When permitted under the regulations requiring a band to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.</i></li> </ul>

## Pension Fund Account and Report 2010-11

### ANNEX A – EMPLOYERS’ CONTRIBUTIONS, SPREADING AND PHASING PERIODS

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

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



### ***ANNEX B – RESPONSIBILITIES OF KEY PARTIES***

#### ***The Administering Authority should:***

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

#### ***The Individual employer should:***

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

#### ***The Fund actuary should:***

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

## **Appendix 4**

### Communications Strategy Statement

#### CONTENTS

#### INTRODUCTION

#### REGULATORY FRAMEWORK

#### RESPONSIBILITIES AND RESOURCES

#### COMMUNICATION WITH KEY AUDIENCE GROUPS

- Our audience

- How we communicate

- Policy on Communication with Active, Deferred and Pensioner Members

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

- Policy on communication with Employing Authorities

- Policy on communication with senior managers

- Policy on communication with union representatives

- Policy on communication with elected members/the Pensions Committee

- Policy on communication with pension section staff

- Policy on communication with tax payers

- Policy on communication with other stakeholders/interested parties

#### PERFORMANCE MEASUREMENT

- Timeliness

- Quality

- Results

#### REVIEW PROCESS

### **Introduction**

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

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

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

London Borough of Tower Hamlets  
Town Hall  
Human Resources  
Payroll & Pensions Services  
Anchorage House  
2 Clove Crescent  
London E14

Telephone: 020 7364 4251

Facsimile: 020 7364 4593

Email: [pensions@towerhamlets.gov.uk](mailto:pensions@towerhamlets.gov.uk)

### **Regulatory Framework**

This Policy Statement is required by the provisions of Regulation 106B of the Local Government Pension Scheme (LGPS) Regulations 1997. The provision requires us to:

“...prepare, maintain and publish a written statement setting out their policy concerning communications with:

- (a) members.
- (b) representatives of members.
- (c) prospective members.
- (d) employing authorities.”

In addition it specifies that the Statement must include information relating to:

- “(a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;
- (b) the format, frequency and method of distributing such information or publicity; and
- (c) the promotion of the Scheme to prospective members and their employing authorities.”

As a provider of an occupational pension scheme, we are already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act 2004. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more generalised disclosure requirements are to be introduced, supported by a Code of Practice. The type of information that

pension schemes are required to disclose will remains very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a “*reasonable period*”. The draft Code of Practice<sup>3</sup> issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Management section of this document, alongside those proposed by the Pension Regulator in the draft Code of Practice.

### **Responsibilities and Resources**

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

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

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

### **Communication with key audience groups**

Our audience

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

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

In addition there are a number of other stakeholders with whom we communicate on a regular basis, such as Her Majesty’s Revenue and Customs, the Department for Communities and Local Government, solicitors, the Pensions Advisory Service, and

---

<sup>3</sup> Code of Practice – Reasonable periods for the purposes of the Occupational Pension Schemes (Disclosure of Information) Regulations 2006 issued September 2005

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

### **How we communicate**

#### **General communication**

We will continue to use paper based communication as our main means of communicating, for example, by sending letters to our scheme members. However, we will compliment this by use of electronic means such as our intranet. We will accept communications electronically, for example by e-mail and, where we do so, we will respond electronically where possible.

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

### **Branding**

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

### **Accessibility**

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

### **Policy on Communication with Active, Deferred and Pensioner Members**

Our objectives with regard to communication with members are:

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

## ***Pension Fund Account and Report 2010-11***

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

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

### **Explanation of communications**

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

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

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

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

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

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

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

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

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

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

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

## ***Pension Fund Account and Report 2010-11***

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

Our objectives with regard to communication with prospective members are:

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

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

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

### **Explanation of communications**

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

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

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

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

### **Policy on communication with Employing Authorities**

Our objectives with regard to communication with employers are:

- to improve relationships.
- to assist them in understanding costs/funding issues.
- to work together to maintain accurate data.
- to ensure smooth transfers of staff.



## ***Pension Fund Account and Report 2010-11***

- to ensure they understand the benefits of being an LGPS employer.
- to assist them in making the most of the discretionary areas within the LGPS.

Our objectives will be met by providing the following communications:

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

### **Explanation of communications**

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

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

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

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

Adviser meeting – Gives employers the opportunity to discuss their involvement in the Scheme with advisers.

### **Policy on communication with senior managers**

Our objectives with regard to communication with senior managers are:

- to ensure they are fully aware of developments within the LGPS

## ***Pension Fund Account and Report 2010-11***

- to ensure that they understand costs/funding issues
- to promote the benefits of the Scheme as a recruitment/retention tool.

Our objectives will be met by providing the following communications:

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

### **Explanation of communications**

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

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

### **Policy on communication with union representatives**

Our objectives with regard to communication with union representatives are:

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

Our objectives will be met by providing the following communications:

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

### **Explanation of communications**

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

## ***Pension Fund Account and Report 2010-11***

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

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

### **Policy on communication with elected members/Pensions Committee**

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

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

Our objectives will be met by providing the following communications:

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

### **Explanation of communications**

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

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

## ***Pension Fund Account and Report 2010-11***

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

### **Policy on communication with pension section staff**

Our objectives with regard to communication with Pension Section's staff are:

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

Our objectives will be met by providing the following communications:

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

### **Explanation of communications**

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

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

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

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

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

## ***Pension Fund Account and Report 2010-11***

### **Policy on communication with tax payers**

Our objectives with regard to communication with tax payers are:

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

Our objectives will be met by providing the following communications:

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

### **Explanation of communications**

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

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

### **Policy on communication with other stakeholders/interested parties**

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

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

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Pension Fund valuation reports <ul style="list-style-type: none"> <li>• Rates and Adjustments (R&amp;A)</li> </ul>	Electronic	Every three years	Via email	Government Departments)/ Her Majesty's Revenue and Customs

## ***Pension Fund Account and Report 2010-11***

certificates <ul style="list-style-type: none"> <li>• Revised R&amp;A certificates</li> <li>• Cessation valuations</li> </ul>				HMRC)/all Scheme employers
Details of new employers entered into the Fund	Hard copy	As new employers are entered into the Fund	Post	Government Departments /HMRC
Formal resolution of pension disputes	Hard copy or electronic	As and when a dispute requires resolution	Via email or post	Scheme member or their representatives, the Pensions Advisory Service/the Pensions Ombudsman
Completion of questionnaires	Electronic or hard copy	As and when required	Via email or post	Government Departments /HMRC/the Pensions Regulator

### **Explanation of communications**

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

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

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

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

### **Performance Measurement**

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

## ***Pension Fund Account and Report 2010-11***

### **Timeliness**

We will measure against the following target delivery timescales:

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

### **Quality**

Active and deferred members	Paper based survey with annual benefit statements	All services	
All member types	Annual paper based survey on completion of specific tasks	Service received during that task	One task to be chosen each quarter from: retirements new starts and transfers in

## ***Pension Fund Account and Report 2010-11***

			transfers out deferred leavers
All member types	Focus group meeting on half yearly basis	All services and identify improvement areas/new services	Representative group of all member types. To include union representatives.
Employers	Focus Groups	Their issues	Regular feedback sessions.

### **Results**

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

### **Review Process**

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



## **Appendix 5**

### **London Borough of Tower Hamlets Pension Fund Governance Compliance Statement**

#### **1. Background**

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

#### **2. Governance Structure**

- 2.1 The Council delegates its responsibility for administering the Fund to the Pensions Committee. The terms of this delegation are as set out in the Council Constitution and provide that the Committee is responsible for consideration of all pension matters and discharging the obligations and duties of the Council under the Superannuation Act 1972 and various statutory matters relating to investment issues.
- 2.2 The governance structure is supported by:
- The Pensions Committee
  - The Investment Panel
  - Officers of the Council; and
  - Professional Advisors

#### **Pensions Committee**

- 2.3 The terms of reference of the Pensions Committee encompass: -
- Determination of investment policy objectives
  - Appointment of investment managers
  - Monitoring investment performance and
  - Making representations to Government on any proposed changes to the LGPS.
- 2.4 The Pensions Committee meets quarterly and it comprises seven Members of the Council, one trade union member and one admitted body member. Special meetings of the Committee are arranged as necessary.
- 2.5 The Committee is subject to the Council's Financial Regulations and is advised on investment issues by an Investment Panel, which is a sub-committee of the Pensions Committee and includes professional advisors.

### **3. Investment Panel**

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

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

### **4. Officer Delegation**

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

### **5. Professional Advisors**

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

### **6. Overall Power**

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

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

## ***Pension Fund Account and Report 2010-11***

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

## ***Pension Fund Account and Report 2010-11***

	<p>structure. These include :-</p> <ul style="list-style-type: none"> <li>• employing authorities (including non-scheme employers, e.g. admitted bodies),</li> <li>• scheme members (including deferred and pensioner scheme members),</li> <li>• independent professional observers,</li> <li>• expert advisors (on an ad-hoc basis).</li> </ul>		admitted bodies have been invited to sit on the Committee. An independent professional observer has also been appointed to chair the Investment Panel.
	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Compliant	Papers for Committee and the Investment Panel are made available to all members of both bodies at the same time and are published well in advance of the meetings in line with the council's committee agenda publication framework.
<b>SELECTION &amp; ROLE OF LAY MEMBERS</b>	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	Members of the Pensions Committee/ Investment Panel have access to the terms of reference of each body and are aware of their roles and responsibilities as members of these bodies/ Panel.
<b>VOTING</b>	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	The Pensions Committee/ Investment Panel does not currently confer voting rights on non-Councillors in line with common practice

## ***Pension Fund Account and Report 2010-11***

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

## ***Pension Fund Account and Report 2010-11***

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

## ***Pension Fund Account and Report 2010-11***

### **Membership of Pensions Committee and Investment Panel 2010-11**

#### **Attendances at Pensions Committee 2010/11**

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

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

## ***Pension Fund Account and Report 2010-11***

### **Attendance at Training Sessions 2010/11**

<b>Attendees</b>	<b>11-Jun</b>	<b>17-Feb</b>
		Cancelled
Cllr Anwar Khan	Present	
Cllr Rabina Khan	Present	
Cllr Rania Khan	Present	
Cllr Craig Aston	Present	