



The London Borough of  
Tower Hamlets Pension Fund  
DRAFT Annual Report 2014/15

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## **Foreword by Chris Holme: Acting Corporate Director, Resources**

This is to introduce the London Borough of Tower Hamlets (LBTH) Pension Fund Annual Report and Accounts for 2014/15. The Pensions Committee has the responsibility for the management of all aspects of the Pension Fund including the performance of the professional fund managers appointed to administer its investment portfolio.

The new Local Government Pension Scheme (LGPS) started on 01 April 2014 and it has been a remarkable period for officers communicating the change to scheme members and considerable amount of work has been invested in ensuring that the administration systems would be able to deliver the regulatory changes.

On 1 May 2014, the Government launched a second consultation on further proposed changes to the LGPS entitled: Opportunities for Collaboration, Cost Savings and Efficiencies. The responses received were evaluated. The consultation paper proposed a solution, based on cutting fees, moving all actively managed assets to passive funds, and the establishment of collective investment vehicles (CIVs).

A joint London Borough Pension Working Group led by London Councils launched a Collective investment vehicle to enable London Boroughs to participate in a scheme of joint pension fund investing. It will be an Authorised Contractual Scheme (ACS). This scheme will require FCA (Financial Conduct Authority) approval – this approval is being sought.

LBTH agreed to participate in the CIV at Full Council in 2014 following recommendation by Pensions Committee and Cabinet.

All asset classes delivered a positive performance over the year resulting in an overall increase in the assets under management, notwithstanding there was volatility during the year, particularly with geopolitical concerns in the Ukraine and in the Middle East. The sharp falls in the oil price over the year, helped to boost markets and lower inflation, with even Europe starting to show some tentative signs of recovery by the year end. However, there remain concerns over the timing of any interest rate rises and the effect that this will have on bond markets and any wider implications for equity markets. For some time now, commentators have suggested that government bond markets look overstretched with bond yields remaining at low levels.

A funding update report was prepared and provided by the Fund Actuary to illustrate the estimated development of the funding position from 31 March 2013 to 31 March 2015, for the Fund. It is addressed to London Borough of Tower Hamlets in its capacity as the Administering Authority of the London Borough of Tower Hamlets Pension Fund.

This report illustrate as at 31 March 2015 the funding level has increased to 73.8% with corresponding deficit of £396m, from the funding level at the latest formal valuation of 71.8% with corresponding estimated deficit £365m. This was largely as a result of asset performance being better than expected. This has been offset by a decrease in the discount rate as the liability of the Fund grew from £1,293m as at 31 March 2013 triennial valuation to £1,514m as at 31 March 2015. Although equities have rebounded; bond yields are at record lows potentially raising the valuation of the Fund's liabilities. However, it is worth noting that the Council is a long term investor and has a relatively secure long term income stream. Therefore, the Fund should be able to alter strategy that enables it to ride out periods of market underperformance and should not have to crystallise losses during market downturns.

The Fund has seen continued growth in assets over the year benefiting from continued buoyant and booming of the financial markets, especially equities. The overall value of the portfolio of assets grew by 11.8% in 2014/15 outperforming benchmark by 0.4%. This

performance is reflective of average return on pension fund assets nationally and also average gains in financial markets. Markets continue to be volatile therefore the short to medium term outlook for the performance of the Fund remains uncertain.

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

The Fund net cash flow position remains positive with contributions and transfers in outstripping benefits paid and transfers out by £5.2m plus a further net inflow from investment income of £16.6m. The Pensions Committee monitor this aspect of the Fund closely as they recognised the need for the Fund to be able to pay its liabilities as they fall due and the ongoing austerity programme affecting public services.

In accordance with the new regulatory requirement to have additional governance arrangement in place by creating a Pension Board to assist the Administering Authority, the London Borough of Tower Hamlets, in ensuring compliance with regulations. This board has been established and appointments are currently underway with its first meeting due to take place towards the end of July 2015.

**Chris Holme**

## **Governance of the Pension Scheme**

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

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

### **MANAGEMENT AND ADVISERS TO THE PENSION FUND as at 31<sup>st</sup> March 2015**

The pensions Committee during 2014/15 was made up of eight Councillor Members, an Employer Representative and a Scheme Member representative.

#### **Pensions Committee:**

Councillors:

Councillor Rajib Ahmed (Chair)  
Councillor Abdul Asad  
Councillor Andrew Cregan  
Councillor Shafiqul Haque  
Councillor Claire Harrisson  
Councillor Ayas Miah  
Councillor Harun Miah  
Councillor Mohammed Mufti Miah

Trade Union Representative (non-voting): Frank West (GMB)

Admitted Bodies Representative (non-voting): John Gray (Circle Anglia Ltd)

#### **Contact details for the Pensions Committee:-**

Pensions Committee  
London Borough of Tower Hamlets  
Town Hall, Mulberry Place  
5 Clove Crescent  
London, E14 2BG

## Staff, Advisers & Investment Managers

The management and administration of the pension Fund is delegated to the Corporate Director of Resources, having responsibility for the day to day management of the Fund.

### London Borough of Tower Hamlets Responsible Officers:

**Chris Holme** – Acting Corporate Director of Resources

**Kevin Miles** – Chief Accountant

**Bola Tobun** – Investment & Treasury Manager

**Simon Kilbey** - Service Head HR and Workforce Development

**Anant Dodia** – Pensions Manager

### Advisers:

**Consulting Actuary - Hymans Robertson LLP**

Barry McKay - Actuarial Consultant/Adviser

**Investment Consultant - Hymans Robertson LLP**

Matt Woodman – Senior Investment Consultant

**Independent Investment Adviser**

Raymond Haines

**Custodial Services** - State Street Bank

**Performance Measurement Services** - WM Company

**Legal Advisers** - Legal Services

London Borough of Tower Hamlets, Town hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

**Auditor** - KPMG LLP (UK)

### Investment Managers:

**Baillie Gifford & Co**

Calton Square, 1 Greenside Row, Edinburgh EH1 3AN

**GMO UK Limited**

1 London Bridge, London, SE1 9BG

**Investec Asset Management**

25 Basinghall Street, London, EC2V 5HA

**Legal & General Investment Management Limited**

One Coleman Street, London, EC2R 5AA

**Ruffer LLP**

80 Victoria Street, London SW1E 5JL

**Schroder Investment Management Limited**

31 Gresham Street, London EC2V 7QA.

## Governance and Oversight Review

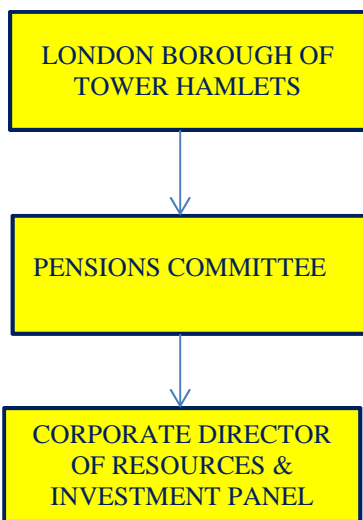
The Pension Fund Regulations require a new additional governance arrangement (Pensions Board) to be in place from 1 April 2015.

Although London Borough of Tower Hamlets is the Administering Authority of the pension Fund, but the delegated responsibility for the management of the pension fund is with the Pensions Committee and the new regulatory requirement is for a Pensions Board to assist the Authority in monitoring compliance with regulations by overseeing the Pensions Committee work in how the Fund is administered.

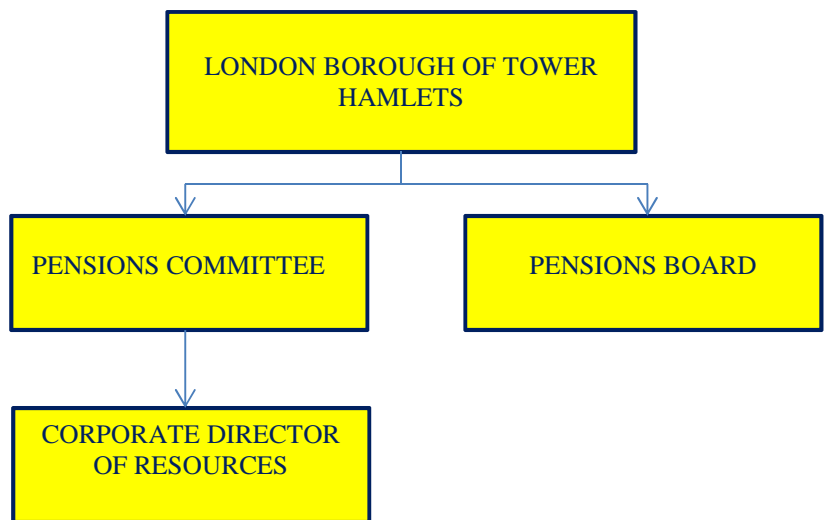
Full Council approved the establishment of the Pensions Board at its meeting in September 2015 with delegation authority for the composition of it and terms of reference to the Pensions Committee. Pensions Committee agreed the composition of the board comprising three Employer Representatives, three Employee Representatives and an Independent Chairman. The first meeting of the Pensions Board will take place in July 2015.

Please see below chart illustrating the old governance arrangement for the reporting year and new governance arrangement for 2015/15.

### For Financial Year 2014/15



### From Financial Year 2015/16



At the onset of Committee meetings, Committee members are required to make declarations of interest both in relation to membership of the Local Government Pension Scheme and relationship to any employer bodies within the Pension Fund. Further declarations are required as and when agenda items arise where a member may have a conflict of interest. The Governance Officer maintains a record of the Conflicts of Interest which covers Pensions Committee and Pensions Board Members as well as officers closely connected with the Fund.

A legal officer is present at the Committee meetings to provide guidance on legal matters and is also required to comment on other items where there could be conflicts of interest.

## Pensions Committee Attendance 2014/15

Attendee	Voting Rights	13-Jul	17-Sep	19-Nov	24-Feb
<b>Member</b>					
Cllr Rajib Ahmed	√		Present	Present	Present
Cllr Abdul Asad	√				Present
Cllr Andrew Cregan	√	Present	Present	Present	
Cllr Shafiqul Haque	√				
Cllr Ayas Miah	√	Present	Present	Present	Present
Cllr Clare Harrisson	√	Present	Present	Present	Present
Cllr Harun Miah	√		Present		
Cllr John Pierce	√	Present			
Cllr Mohammed Mufti Miah	√			Present	Present
John Gray (Non-voting)	x	Present	Present	Present	Present
Frank West (Non-voting)	x	Present	Present	Present	
<b>Officers</b>					
Bola Tobun	x	Present	Present	Present	Present
Kevin Miles	x	Present	Present	Present	Present
Anant Dodia	x	Present	Present	Present	Present
Chris Holme	x	Present	Present	Present	Present
Graham White	x	Present	Present		
Ngozi Adedeji	x		Present	Present	Present
Nishaat Ismail	x	Present	Present	Present	Present
Antonella Burgio	x	Present	Present	Present	
David Knight	x				Present
<b>Public</b>					
Raymond Haines	x		Present		
Matt Woodman (Hymans)	x	Present			

**Training** was provided to the Committee with a time slot at the Committee meetings. The topics covered in the training programme for the Committee in 2014/15 were provided in line with the Knowledge and Skills Framework to help ensure that the Committee are able to achieve high levels of the specialist knowledge required of them. The attendance at the training session is the same as set out in the table above for Pensions Committee attendance

### Topics covered during the financial year were:

- General pensions framework
- Scheme-specific legislation for LGPS
- Constitutional framework for pension fund committees within administering authorities  
Pension scheme governance
- Valuations, funding strategy and inter-valuation monitoring
- Investment strategy – Asset Allocation, Fixed income
- Monitoring of investment performance



# Knowledge and Skills Policy Statement

## CIPFA Code of Practice on Public Sector Pensions – Finance Knowledge and Skills

The adoption of the CIPFA “Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector” (2010) provides the basis for a training and development programme for the Pensions Committee based on the latest national guidance.

London Borough of Tower Hamlets Pension Fund adopts the key recommendations of the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

London Borough of Tower Hamlets recognises that effective financial administration, scheme governance and decision-making can only be achieved where those involved have the requisite knowledge and skills.

London Borough of Tower Hamlets will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration, scheme governance and decision-making.

These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

London Borough of Tower Hamlets will report on an annual basis how these policies have been put into practice throughout the financial year.

London Borough of Tower Hamlets has delegated responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Corporate Director of Resources, who will act in accordance with the organisation’s policy statement, and where they are a CIPFA member with CIPFA Standards of Professional Practice.

London Borough of Tower Hamlets recognises the importance of ensuring that it has the necessary resources to discharge its pension administration responsibilities and that all staff and members charged with the financial administration, governance and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

London Borough of Tower Hamlets therefore seeks to utilise individuals who are both capable and experienced and it will provide and/or arrange training for staff and members of the pensions decision making and governance bodies, to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

# **PENSIONS KNOWLEDGE AND SKILLS FRAMEWORK FOR PENSIONS COMMITTEE MEMBERS**

## **Core technical areas and areas of knowledge**

### **Legislative and governance framework**

- General pensions framework
- Scheme-specific legislation for LGPS
- Pensions regulators and advisors
- Constitutional framework for pension fund committees within administering authorities
- Pension scheme governance

### **Accounting and auditing standards**

- Accounts and Audit regulations
- Role of internal and external audit

### **Procurement of financial services and relationship management**

- Procurement requirements of UK and EU legislation
- Supplier risk management

### **Investment performance and risk management**

- Monitoring of investment performance
- Performance of advisors
- Performance of the Pensions Committee
- Performance of support services

### **Financial markets and investment products**

- Investment strategy
- Financial markets
- Regulatory requirements regarding investment products

### **Actuarial methods, standards and practices**

- Valuations, funding strategy and inter-valuation monitoring
- Ill-health and early retirement
- Admitted bodies
- Outsourcing and bulk transfers

## Risk Management

Risk management forms a key part of Pension Fund Governance and is part of the ongoing decision making process for the Committee. The benefits of successful risk management are clear for the Fund; improved financial performance, better delivery of services, and improved Fund governance and compliance.

There are four general approaches to treating risk: avoid, reduce, transfer or accept.

- Avoidance of risk – not undertaking the activity that is likely to trigger the risk
- Reducing the risk – controlling the likelihood of the risk occurring, or controlling the impact of the consequences if the risk does occur.
- Transferring the risk – handing the risk on elsewhere, either totally or in part – e.g. through insurance.
- Accepting the risk – acknowledging that the ability to take effective action against some risks may be limited or that the cost of taking action may be disproportionate to the potential benefits gained.

The types of risk that the Fund is exposed to fall into the following broad categories:

- Financial – These relate to investment related risks including market, currency, credit and interest rate risks – these are outlined in detail in the Statement of Accounts.
- Strategic – Failure to meet strategic objectives such as performance targets, Funding Strategy Statement objectives, etc.
- Regulatory – Regulatory changes impacting on the Fund, or failure to comply with legislation or meet statutory deadlines.
- Reputational – Poor service damaging the reputation of the Fund.
- Operational – Data maintenance, service delivery targets.
- Contractual – 3rd party providers, failure to deliver, effective management of contracts.
- Communication – Failure to keep all stakeholders notified of things that affect them, be they employers, scheme members or contractors.

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

The Fund's investment managers and custodian are audited separately and at different times. The Council receives audited assurance reports AAF01/06, SSAE16 and ISAE3402 from their independent auditors. Any exceptions highlighted by their auditors are evaluated by officers.

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

## Investment and Performance Review

Major investment markets delivered positive returns over the period as a whole. This outcome could be attributed to several factors including increased investor confidence, the improved economic backdrop, and the continuation of loose monetary policy in many developed countries.

Although there were several geopolitical flashpoints around the world, notably in the Middle East and Ukraine, and these situations created uncertainty in terms of global security, they had a limited impact on investment markets. However, the sharp fall in the oil price in the second half of 2014 and extreme weakness in the Russian currency during December 2014 were of greater concern to investors and caused a rise in volatility in financial markets. However, the falling oil price was beneficial for some countries, businesses such as airlines and cruise companies, and consumers more generally.

The main contributors to the positive performance of **Baillie Gifford Diversified Growth Fund** included economic risk assets such as listed equities, emerging market bonds and property. Allocations to asset classes such as absolute return, structured finance and infrastructure were also helpful. No single asset class detracted from returns over the 12-month period under review. The Fund maintained a broadly diversified portfolio with a substantial allocation to more defensive assets such as investment grade bonds, structured finance and cash.

Looking back at the last twelve months for **Ruffer portfolio**, not only have their equities made useful gains, increasingly led by Japan. The main contributors to the performance in the year were their long-dated inflation-linked bonds. With little inflation expectation built into them, they benefitted from the continued fall in global bonds yields, both real and nominal. Continued low inflation readings, collapsing commodity prices, further Japanese QE and hopes of full-blown Eurozone QE all drove global yields lower, thus raising bond prices. The quest for duration drove the 2068 UK index-linked bond up over 50% during the twelve month period.

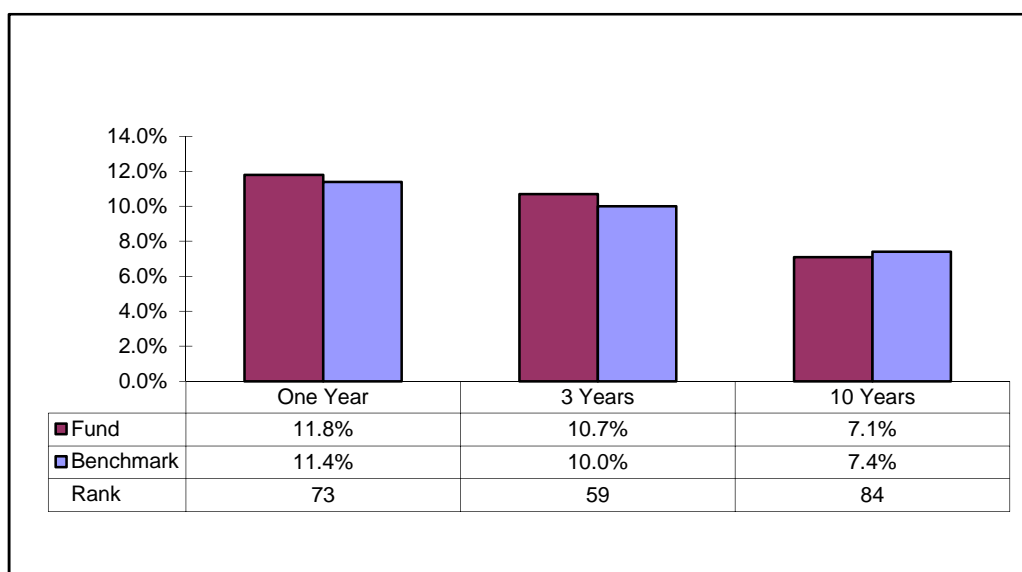
The **Investec** Bond portfolio underperformed the target set over the 12 months period returning 1.9% versus the 2% plus Overnight GBP LIBOR Rate of 2.6%. The investments in currencies made the largest contribution to the returns over the period. These gains were largely down to the manager longer-term positions, which are designed to benefit from macroeconomic trends, such as the position in the US dollar. With the exception of early 2015, the US economy has been growing robustly – and this has translated into dollar strength. Elsewhere, the portfolio's holdings in emerging market bonds made a small positive contribution to returns over the period. These 12 months were a challenging time for emerging market economies, and their bond markets in particular – returns were patchy and prices had a tendency to fluctuate quite wildly. But falling inflation in the second half of 2014 – which boosted bonds – allowed for short periods of positive performance. More negatively, the portfolio's credit positioning detracted from relative returns given the manager's defensive positioning at a time when credit markets ended the period higher.

## 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 2014/15 the fund had a good performance achieving a return on its investment portfolio of 11.8%, outperforming the benchmark of 11.4%. The three year return also outperformed the benchmark with the fund returning 10.7% against a benchmark of 10.0%. The return for 10 year continued to lag the benchmark by 0.3%.

## Fund Performance (One, Three and 10 Years)



### Fund Management Activity

The continued recovery in the equity markets and strong returns from the fund's global equity managers and absolute return funds was a major contributor to the outperformance.

During the year the decision was taken to rebalance the fund to ensure the strategic allocation was in line with target and to reduce the overweight position in equities. This resulted in 2% of the fund's assets from GMO being divested and the proceeds held as cash and being managed internally.

The fund continues to participate in the Collective Investment Vehicle (CIV) and during the year made a further contribution of £50k to the set up and initial running costs of the scheme.

The fund received a positive cash flow from dealings with members of £5.2m and the 2015/16 cash flow forecast predicts that it will continue to be positive.

### Asset Allocation

The asset allocation within the portfolio is in line with or within the agreed tolerance of the benchmark asset allocation as at 31 March 2015 as set out below. The Committee has agreed to take corrective action and rebalance asset allocation where bond to equity allocation moves by +/-5%.

#### Analysis of Asset Allocation

Asset Class	Benchmark	Fund Position	Variance
UK Equities	24.0%	23.5%	-0.5%
Global Equities	37.0%	39.1%	2.1%
UK Index Linked	3.0%	5.2%	2.2%
Pooled Bonds	14.0%	8.7%	-5.3%
Property	12.0%	10.5%	-1.5%
Alternatives	10.0%	8.9%	-1.1%
Cash	0.0%	4.2%	4.2%

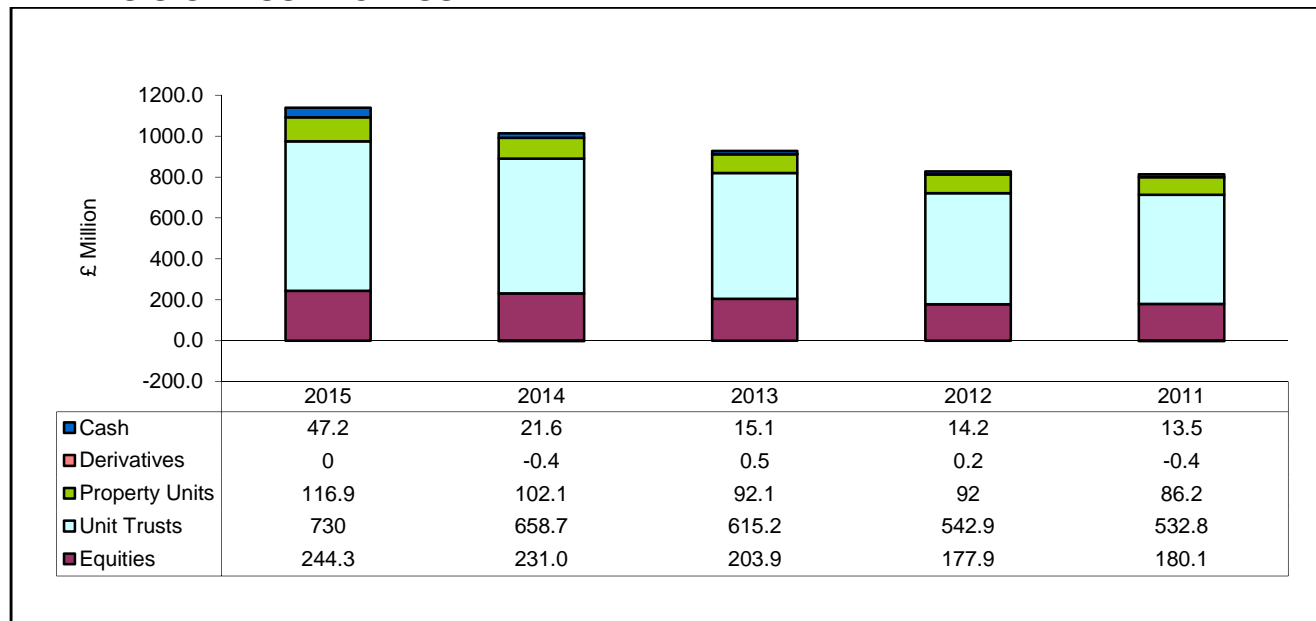
The fund remains close to its strategic allocation although the bond mandate is slightly underweight it is offset to an extent by the overweight position of index-linked gilts.

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

## Financial Accounts

During the financial year 2014/15 the value of the Fund rose by £125.3m to £1,138.2m, an increase of 12.4%. This is principally attributable to the performance of the financial markets in which the Fund held its investments.

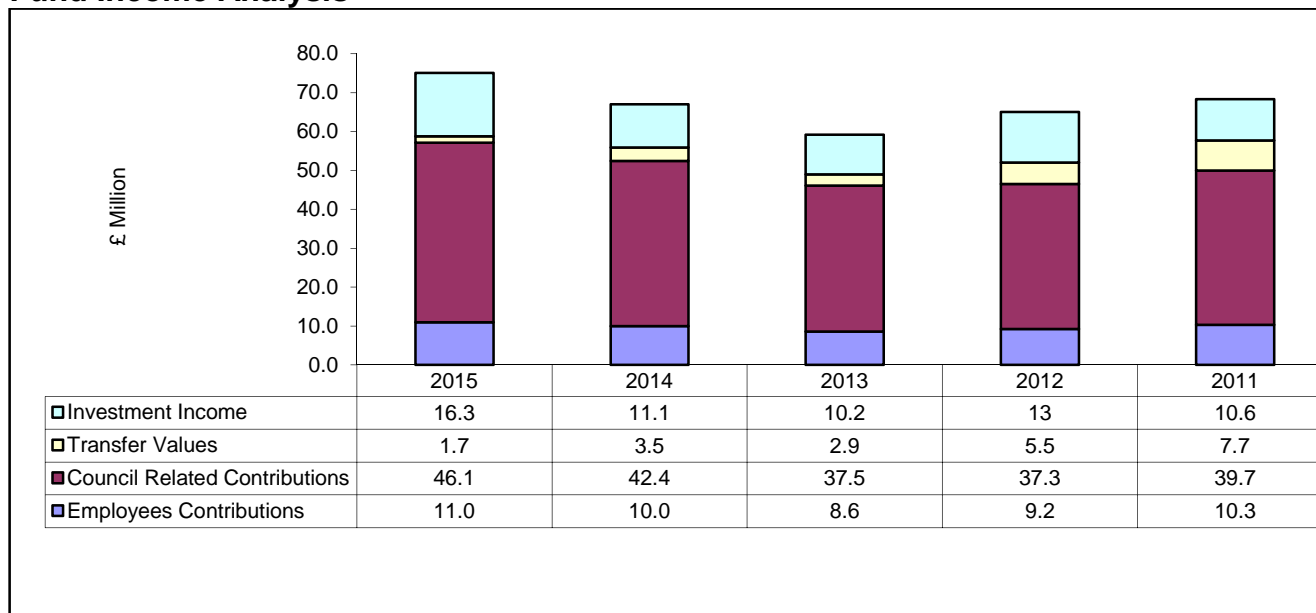
### ANALYSIS OF ASSET CLASS



## Fund Income

There was a significant increase in the amount of income received by the Fund in 2014/15 compared to 2013/14.

### Fund Income Analysis



Investment income increased over the year by £5.2m (46.8%) mainly due to an increase in dividend income. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) decreased by £1.8m (51.4%). It is not possible to predict the value of transfer value payments as they are dependent on an individual's length of service and salary and as such may vary significantly. Employee contributions rose by £1.0m (10.0%), the increase being attributable to the new CARE scheme which sees contributions deducted from all additional pay and also to the increase in the banding rate which sees higher rates of pay subject to a contribution rate of up to 12.5%. Employer contributions went up by £3.7m (8.7%) due to an increase in the employer's deficit funding payment of £2m.

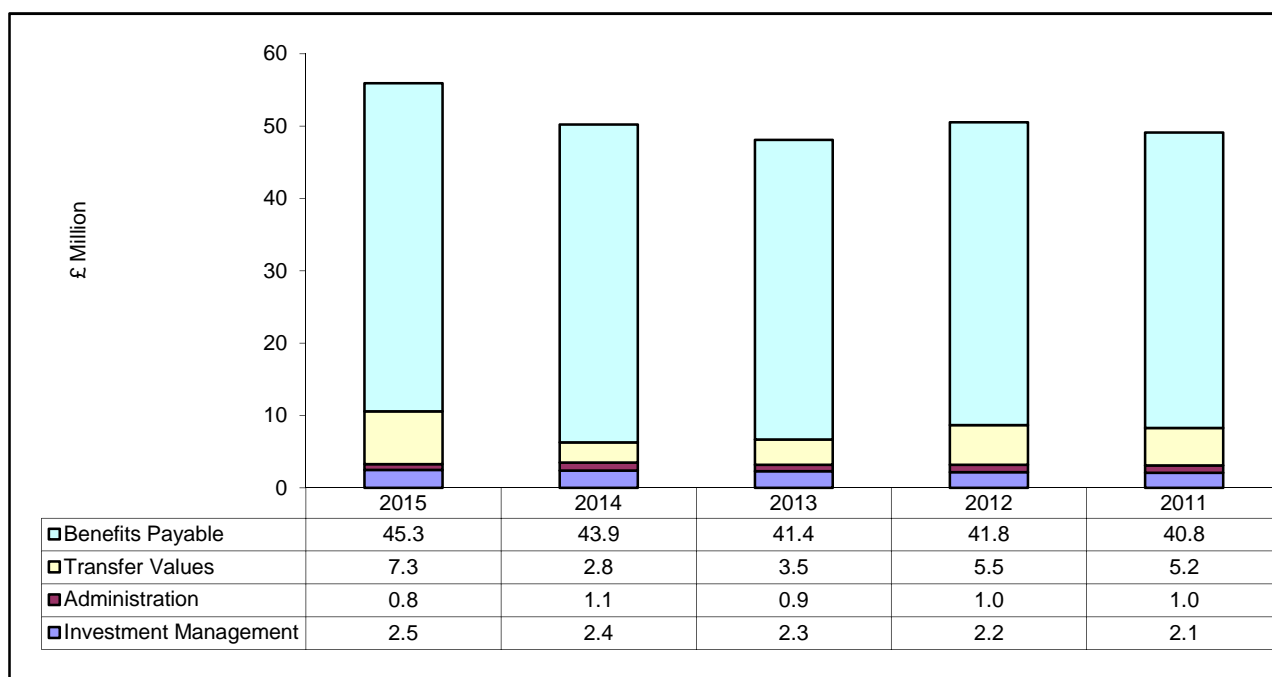
### Fund Income Variance Analysis

Type of Income	2015 £m	2014 £m	Variance %
Employees Contributions	11	10	10.0%
Council Related Contributions	46.1	42.4	8.7%
Transfer Values	1.7	3.5	-51.4%
Investment Income	16.3	11.1	46.8%
<b>Total Fund Income</b>	<b>75.1</b>	<b>67</b>	<b>12.1%</b>

### Fund Expenditure

In 2014/15 the overall Fund expenditure increased by £5.7m (11.4%). The major contributor to the increase was the rise in transfers out of £4.5m (160.7%). There was a modest increase in investment management costs of £0.1m (4.2%) while administration costs fell by £0.3m (27.3%). Benefits payable rose by £1.4m (3.2%).

### Fund Expenditure Analysis



The increase in transfers out is principally due to the higher value of transfer payments being made, although the number of staff leaving had increased but not significantly. The substantial reduction in administration costs of £300k (27.3%) shows a return to normal following the additional costs charged in the previous year to accommodate the purchase of the new Altair pension administration system and also the charge for triennial valuation fees. The investment management fees which are performance based have risen in line with the increase in the market value of the funds held.

### Fund Expenditure Variance Analysis

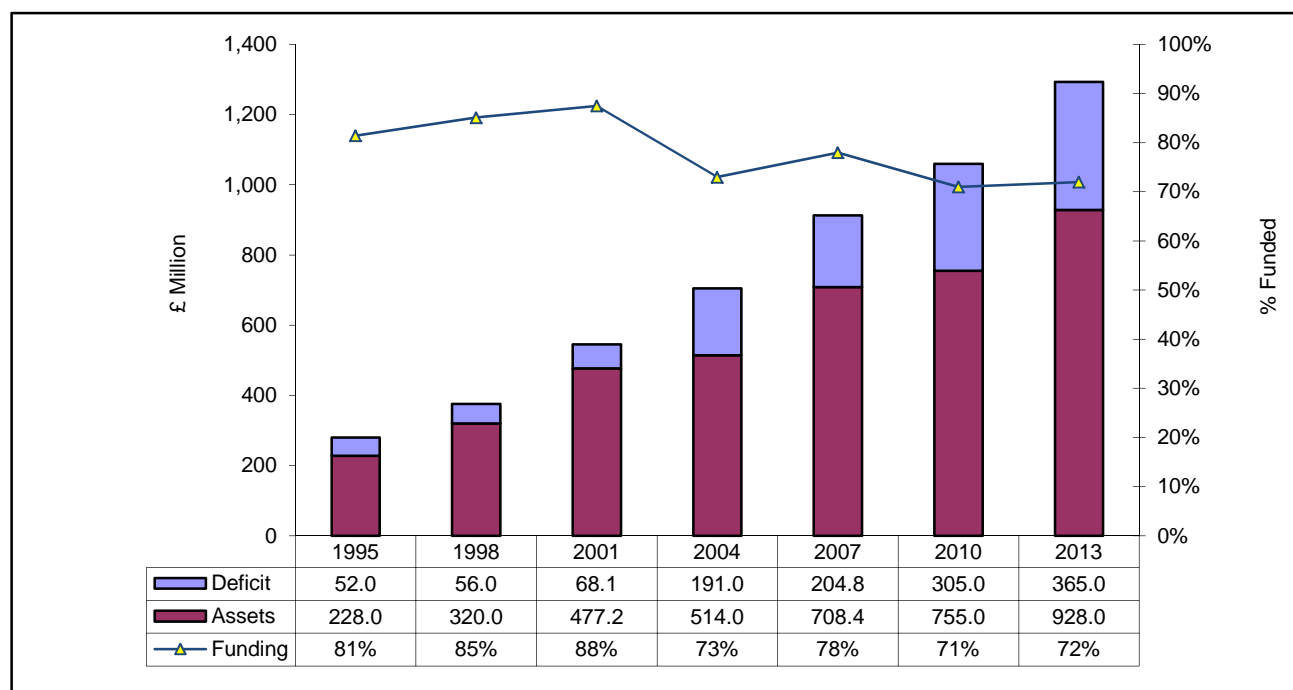
Type of Expenditure	2015 £m	2014 £m	Variance £m	Variance %
Investment Management	2.5	2.4	0.1	4.2%
Administration	0.8	1.1	-0.3	-27.3%
Transfer Values	7.3	2.8	4.5	160.7%
Benefits Payable	45.3	43.9	1.4	3.2%
<b>Total Fund Expenditure</b>	<b>55.9</b>	<b>50.2</b>	<b>5.7</b>	<b>11.4%</b>

### Funding Level

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

The fund was valued by the consultant actuary Hymans Robertson LLP as at the 31<sup>st</sup> March 2013. The Actuary calculated that the Pension Fund is 71.8% funded and has a deficit of £365m.

### Movement in Funding Level



The funding position increased by 0.8% between the previous revaluation in 2010 and the 2013 valuation. This is principally attributable to an increase in the market value of assets with a reduction in ill-health retirements and slower rate of increase in salaries having a positive effect too. The deficit increase of £60m was brought about by an increase in the value of the Fund's liabilities owing to the decrease in the real gilt yield.



On the recommendation of the Actuary, the Council adopted a strategy to recover the deficit over a 20-year period. This will involve the Council paying a lump sum of £18.5m in 2014/15 rising to £20.5m and £22m in 2015/16 and 2016/17 respectively, into the pension fund specifically to recover the deficit.

Although the increase in deficit has necessitated an increase in the overall monetary amounts payable by the Council, the contribution rate element of this has been held at 15.8% of employee pay.

It should be emphasised that the deficit does not affect employees' pension entitlement. The Council is under a statutory obligation to provide sufficient funds to pay pensions and has adopted a strategy recommended by the Actuary to achieve full funding in twenty years. Councils can take a long-term perspective because of their financial stability and statutory backing. It should be recognised that the position is not unique to the Tower Hamlets Fund. All Pension Funds in both the public and private sectors have been subject to declining investment returns and increasing life expectancy, which has resulted in rising deficits in many cases. The 2013 valuation exercise has shown the fund to be gradually maturing as the proportion of employee members has fallen whilst the deferred and pensioner numbers have risen.

## The Scheme Details

The London Borough of Tower Hamlets Pension Fund is part of the Local Government Pension Scheme (LGPS) and is governed by Statute. The main regulations governing the operation of the scheme during the year were the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 2013. The Local Government Pension Scheme Regulations 2013 introduced the new 2014 LGPS which amongst other things changed the benefits structure from a final salary to career average revalued earning (CARE) scheme. In addition the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 covers the investment aspects of the funds.

The London Borough of Tower Hamlets is the Administering Authority for the Pension Fund and pensions and entitlement to benefits are fully protected in law. Membership of the Scheme is open to all employees of the Council including school employees with the exception of teachers (who have their own pension scheme). Other employers are admitted to the Pension Fund and depending on their status; their employees may also be able to participate in the LGPS. Employee contributions are determined by central government and are between 5.5% and 12.5% of pensionable pay. Employer rates are set by the Fund actuary every 3 years following a valuation of the assets and liabilities of the Fund, with the next valuation due to take place as at 31 March 2016.

The conditions of the Local Government Pension Scheme (LGPS) Regulations made it clear that the benefits that are payable to Scheme members and as such the benefits are guaranteed for those members and therefore members are not reliant on investment performance for their pension benefits. The contributions payable by Scheme members are also defined in the Regulations. Employing Authorities are required to pay contributions into the Scheme in order to meet the cost of funding employee benefits and as such, are required to meet any shortfall in funding the pension liabilities of Scheme members.

The Pension Scheme as applying during the financial year 2014/15 was a defined benefit career average revalued earnings scheme which aligns LGPS retirement age with an individual's state pension age. The key benefits of the scheme are outlined below:

- Pension benefits based on a 1/49th accrual basis for each year of pensionable service with benefits calculated on the career average pay revalued annually in line with inflation.
- Pre-2014 benefits guaranteed with a final salary link for any benefits earned prior to 1 April 2014.
- Option to pay 50% of the contribution rate to accrue 50% of the benefits.
- Option to convert some pension to lump sum on retirement on a 1:12 ratio.
- Life assurance cover 3x member final pay applicable from the day of joining scheme.
- Pensions for dependents: - spouses, civil partners and eligible co-habiting partners and eligible children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the cost of living.

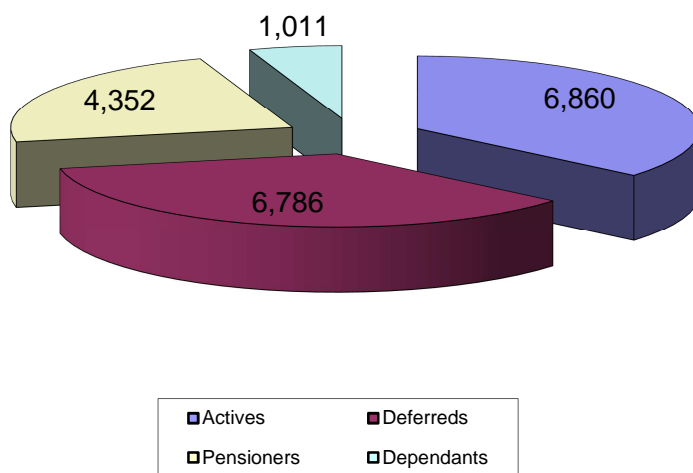
It should be noted that the foregoing is not an exhaustive list and that certain conditions have to be met for an individual to be entitled to the benefits outlined.

The foregoing benefit structure came into effect on 1 April 2014 and saw the start of significant changes to the public sector pension schemes, with most other schemes introducing their changes a year later on 1 April 2015. The previous LGPS introduced in 2008 was a defined benefit final salary scheme and was in operation until 31 March 2014, although it should be recognised that a large number of scheme members will have benefits accrued under both schemes and indeed some under the pre-2008 scheme. The key benefits under the 2008 scheme are outlined below:

- A guaranteed pension based on final pay and length of time in the scheme and an accrual rate of 1/60th per annum.
- Tax free lump sum on benefit accumulated prior to 1 April 2008 and option to convert some of the pension into tax free lump sum on post 1 April 2008 service.
- Life assurance cover 3x member final pay applicable from the day of joining scheme.
- Pensions for spouses/civil and co-habiting partners and children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the CPI.

### Scheme Membership

The Fund currently has a membership of 19,009 comprising the following categories as set out in the below chart. Membership to the scheme is automatic for full and part-time employee unless they opt out.



The total pension fund membership has increased by 1.8% between 2013/14 and 2014/15. The number of actives members (those currently contributing to the fund) has increased by 68 (1.0%). The deferred membership category (members who have contributed in the past but who have not yet become entitled to their benefits) has increased by 122 (1.8%) and pensioner members by 106 (2.5%). The dependants category saw an increase of 36 (3.5%).

The table below sets out the movement in membership number between the different categories in 2013/14 and 2014/15.

### Movement in Fund Membership

Membership Type	31-Mar-15	31-Mar-14	Variance No.	Variance
Actives	6,860	6,792	68	1.0%
Deferreds	6,786	6,664	122	1.8%
Pensioners	4,352	4,246	106	2.5%
Dependants	1011	975	36	3.7%
<b>Total</b>	<b>19,009</b>	<b>18,677</b>	<b>332</b>	<b>1.8%</b>

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

Membership Type	31-Mar-15	31-Mar-14	30-Mar-13	30-Mar-12	31-Mar-11
Actives	6,860	6,792	5,298	5,252	5,686
Deferreds	6,786	6,664	6,292	6,060	5,601
Pensioners	4,352	4,246	4,148	4,064	3,914
Dependants	1011	975	979	940	931
<b>Total</b>	<b>19,009</b>	<b>18,677</b>	<b>16,717</b>	<b>16,316</b>	<b>16,132</b>

### Fund Employers

London Borough of Tower Hamlets is the administering authority for the fund. The scheme is open to all council employees and scheduled bodies. Admitted bodies require the agreement of the administering authority to participate in the fund. The scheduled and admitted bodies participating in the fund are set out below.

#### Scheduled Bodies

- Bethnal Green Academy
- Canary Wharf College
- Culloden Primary School
- London Enterprise Academy
- Old Ford Primary School
- Sir William Burrough School
- Solebay Academy
- St Pauls Way Community School
- Tower Hamlets Homes Ltd

#### Admitted Bodies

- Agilisys
- Capita
- Circle Anglia Ltd
- East End Homes
- Ecovert FM Ltd
- Gateway Housing Association
- Greenwich Leisure Ltd
- Look Ahead Housing and Care\*
- One Housing Group
- Redbridge Community Housing Ltd

- Swan Housing Association
- Tower Hamlets Community Housing

\*Look Ahead Housing and Care ceased to be an admitted body of the fund in September 2014

### Contributions to the Fund

Employees pay contributions based on the level of pay they receive with rates being set between 5.5% to 12.5% of pensionable pay. The employers contribution rate used during the financial year ranged from 15.9% to 41.4% of pensionable pay.

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

Contributing Employers	Active Members	Contributions from Members £	Contributions from Employers £
London Borough of Tower Hamlets	6,155	9,730,977	22,356,297
Agilisys	41	111,437	265,384
Bethnal Green Academy	20	45,343	132,334
Canary Wharf College	6	7,599	19,823
Capita	7	9,418	28,056
Circle Anglia Ltd	3	4,600	83,794
Culloden Academy	18	17,765	92,728
East End Homes	35	106,536	445,698
Ecovert FM Ltd	13	3,690	14,053
Gateway Housing Association	1	1,769	32,967
Greenwich Leisure Limited	7	18,496	46,629
London Enterprise Academy	1	2,110	4,924
Old Ford Academy	34	20,109	111,626
One Housing Group	9	14,832	93,802
Redbridge Community Housing Ltd	2	3,718	10,125
Sir William Burrough School	5	12,291	44,908
Solebay Academy	1	861	4,797
St.Pauls Way Community School	17	61,490	156,584
Swan Housing Association	1	1,922	17,749
Tower Hamlets Community Housing	16	56,207	241,218
Tower Hamlets Homes Limited	342	799,836	2,651,086
<b>Total</b>	<b>6,734</b>	<b>11,031,007</b>	<b>26,854,581</b>

\* The Council contributed an additional £18.5m in respect of deficit funding

The full accounts are as set out in Appendix 1.

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

Appendix 2 Statement of Investment Principles

Appendix 3 Funding Strategy Statement

Appendix 4 Communications Strategy Statement

Appendix 5 Governance Compliance Statement

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

## Statement from the Actuary

An actuarial valuation of the London Borough of Tower Hamlets Pension Fund was carried out by Hymans Robertson LLP as at 31 March 2013 to determine the contribution rates that should be paid into the Fund by the employing authorities as from 1 April 2014 to 31 March 2017 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 71.8% of the Funding Target and the estimated deficit on the Fund at the valuation date was £365m. 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 £18.5m (2014/15) rising to £20.5m (2015/16) and £22m (2016/17).

The Common Rate of Contribution payable by each employing authority under Regulation 77 for the period 1 April 2014 to 31 March 2017 is 35.5% of pensionable pay.

Individual Adjustments are required under Regulation 77 for the period 1 April 2014 to 31 March 2017 resulting in a Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

Employer Name as per 31 March 2013	Year ending 31 March 2015	Minimum Contribution for the year ending				
		Additional Monetary Deficit Payment £	Year ending 31 March 2016	Additional Monetary Deficit Payment £	Year ending 31 March 2017	Additional Monetary Deficit Payment £
London Borough of Tower Hamlets	15.8%	18.5m	15.8%	20.5m	15.8%	22m
Tower Hamlets Community Housing Limited	34.7%		36.1%		37.6%	
Redbridge Community Housing Limited	17.7%		17.7%		17.7%	
East End Homes Limited	31.1%		32.3%		33.6%	
Greenwich Leisure Limited	17.7%		17.7%		17.7%	
Swan Housing Association Limited	26.2%	10k	26.2%	10k	26.2%	11k
Gateway Housing Association (Bethnal Green & Victoria Park)	25.6%	26k	25.6%	27k	25.6%	28k
One Housing Group (Toynbee Island Homes)	41.4%		41.4%		41.4%	
Circle Anglia Limited	27.7%		27.7%		27.7%	
Tower Hamlets Homes	23.1%		23.1%		23.1%	
Look Ahead Housing & Care Limited	19.9%		19.9%		19.9%	
Ecovert FM Limited	22.5%		22.5%		22.5%	
Bethnal Green Academy	20.6%	141k	20.6%	146k	20.6%	152k
Sir William Burrough School	25.3%		23.6%		21.8%	
St Pauls Way Community School	16.7%		17.8%		18.9%	
Capita	19.6%		19.6%		19.6%	
Canary Wharf College	15.9%		15.9%		15.9%	
Agilisys	16.8%		16.8%		16.8%	

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 results of the triennial valuation depend on the actuarial assumptions made about the future of the Fund. The effect on the valuation of the Fund of changes to the main assumptions are set out in the table below.

### Sensitivity of valuation results to changes in assumptions

Assumption	Change	Impact	
		Deficit (£m)	Future service rate (% of pay)
Discount rate	Increases by 0.5%	Falls by £112m	Falls by 3%
Salary increases	Increases by 0.5%	Rises by £31m	Rises by 2%
Price inflation/pension increases	Increases by 0.5%	Rises by £92m	Rises by 2%
Life expectancy	Increases by 1 year	Rises by £39m	Rises by 1%

This is not an exhaustive list of assumptions but those that are likely to have the biggest impact. The effect of changes are shown in isolation and it is possible that the Fund could experience changes to more than one assumption simultaneously.

The next triennial valuation of the Fund is due as at 31 March 2016. The contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

## Statement of Responsibilities

The London Borough of Tower Hamlets as Administering Authority of the London Borough of Tower Hamlets Pension Fund is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this council, that officer is the Acting Corporate Director of Resources;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts

## Responsibilities of the Acting Corporate Director of Resources

The Acting Corporate Director of Resources is responsible for the preparation of the Pension Fund Statement of Accounts in accordance with proper practices as set out in CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice").

In preparing this Statement of Accounts, the Acting Corporate Director of Resources has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent; and
- Complied with the Code of Practice, except where otherwise stated.

The Acting Corporate Director of Resources has;

- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

## Responsible Financial Officer's Certificate:

I certify that the Accounts set out on pages 19 to 33 have been prepared in accordance with proper practices and that they give a true and fair view of the financial transactions of the Pension Fund during the year ended 31<sup>st</sup> March 2015 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2015.

**Chris Holme**  
**Acting Corporate Director of Resources**



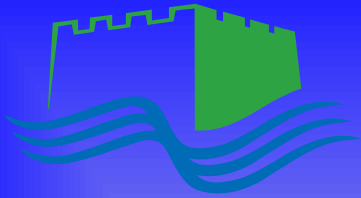
**Independent auditor's report to the members of the London Borough of Tower Hamlets on the pension fund financial statements published with the Pension Fund Annual Report**

**for and on behalf of KPMG LLP, Appointed Auditor**

*Chartered Accountants*

15 Canada Square, London, E14 5GL

28 November 2014



**TOWER HAMLETS**

# The London Borough of Tower Hamlets Pension Fund

## Appendix 1

Draft Statement of Accounts 2014/15

## PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2013/14 £'000	2014/15 £'000
<b>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME</b>			
<b>Contributions</b>			
From employers	3	42,401	46,135
From members	3	9,982	11,031
<b>Transfers in</b>			
Transfers in from other pension funds	4	3,527	1,719
<b>Benefits</b>			
Pensions	4	(35,681)	(37,265)
Lump sum benefits	4	(8,178)	(8,055)
<b>Payments to and on account of leavers</b>			
Refunds of contributions		(3)	(125)
State scheme premiums		(3)	(132)
Transfers out to other pension funds		(2,778)	(7,263)
<b>Administrative expenses</b>	13	(1,087)	(803)
<b>NET ADDITIONS FROM DEALINGS WITH MEMBERS</b>		<b>8,180</b>	<b>5,242</b>
<b>RETURN ON INVESTMENTS</b>			
		2013/14 £'000	2014/15 £'000
Investment income	11	11,540	16,581
Taxes on Income		(410)	(329)
Change in market value of investments			
Realised		22,195	23,292
Unrealised	10	46,918	82,933
Investment management expenses	13	(2,364)	(2,450)
<b>NET RETURN ON INVESTMENTS</b>		<b>77,879</b>	<b>120,027</b>
Net increase in the Fund during the year		86,059	125,269
Add: Opening net assets of the scheme		926,871	1,012,930
<b>CLOSING NET ASSETS OF THE SCHEME</b>		<b>1,012,930</b>	<b>1,138,199</b>
<b>NET ASSETS STATEMENT AS AT 31ST MARCH</b>			
		2014 £'000	2015 £'000
<b>Investments Assets</b>			
Equities		230,998	244,335
Pooled Investment Vehicles			
Unit Trusts		566,768	628,744
Property		102,073	116,945
Other		91,918	101,303
Derivative Contracts			
Forward Foreign Exchange Contracts		238	0
		991,995	1,091,327
Cash deposits	6	5,292	5,414
Other investment balances	5	817	978
<b>Investments Liabilities</b>			
Forward Foreign Exchange Contracts	10	(647)	0
Other investment balances	5	0	(223)
<b>Current Assets</b>			
	5	16,954	42,154
<b>Current Liabilities</b>			
	5	(1,481)	(1,451)
<b>TOTAL NET ASSETS</b>		<b>1,012,930</b>	<b>1,138,199</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 receipts and gains on the Fund's investments.

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

## 2. ACCOUNTING POLICIES

### (a) Accounts

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

The Fund is administered in accordance with the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

### (b) Basis of preparation

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

- (c) The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2015. The actuarial present value of promised retirement benefits, valued on an IAS19 basis is disclosed in note 12 of the Accounts as permitted under IAS26.

#### Fund Account - Revenue Recognition

##### Contribution Income

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

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

### (d) Investments

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

- (i) Listed securities are shown by reference to bid price at the close of business on 31st March 2015.
- (ii) Pooled investment vehicles are valued at bid price, middle market price or single price at close of trading on 31st March 2015.
- (iii) Property unit trusts are shown by reference to bid price at close of business on 31st March 2015.
- (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 2015. Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.
- (vi) Foreign exchange contracts are recognised in the net asset statement at their fair value. The amounts included in the accounts represent unrealised gains or losses on forward contracts.
- (vii) Cash is represented by deposits held with financial institutions repayable on demand without penalty.

### (e) Investment Income

- (i) Interest income is recognised in the Fund account as it accrues.
- (ii) Dividend income is recognised in the Fund account on an accruals basis. Any amount not received by the end of the reporting period is disclosed in the net asset statement as a current financial asset.
- (iii) Distributions from pooled funds are re-invested and as such are recognised in the change in market value.
- (iv) Changes in the net market value of investments held at any time during the year are recognised as income and comprise all realised and unrealised gains/losses.

# NOTES TO THE PENSION FUND ACCOUNTS

## 2 ACCOUNTING POLICIES Cont...

### Fund account - expense items

#### (f) Management Expenses

The Code of Practice does not require any breakdown of pension fund administrative expenses. However in the interests of greater transparency, the Council discloses its pension fund management expenses in accordance with the CIPFA guidance on accounting for LGPS management costs.

##### Administrative Expenses

Staff costs of the pensions of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

##### Oversight & Governance Costs

Staff costs relating to oversight and governance are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

##### Investment Management Expenses

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

#### (g) Benefits Payable

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

##### **Net assets statement**

##### **Financial Assets**

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

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

##### (i) Market-quoted investments

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

##### (ii) Fixed interest securities

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

##### (iii) Unquoted investments

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

## 2.a CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

There is just one item in the authority's net asset statement as at 31st March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year.

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

The assumptions interact in complex ways. During 2014/15, the Council's actuaries advised that the net pensions liability had increased by £139.9 million to £628.5 million as a result of falling real bond yields.

### 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 12.5% dependent on pensionable pay. The employer's contributions are made at a rate determined by the Fund's actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rates used during the financial year ending the 31 March 2015 range from 15.9% to 41.4% of pensionable pay. The Council paid an agreed additional monetary contribution of £18.5m to recover the deficit. Contributions shown in the revenue statement may be categorised as follows:-

	2013/14 £'000	2014/15 £'000
<b>Members normal contributions</b>		
Council	8,849	9,731
Admitted bodies	222	221
Scheduled body	911	1,079
<b>Total members</b>	<b>9,982</b>	<b>11,031</b>
<b>Employers</b>		
<b>Normal contributions</b>		
Council	21,210	22,356
Admitted bodies	1,064	1,015
Scheduled bodies	2,505	3,484
<b>Deficit funding contributions</b>		
Council	16,500	18,500
<b>Other contributions</b>		
Council	1,122	780
<b>Total employers</b>	<b>42,401</b>	<b>46,135</b>
<b>Total contributions</b>	<b>52,383</b>	<b>57,166</b>

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Note: The Council is required to operate an Additional Voluntary Contribution (AVC) scheme for employees. In 2014/15 employees made contributions of £60,530.28 (£26,465.94 in 2013/14) into the AVC Scheme operated by Aviva (Norwich Union) and £9,455.96 to Equitable Life (£6,444.33 in 2013/14). The contributions are not included in the Pension Fund Accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 but are deducted from salaries and remitted directly to the provider.

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

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

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

	2013/14				2014/15			
	Council	Admitted Bodies	Scheduled Bodies	Total	Council	Admitted Bodies	Scheduled Bodies	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Pensions	(33,852)	(968)	(861)	(35,681)	(35,259)	(1,126)	(880)	(37,265)
Lump sum retirement benefits	(6,817)	(31)	(288)	(7,136)	(6,027)	(307)	(379)	(6,713)
Lump sum death benefits	(990)	0	(52)	(1,042)	(1,232)	(42)	(68)	(1,342)
<b>Total Pensions and Benefits</b>	<b>(41,659)</b>	<b>(999)</b>	<b>(1,201)</b>	<b>(43,859)</b>	<b>(42,518)</b>	<b>(1,475)</b>	<b>(1,327)</b>	<b>(45,320)</b>
Transfer Values Received	3,527	0	0	3,527	1,719	0	0	1,719
Transfer Values Paid	(2,778)	0	0	(2,778)	(7,263)	0	0	(7,263)
<b>Total</b>	<b>(40,910)</b>	<b>(999)</b>	<b>(1,201)</b>	<b>(43,110)</b>	<b>(48,062)</b>	<b>(1,475)</b>	<b>(1,327)</b>	<b>(50,864)</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.

	2013/14 £'000	2014/15 £'000
<b>Debtors</b>		
<b>Other Investment Balances</b>		
Investment sales	27	8
Dividends receivable	514	583
Tax recoverable	276	387
	817	978
<b>Current Assets</b>		
Contributions due from admitted bodies	86	101
London Borough of Tower Hamlets Pension Fund	62	230
	148	331
<b>Total Debtors</b>	<b>965</b>	<b>1,309</b>
<b>Creditors</b>		
<b>Other Investment Balances</b>		
Investment purchases	0	223
<b>Current Liabilities</b>		
Unpaid benefits	1,171	1,138
Administrative expenses	263	313
London Borough of Tower Hamlets Pension Fund	47	0
	1,481	1,451
<b>Total Creditors</b>	<b>1,481</b>	<b>1,674</b>
<b>Net Debtors</b>	<b>(516)</b>	<b>(365)</b>

## 6. CASH

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

	2013/14 £'000	2014/15 £'000
Aberdeen: Private Equity Portfolio	10	10
GMO	3,803	2,930
Schroders: Multi Asset Portfolio	14	15
Schroders: Property Portfolio	1,465	2,458
London Borough of Tower Hamlets Pension Fund	16,806	41,823
<b>TOTAL CASH</b>	<b>22,098</b>	<b>47,236</b>

## 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

As Tower Hamlets Council is the Administering Authority for the Fund, VAT input tax is recoverable on all Fund activities.

### Overseas Tax

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

## 8. STATEMENT OF INVESTMENT PRINCIPLES

The Council, as the Administering Authority of the Pension Fund, is required to prepare, maintain and publish a Statement of Investment Principles (SIP) in accordance with the Local Authority Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. The SIP which is published as part of the Local Government Pensions Scheme Annual Report was approved by the Council's Pensions Committee on 14th November 2014.

## 9. MEMBERSHIP OF THE FUND

The following table sets out the membership of the Fund at 31st March 2015

	2014	2015
<b>London Borough of Tower Hamlets</b>		
Active Members	6,158	6,249
Pensioners	4,043	4,131
Deferred Pensioners	6,332	6,434
Dependants	959	993
	<b>17,492</b>	<b>17,807</b>
<b>Admitted &amp; Scheduled Bodies</b>		
Active Members	634	611
Pensioners	203	221
Deferred Pensioners	332	352
Dependants	16	18
	<b>1,185</b>	<b>1,202</b>

The following bodies have been admitted into the Fund:

### Admitted Bodies

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

### Scheduled Bodies

Bethnal Green Academy  
 Canary Wharf College  
 Culloden Primary School  
 London Enterprise Academy  
 Old Ford Primary School  
 Sir William Burrough School  
 Solebay Academy  
 St. Pauls Way Community School  
 Tower Hamlets Homes Limited

## 10. INVESTMENTS

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

### Manager

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

### Mandate

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

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

	2014		2015	
	£ million	%	£ million	%
Baillie Gifford Life Ltd - Diversified Growth	46.9	4.7	50.7	4.6
Baillie Gifford Life Ltd - Equities	183.1	18.4	217.7	19.8
GMO UK Ltd.	261.3	26.2	274.3	25.0
Investec Asset Management	97.5	9.8	99.6	9.1
Legal & General Investment Management - Equities	211.6	21.2	225.7	20.1
Legal & General Investment Management	49.0	4.9	59.4	5.9
Ruffer LLP	45.0	4.5	50.6	4.6
Schroders Asset Management Property Fund	103.1	10.3	119.5	10.9



## 10. INVESTMENTS (continued)

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

	Market Value as at 1 Apr 2014 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2015 £'000
Baillee Gifford Life Ltd - Diversified Growth	46,889	72	0	3,724	50,685
Baillee Gifford Life Ltd - Equities	183,066	2,004	0	32,600	217,670
GMO UK Ltd.	256,678	196,511	(184,536)	1,984	270,637
Investec Asset Management	97,502	0	0	2,129	99,631
Legal & General Investment Management	260,556	0	0	24,585	285,141
Ruffer LLP	45,030	0	0	5,588	50,618
Schroders Asset Management Property	101,628	12,757	(9,762)	12,322	116,945
	<b>991,349</b>	<b>211,344</b>	<b>(194,298)</b>	<b>82,932</b>	<b>1,091,327</b>

A further analysis of investments assets is as follows.

	Market Value as at 1 Apr 2014 £'000	Purchases £'000	Sales £'000	Change in Market Value £'000	Market Value as at 31 Mar 2015 £'000
<b>UK Investment Assets</b>					
Quoted	734,671	14,833	(9,762)	80,948	820,690
<b>Overseas Investment Assets</b>					
Quoted	257,087	196,511	(184,536)	1,575	270,637
Unquoted	(409)	0	0	409	0
	<b>991,349</b>	<b>211,344</b>	<b>(194,298)</b>	<b>82,932</b>	<b>1,091,327</b>

## 11. INVESTMENT INCOME

Investment income is broken down as follows.

	2013/14 £'000	2014/15 £'000
Dividends from overseas equities	7,886	10,617
Net rents from properties	3,427	5,234
Interest on cash deposits	58	170
Foreign tax	169	231
<b>TOTAL</b>	<b>11,540</b>	<b>16,252</b>

## 12 ACTUARIAL POSITION

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

The 2013 statutory triennial revaluation of the Pension Fund completed by the Actuary (Hymans Robertson) in the year estimated the deficit on the Fund to be £365 million and the funding level to be 72%. This compares to a deficit at the previous revaluation in 2010 of £305 million and a corresponding funding level of 71%.

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

	£m
2014/15	18.50
2015/16	20.50
2016/17	22.00

The FSS requires that the Fund operates the same target funding level of all on-going employers of 100% of its accrued liabilities valued on the on-going basis, to be achieved over a 20 year period (a period equivalent to the expected future working lifetime of the remaining scheme members). The valuation of the Fund as at 31st March 2013 determined that this would require a contribution (additional to the future contribution rate) of 15.2% of members' pensionable pay equivalent to £18.5 million per annum.

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

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

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

## 12. ACTUARIAL POSITION (continued)

In accordance with the funding policy, the Actuary determines the employer contribution requirement for future service for the Fund as a whole, and for employers who continue to admit new members. The cost of future service benefits is assessed, taking into account expected future salary increases. In order to place a current value on future benefit cashflows the Actuary "discounts" the future cashflows to the valuation date at a suitable rate. The Actuary adopts a "gilt-based" valuation which uses the yield on suitably dated Government bonds as the discount rate. This is then uplifted to the "funding basis discount rate" taking into account the Fund's current and expected future investment strategy to reflect the percentage by which the Fund is anticipated to "outperform" the yield on Government bonds. The contribution rate required to meet the expected cost of future service benefits is derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay. This is known as the "Projected Unit method". The future contribution rate for 2013/14 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 2016 and the recommendations implemented from 1st April 2017.

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 2013. The main actuarial assumptions used in revaluation and applied during the intervaluation period were as follows:

Financial Assumptions	Nominal	Real
Price inflation (CPI)	2.5%	
Pay increases	3.8%	1.3% Real rates are nominal rates
Funding basis discount rate	4.6%	2.1% adjusted for inflation

Longevity (in years)	Male	Female
Average future life expectancy for a pensioner aged 65 at the valuation date	22.2	24.2
Average future life expectancy at age 65 for a non-pensioner aged 45 at the valuation date	24.3	26.4

### 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 £1.783 million (£1,503 million in 2013/14).

## 13. MANAGEMENT EXPENSES

	2013/14 £'000	2014/15 £'000
Administration costs	906	714
Investment management expenses	2,364	2,450
Oversight & governance	181	90
	<b>3,451</b>	<b>3,254</b>

## 14. INVESTMENT EXPENSES

	2013/14 £'000	2014/15 £'000
Management fees	2,278	2,357
Custody fees	86	93
	<b>2,364</b>	<b>2,450</b>

## 15. RISK MANAGEMENT

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

#### Risk and Risk Management

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

#### Credit risk

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

The Council only invests money with institutions with a minimum Fitch credit rating of A+ or higher.

#### Liquidity risk

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

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

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

#### Market risk

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

#### 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.

The Fund's direct exposure to interest rate movements as at 31st March 2014 and 31st March 2015 is set out below.

Interest Rate Risk	As At 31st March 2014	As At 31st March 2015
Asset Type	£'000	£'000
Cash and cash equivalents	5,292	5,414
Cash balances	16,954	42,154
Fixed interest securities	146,517	159,079
<b>Total</b>	<b>168,763</b>	<b>206,647</b>

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2015	Change in year in net assets available to pay benefits	
		+100 BPS	-100 BPS
Asset Type		£'000	£'000
Cash and cash equivalents	5,414	54	(54)
Cash balances	42,154	422	(422)
Fixed interest securities	159,079	(1,591)	1,591
<b>Total change in net assets available</b>	<b>206,647</b>	<b>(1,115)</b>	<b>1,115</b>

#### Interest rate risk - sensitivity analysis

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

Interest Rate Risk - Sensitivity Analysis	Carrying Amount As At 31st March 2014	Change in year in net assets available to pay benefits	
		+100 BPS	-100 BPS
Asset Type		£'000	£'000
Cash and cash equivalents	5,292	53	(53)
Cash balances	16,954	170	(170)
Fixed interest securities	146,517	(1,465)	1,465
<b>Total change in net assets available</b>	<b>168,763</b>	<b>(1,242)</b>	<b>1,242</b>

## 15. RISK MANAGEMENT (continued)

### Currency risk

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

Following analysis of historical data in consultation with the fund's investment advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 6.3%. This analysis assumes all other variables, in particular interest rates, remain constant.

The following table summarises the Fund's currency exposure as at 31 March 2015 and as at the previous year end.

Currency Exposure - Asset Type	As At 31st March 2014 £'000	As At 31st March 2015 £'000
Overseas quoted securities	238,710	245,548
Overseas unit trusts	5,949	3,808
Cash	13	14
<b>Total overseas assets</b>	<b>244,672</b>	<b>249,370</b>

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2015 £'000	Change in year in net assets available to pay benefits	
		+6.3% £'000	-6.3% £'000
Overseas quoted securities	245,548	261,018	230,078
Overseas unit trusts	3,808	4,048	3,568
Cash	14	15	13
<b>Total change in net assets available</b>	<b>249,370</b>	<b>265,081</b>	<b>233,659</b>

Currency Exposure - Sensitivity Analysis	Carrying Amount As At 31st March 2014 £'000	Change in year in net assets available to pay benefits	
		+5.8% £'000	-5.8% £'000
Overseas quoted securities	238,710	252,555	224,865
Overseas unit trusts	5,949	6,294	5,604
Cash	13	14	12
<b>Total change in net assets available</b>	<b>244,672</b>	<b>258,863</b>	<b>230,481</b>

The percentage change in the year of 6.3% represents the average change in currency exposure, derived by multiplying the weight of each currency by the change in its exchange rate relative to GBP.

### Other Price risk

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

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

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

### Other price risk - sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates remain the same.

Price Risk - sensitivity analysis	Potential Market Movements (+/-)
Asset Type	
UK equities	10.1%
Global equity	10.0%
Total fixed interest	3.4%
Alternatives	4.1%
Cash	0.0%
Pooled Property Investments	2.4%

## 15. RISK MANAGEMENT (continued)

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

Asset Type	Value as at 31 March 2015	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<b>Cash and cash equivalents</b>	47,236	0.0%	47,236	47,236
<b>Investment portfolio assets</b>				
UK equities	225,693	10.1%	248,488	202,898
Global equity	488,307	10.0%	537,138	439,476
Total fixed interest	159,079	3.4%	164,488	153,670
Alternatives	101,303	4.1%	105,456	97,150
Pooled Property Investments	116,945	2.4%	119,752	114,138
Net derivative assets	0	0.0%	0	0
Investment income due	978	0.0%	978	978
Amounts receivable for sales	0		0	0
Amounts payable for purchases	(223)	0.0%	(223)	(223)
<b>Total assets available to pay benefits</b>	<b>1,139,318</b>		<b>1,223,313</b>	<b>1,055,323</b>

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

Asset Type	Value as at 31 March 2014	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
<b>Cash and cash equivalents</b>	22,098	0.0%	22,098	22,098
<b>Investment portfolio assets</b>				
UK equities	211,541	12.1%	237,074	186,008
Global equity	440,153	11.9%	492,311	387,995
Total fixed interest	146,517	2.8%	150,678	142,356
Alternatives	91,919	4.4%	95,963	87,875
Pooled Property Investments	101,628	1.9%	103,518	99,738
Net derivative assets	(409)	0.0%	(409)	(409)
Investment income due	817	0.0%	817	817
Amounts receivable for sales	0		0	0
Amounts payable for purchases	0	0.0%	0	0
<b>Total assets available to pay benefits</b>	<b>1,014,264</b>		<b>1,102,050</b>	<b>926,478</b>

### Refinancing risk

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

## 16. FINANCIAL INSTRUMENTS DISCLOSURES

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

	Long-term		Current	
	2013/14 £'000	2014/15 £'000	2013/14 £'000	2014/15 £'000
<b>Financial Assets</b>				
Loans and receivables	0	0	17,709	42,902
Financial assets at fair value through profit or loss	991,757	1,091,327	5,592	5,593
<b>Total Financial Assets</b>	<b>991,757</b>	<b>1,091,327</b>	<b>23,301</b>	<b>48,495</b>
<b>Financial Liabilities</b>				
Payables	0	0	(1,481)	(1,674)
Financial liabilities at fair value through profit or loss	0	0	(647)	0
<b>Total Financial Liabilities</b>	<b>0</b>	<b>0</b>	<b>(2,128)</b>	<b>(1,674)</b>

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

### Fair Value Hierarchy

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

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

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

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

The following sets out the Fund's assets and liabilities according to the fair value hierarchy as at 31st March 2015.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	244,335	0	0	244,335
Pooled Funds				
Unit Trusts	628,744	0	0	628,744
Property Unit Trust	116,945	0	0	116,945
Other	101,303	0	0	101,303
Derivative Contracts				
Forward Foreign Exchange Contracts	0	0	0	0
Cash and bank Deposits	47,467	0	0	47,467
Current Assets	1,079	0	0	1,079
Current Liabilities	(1,674)	0	0	(1,674)
	<b>1,138,199</b>	<b>0</b>	<b>0</b>	<b>1,138,199</b>

During the year ended 31st March 2015 there were no transfers between the levels of the fair value hierarchy.

The equivalents at 31st March 2014 were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equities	230,998	0	0	230,998
Pooled Funds				
Unit Trusts	566,768	0	0	566,768
Property Unit Trust	102,073	0	0	102,073
Other	91,918	0	0	91,918
Derivative Contracts				
Forward Foreign Exchange Contracts	0	(409)	0	(409)
Cash and bank Deposits	22,160	0	0	22,160
Current Assets	903	0	0	903
Current Liabilities	(1,481)	0	0	(1,481)
	<b>1,013,339</b>	<b>(409)</b>	<b>0</b>	<b>1,012,930</b>

## 16. FINANCIAL INSTRUMENTS DISCLOSURES

### Net gains and losses on financial instruments

	Long-term	
	2013/14 £'000	2014/15 £'000
<b>Financial Assets</b>		
Loans and receivables		180
Financial assets at fair value through profit or loss	69,645	106,225
<b>Total Financial Assets</b>	<b>69,645</b>	<b>106,405</b>
<b>Financial Liabilities</b>		
Payables		
Financial liabilities at fair value through profit or loss	(532)	409
<b>Total Financial Liabilities</b>	<b>(532)</b>	<b>409</b>



## 17. RELATED PARTY TRANSACTIONS

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

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

The Council incurred costs of £669k (£680k 2013/14) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. The Council contributed £18.5m (£16.5m 2013/14) to the Fund in respect of back funding. All monies owing to and from the Fund were paid in the year.

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

The pension fund cash held by London Borough of Tower Hamlets is invested on the money markets by the treasury management operations of the Council. During the year to 31st March 2015, the Fund held an average investment of £24.8m (£6.0m 31st March 2014), earning interest of £180k (£62k in 2013/14).

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £3.5m (£2.3m 2013/14) from this company.

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

	2013/14	2014/15
	£'000	£'000
<b>Fund Administration Expenses</b>		
Payroll / HR Support	374	370
Corporate Finance	306	299
	<b>680</b>	<b>669</b>

### Key Management Personnel

Employees holding key positions in the financial management of the fund as at 31st March 2015 include:

Chief Accountant

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

	2013/14	2014/15
	£'000	£'000
Short term benefits	18	20
Long term/post retirement benefits	4	4

### Governance

Each member of the pension fund committee is required to declare their interests at each meeting of the Committee. These are recorded as part of the public record of each meeting. For 2014/15 there were no Members of the Pension Fund Committee who had involvement with other organisations.

**Compensation of key management** - It was not practical to include costs relating to key management personnel within the Pension Fund Accounts, principally as they are charged to the Council's Accounts and have not been charged to the Pension Fund. All costs are disclosed within note 33 of the Council's main accounts.

## 18. CONTINGENT LIABILITIES

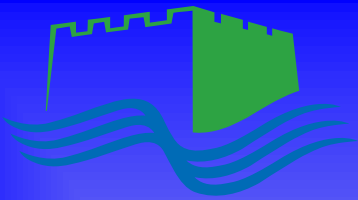
The Council has also provided an assurance that it will meet the pension liabilities of Tower Hamlets Homes in the event the ALMO is unable to fund the liabilities arising from its pension obligations. The liability as at 31st March 2015 was £9.654m (£1.752m 2013/14).

## 19. CONTINGENT ASSETS

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

## 20. IMPAIRMENT LOSSES

During 2014/15 impairment losses were nil (impairment losses in 2013/14 were also nil).



TOWER HAMLETS

The London Borough of Tower  
Hamlets Pension Fund  
Appendix 2  
Statement of Investment Principle

# Introduction

## 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”.

### COMPLIANCE

In accordance with regulation 12(3) of the LGPS (Management and Investment of Funds) Regulations 2009, the Council acting in its capacity as Administering Authority is required to state the extent to which it complies with guidance given by the Secretary of State and where it does not comply the reasons for non-compliance.

The set of six Myners Principles as they apply to Local Authority Pension Funds are:

- Effective Decision Making
- Clear Objectives
- Risk and Liabilities
- Performance Assessment
- Responsible Ownership
- Transparency and Reporting

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

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

### BACKGROUND TO THE FUND

#### The Legal Requirements

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 require pension fund administering authorities to prepare, maintain and publish a statement of the principles governing their decisions on the investment of the pension fund.

### **The Statement must cover the policy on:**

- (a) the types of investment to be held;
- (b) the balance between different types of investments;
- (c) risk, including the ways in which risks are to be measured and managed;
- (d) the expected return on investments;
- (e) the realisation of investments;
- (f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
- (g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and
- (h) stock lending.

### **THE PENSIONS COMMITTEE**

The London Borough of Tower Hamlets is the Administering Authority for the London Borough of Tower Hamlets Pension Fund. The Pensions Committee is the body with delegated powers to administer the Fund. The Committee comprised of elected representatives of Tower Hamlets Council and a non-voting employer and scheme member representatives recognise that they have fiduciary duties and responsibilities towards beneficiaries, employers and local taxpayers.

### **RESPONSIBILITIES**

The Pensions Committee terms of reference as at the date of the publication of this Statement are as follows:

### **TERMS OF REFERENCE**

The Pensions Committee will be responsible for the functions set out below.

- 1) To act as Trustees of the Council's Pension Fund within the terms of the Superannuation Act 1972, the Local Government Pension Scheme Regulations 1997 (as amended) and the Local Government Pension Scheme Management and Investment of Funds) Regulations 1998 (as amended).
- 2) To make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, advisers, investment managers and custodian's and periodically to review those arrangements.
- 3) To formulate and publish a Statement of Investment Principles.
- 4) To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and develop a medium term plan to deliver the objectives.
- 5) To determine the strategic asset allocation policy, the mandates to be given to the investment managers and the performance measures to be set for them.
- 6) To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles.
- 7) To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
- 8) To receive and approve an Annual Report on the activities of the Fund prior to publication.

- 9) To make arrangements to keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis.
- 10) To keep the terms of reference under review.
- 11) To determine all matters relating to admission body issues.
- 12) To focus on strategic and investment related matters at two Pensions Committee meetings.
- 13) To review the Pension Fund's policy and strategy documents on a regular cycle and review performance against the Fund's objectives within the business plan
- 14) To maintain an overview of pensions training for Members.
- 15) The Pension Committee will also co-opt a non-voting employer representative and a non-voting scheme representative.

The Committee is also responsible for reviewing performance of the investment managers (including the AVC manager), the expertise and sustainability of the investment process, procedures, risk management, internal controls, transaction costs and key personnel. It is also responsible for reviewing social, environmental and ethical matters and the exercise of rights including voting rights.

Members of the Committee receive training in their responsibilities as quasi trustees to the Pension Fund and in the operation of the pension scheme, with training primarily provided as part of the formal Committee meeting process to ensure that as many Members as possible are in attendance.

The Fund's investment advisor, officers of the Council and other external providers will provide the training itself with the Committee reviewing the programme of training to be administered to ensure that it is appropriate to the Committee's needs. The Pensions Committee has embraced the CIPFA Knowledge and Skills Framework and has undertaken a training programme to ensure that Committee Members have the requisite knowledge and skills to be able to fulfil their responsibilities as 'trustees' of the Pension Fund.

**The Council's Corporate Director of Resources** is responsible for ensuring the following are provided to the Committee for decision making, where appropriate including: -

- (a) Budget setting and monitoring
- (b) Annual Report and Accounts
- (c) Preparation of Statement of Investment Principles
- (d) Obtaining the Actuarial Report
- (e) Developing and maintaining the Funding Strategy Statement
- (f) Scheme Communications

**The responsibilities of the following are set out below:**

- (a) **Investment Manager** – Day-to-day decisions on investment of the Fund's assets within the mandates approved by Committee and set out by the Investment Management Agreement. Exercise of corporate actions within the policy set by this Statement of Investment Principles. Reporting to the Executive Officers and Pensions Committee on performance against established benchmarks.
- (b) **Custodian** – Providing safe keeping for the share certificates and other documents of title to Fund investments. Receiving and accounting for dividends and corporate actions.
- (c) **Actuary** – Carrying out the actuarial valuation of the Fund's assets and liabilities every three years in accordance with the regulations. The valuation report specifies the

level of funding to cover accrued liabilities and the consequent changes (if any) to the employer's contribution rates. The actuary is also responsible for negotiating bulk transfer arrangements and determining contribution rates for new employers where these are established between triennial valuations.

(d) **Investment Consultant** – The investment consultant is there to provide the Pension Committee and officers of the Council with investment related advice pertinent to the management of the Pension Fund to ensure that its investments are appropriate and prudent.

(e) **Administrators** – The Council is the Fund administrator that undertake the day-to-day administration of the Pension Fund, including the payment of pension benefits and maintenance of pension benefit records.

## Advice

The Committee takes expert professional financial advice to assist it with managing the Fund Regulation 12(3) also requires Administering Authorities to have regard to guidance given by the Secretary of State on investment decision making and to state in their Statement how far they comply with that guidance.

Advice to the Members of the Pension Committee is given by the executive officers of the Council (including, but not limited to, the Corporate Director of Resources and the Director Law Probity and Governance & Monitoring Officer).

The Pension Fund has access to the use of external providers for actuarial and investment services for advice. The Pension Fund employs the services of an actuary to provide ongoing actuarial advice and to carry out a valuation of the Fund every three years (the triennial valuation) in accordance with the Local Government Pension Scheme Regulations 2013. In addition the Fund also uses an appointed investment advisor to provide professional advice to the Committee on investment related issues.

The Pensions Committee monitors the level of fees that are paid to the advisers in order to ensure that the advice is charged at an appropriate level, and represents value for money. The Committee will carry out procurement exercises at appropriate intervals to ensure that this continues to be the case.

## 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.

Therefore the primary investment objective of the Fund is to ensure that due regard is paid to the best financial interests of all its stakeholders. Against this background, the Fund's approach to investing is to:

- Optimise the return on investment consistent with a prudent level of risk;
- Ensure that there are sufficient assets to meet the liabilities; and
- Ensure the suitability of assets in relation to the needs of the Fund.

## INVESTMENT STRATEGY

The Pensions Committee 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 Pensions Committee 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 Pensions Committee 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:

**Choosing Investments:** The Pensions Committee is responsible for the appointment of investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Pensions Committee, 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.

**Risk:** The Pensions Committee 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 Pensions Committee monitors the managers' adherence to benchmarks and guidelines. In appointing more than one investment manager, the Pensions Committee has considered the risk of underperformance of any single investment manager.

**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 Pensions Committee considers all of these classes of investment to be suitable in the circumstances of the Scheme. The Fund's structure and benchmarks are set out in the table below.

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

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

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

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

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



these factors in the selection, retention and realisation of investments. The Pensions Committee will monitor the managers' statements and activities in this regard.

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

### **Stock Lending**

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

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

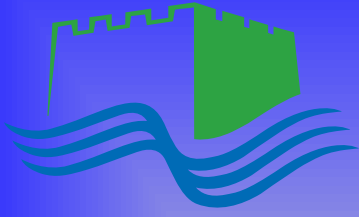
**Appendix 1**

<b>Principle</b>	<b>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 who meets 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>	<p>Compliant</p>
<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>	<p>Compliant</p>

<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>                  In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.                  These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</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>

<p><b>Principle 4: Performance assessment</b> Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to the scheme members.</p>	<p>The Fund's Pensions Committee 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 Pensions Committee meetings periodically. The Fund employs the WM company to measure the performance of its investment managers. The Fund's Annual Report is presented to the Committee explaining the Fund's activities and decisions taken during the year. This allows the Pensions Committee to reflect on the effectiveness of its strategy and also the management of the fund managers to deliver against agreed benchmarks.</p>	Compliant
<p><b>Principle 5: Responsible ownership</b> Administering authorities should: Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents, include a statement of their policy on responsible ownership in the statement of investment principles. Report periodically to scheme members on the discharge of such responsibilities.</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.  The manager's activities in this regard are reviewed by the Pensions Committee.  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>	Compliant
<p><b>Principle 6: Transparency and reporting</b> Administering authorities act in a transparent manner, communicating with stakeholders on issues relating to their</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>	Compliant

<p>management of investment, its governance and risks, including performance against stated objectives. Provide regular communication to scheme members in the form they consider most appropriate.</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>	
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**TOWER HAMLETS**

The London Borough of Tower  
Hamlets Pension Fund  
Appendix 3  
Funding Strategy Statement

# FUNDING STRATEGY STATEMENT

## 1 Introduction

### 1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from 1<sup>st</sup> April 2014.

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

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

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

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

### 1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

- affordability of employer contributions,
- transparency of processes,

- stability of employers' contributions, and
- prudence in the funding basis.

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

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

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

#### **1.4 How does the Fund and this FSS affect me?**

This depends who you are:

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

#### **1.5 What does the FSS aim to do?**

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

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);



- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

### **1.6 How do I find my way around this document?**

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

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

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

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

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Anant Dodia in the first instance at e-mail address [anant.dodia@towerhamlets.gov.uk](mailto:anant.dodia@towerhamlets.gov.uk) or on telephone number 020 7364 4248.

## 2 Basic Funding issues

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

### 2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being built up from year to year, referred to as the “*future service rate*”; plus
- b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the “*past service adjustment*”. If there is a deficit the past service adjustment will be an increase in the employer’s total contribution; if there is a surplus there may be a reduction in the employer’s total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the “deficit recovery period”).

### 2.2 How is a deficit (or surplus) calculated?

An employer’s “funding level” is defined as the ratio of:

- the market value of the employer’s share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer’s employees and ex-employees (the “liabilities”). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

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

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

### 2.3 How are contribution rates calculated for different employers?

The Fund’s actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in [Appendix E](#).

The Fund’s actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in [Section 3](#). It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund’s Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report which will be issued by 31 March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

## 2.4 What else might affect the employer's contribution?

Employer covenants, and likely term of membership, are also considered when setting contributions: more details are given in [Section 3](#).

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non-ill-health early retirements must be paid by the employer, see [3.6](#).

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

## 2.5 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

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

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

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

## **2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?**

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment

of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see **Appendix A**.

### **3. Calculating contributions for individual Employers**

#### **3.1 General comments**

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range (“stabilisation”)
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

#### **3.2 The effect of paying contributions below the theoretical level**

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

Overleaf ([3.3](#)) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

### 3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Local Authorities	Police, Fire, Colleges etc	Academies	Open to new entrants	Closed to new entrants	(all)
Basis used	Ongoing, assumes long-term Fund participation (see <a href="#">Appendix E</a> )			Ongoing, but may move to "gilts basis" - see <a href="#">Note (a)</a>		Ongoing, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )
Future service rate	Projected Unit Credit approach (see <a href="#">Appendix D – D.2</a> )			Attained Age approach (see <a href="#">Appendix D – D.2</a> )		Projected Unit Credit approach (see <a href="#">Appendix D – D.2</a> )
Stabilised rate?	Yes - see <a href="#">Note (b)</a>	No employers of this type	No	No	No	No
Maximum deficit recovery period – <a href="#">Note (c)</a>	20 years	NA	14 years	20 years	Future working lifetime of remaining active members	Outstanding contract term



<b>Deficit recovery payments – Note (d)</b>	Monetary amount	NA	% of payroll	% of payroll	Monetary amount	% of payroll
<b>Treatment of surplus</b>	Covered by stabilisation arrangement	NA	Spread over recovery period	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority		Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority
<b>Phasing of contribution changes</b>	Covered by stabilisation arrangement	NA	Maximum of 3 years	3 years - <u>Note (e)</u>	3 years - <u>Note (e)</u>	Maximum of 3 years
<b>Review of rates – Note (f)</b>	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
<b>New employer</b>	n/a	n/a	<u>Note (g)</u>	<u>Note (h)</u>		<u>Notes (h) &amp; (i)</u>

<p><b>Cessation of participation: cessation debt payable</b></p>	<p>Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per <u>Note (j)</u>.</p>	<p>Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see <u>Note (j)</u>.</p>	<p>Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.</p>
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*Note (a)* (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

*Note (b)* (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies to the London Borough of Tower Hamlets Council.

On the basis of extensive modelling carried out for the 2013 valuation exercise (see [Section 4](#)), the stabilised details are as follows:

<b>Employer</b>	<b>London Borough of Tower Hamlets</b>
<b>Max contribution increase</b>	+£2m
<b>Max contribution decrease</b>	-£2m

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors.

*Note (c) (Deficit Recovery Periods)*

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same approach to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor.

*Note (d) (Deficit Recovery Payments)*

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- (i) the employer is relatively mature, i.e. has a large deficit recovery contribution rate because of a small or decreasing payroll; or
- (ii) the employer has closed the Fund to new entrants.

*Note (e) (Phasing in of contribution changes)*

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

*Note (f) (Regular Reviews)*

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government

restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

*Note (g) (New Academy employers)*

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policy (d) above will be reconsidered at each valuation.

*Note (h) (New Admission Bodies)*

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;

- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

*Note (i) (New Transferee Admission Bodies)*

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (i).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

**i) Pooling**

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which is may be under the stabilisation approach.

**ii) Letting employer retains pre-contract risks**

iii) Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

**iii) Fixed contribution rate agreed**

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- a. above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- b. redundancy and early retirement decisions.

*Note (j) (Admission Bodies Ceasing)*

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

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

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the

Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;
- b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;
- c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

### **3.3 Pooled contributions**

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary 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.



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

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

### **3.4 Additional flexibility in return for added security**

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

### **3.5 Non ill health early retirement costs**

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

### **3.6 Ill health early retirement costs**

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the

cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases.

### **3.7 Ill health insurance**

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

### **3.8 Employers with no remaining active members**

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This may require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

## 4. Funding strategy and links to investment strategy

### 4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

### 4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

### 4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see [E3](#)) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see [A1](#)).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in [Section 3](#) will damp down, but not remove, the effect on employers' contributions.

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

### 4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see [3.3 Note \(b\)](#)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in [3.3 Note \(b\)](#), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

#### **4.5 Does the Fund monitor its overall funding position?**

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, on an ad-hoc basis.

## Appendix A – Regulatory framework

### A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

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

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

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

### A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers on 27 January 2014 for comment;
- b) Comments were requested within 22 days; and
- c) Following the end of the consultation period the FSS was updated where required and the report will be published on 1<sup>st</sup> December.

### A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk);
- A copy sent by [post/e-mail] to each participating employer in the Fund;
- A copy sent to [employee/pensioner] representatives;

- A summary issued to all Fund members;
- A full copy included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

**A4 How often is the FSS reviewed?**

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the [Pensions Committee] and would be included in the relevant Committee Meeting minutes.

**A5 How does the FSS fit into other Fund documents?**

The FSS is a summary of the Fund’s approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk)

## **Appendix B – Responsibilities of key parties**

The efficient and effective operation of the Fund needs various parties to each play their part.

### **B1 The Administering Authority should:-**

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- advise the Actuary of any new or ceasing employers;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

### **B2 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;
- have a policy and 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 Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

### **B3 The Fund Actuary should:-**

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

**B4 Other parties:-**

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.



## Appendix C – Key risks and controls

### C1 Types of risk

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

- financial;
- demographic;
- regulatory; and
- governance.

### C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	<p>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers

Risk	Summary of Control Mechanisms
	relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures such as deficit spreading and phasing are also in place to limit sudden increases in contributions,
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see <a href="#">3.9</a>).</p>

### C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative

Risk	Summary of Control Mechanisms
	investment strategies.
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non-ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections through employers paying monetary amounts.

#### C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>

#### C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>

Risk	Summary of Control Mechanisms
<p>Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way</p>	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
<p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.</p>	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, wherever possible (see <u>Notes (h) and (j) to 3.3</u>).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see <u>Note (f) to 3.3</u>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <u>Note (a) to 3.3</u>).</p>

## Appendix D – The calculation of Employer contributions

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

### D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “future service rate”; plus
- b) an adjustment for the funding position of accrued benefits relative to the Fund’s solvency target, “*past service adjustment*”. If there is a surplus there may be a reduction in the employer’s contribution rate. If there is a deficit there will be an increase in the employer’s contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See [Section 3](#) for deficit recovery periods.

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; it is in effect an average rate across all employers in the Fund.

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 below.

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 past service deficit spreading and increased employer contribution phasing periods.

### D2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members’ **future** service in the Fund. This is based upon the cost (in excess of members’ contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the “ongoing” valuation basis (see [Appendix E](#)), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see [Section 3](#)).

<sup>1</sup> See LGPS (Administration) Regulations 36(5).

<sup>2</sup> See LGPS (Administration) Regulations 36(7).

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 Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

**a) Employers which admit new entrants**

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. 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 over time.

**b) Employers which do not admit new entrants**

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

**D3 How is the Solvency / Funding Level calculated?**

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency' is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

**D4 What affects a given employer's valuation results?**

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;

- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- 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 each triennial valuation.

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

#### **D5 How is each employer's asset share calculated?**

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

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

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.



## Appendix E – Actuarial assumptions

### E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

### E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see [Note \(a\) to 3.3](#).

### E3 What assumptions are made in the ongoing basis?

#### a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this a change from the 2010 valuation where 1.4% was used). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

## **b) Salary growth**

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 0.5% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a three year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

## **c) Pension increases**

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund’s liabilities (all other things being equal).

## **d) Life expectancy**

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with “medium cohort” and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach, is to add around 0.5 years of life expectancy on average. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

## **e) General**

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures

are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

## Appendix F – Glossary

<b>Actuarial assumptions/basis</b>	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of <b>liabilities</b> . The main assumptions will relate to the <b>discount rate</b> , salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
<b>Admission Bodies</b>	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are <b>members</b> . There will be an Admission Agreement setting out the employer's obligations. For more details (see <a href="#">2.5</a> ).
<b>Common contribution rate</b>	The Fund-wide <b>future service rate</b> plus <b>past service adjustment</b> . It should be noted that this will differ from the actual contributions payable by individual <b>employers</b> .
<b>Covenant</b>	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
<b>Deficit</b>	The shortfall between the assets value and the <b>liabilities</b> value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
<b>Deficit repair/recovery period</b>	The target length of time over which the current <b>deficit</b> is intended to be paid off. A shorter period will give rise to a higher annual <b>past service adjustment</b> (deficit repair contribution), and vice versa.
<b>Designating Employer</b>	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
<b>Discount rate</b>	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a <b>liabilities</b> value which is consistent with the present day value of the assets, to calculate the <b>deficit</b> . A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the <b>future service rate</b> and the <b>common contribution rate</b> .
<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>liabilities</b> values for each employer are individually tracked, together with its

**future service rate** at each **valuation**.

<b>Funding level</b>	The ratio of assets value to <b>liabilities</b> value: for further details (see <u>2.2</u> ).
<b>Future service rate</b>	The actuarially calculated cost of each year's build-up of pension by the current active <b>members</b> , excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of <b>actuarial assumptions</b> .
<b>Gilt</b>	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
<b>Guarantee / guarantor</b>	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's <b>covenant</b> to be as strong as its guarantor's.
<b>Letting employer</b>	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
<b>Liabilities</b>	The actuarially calculated present value of all pension entitlements of all <b>members</b> of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the <b>deficit</b> . It is calculated on a chosen set of <b>actuarial assumptions</b> .
<b>LGPS</b>	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
<b>Maturity</b>	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding

strategy.

<b>Members</b>	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
<b>Past service adjustment</b>	The part of the employer's annual contribution which relates to past service <b>deficit</b> repair.
<b>Pooling</b>	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of <b>deficit</b> , or (if formally agreed) it may allow <b>deficits</b> to be passed from one employer to another. For further details of the Fund's current pooling policy (see <a href="#">3.4</a> ).
<b>Profile</b>	The profile of an employer's membership or liability reflects various measurements of that employer's <b>members</b> , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its <b>maturity</b> also.
<b>Rates and Adjustments Certificate</b>	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal <b>valuation</b> . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
<b>Scheduled Bodies</b>	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
<b>Solvency</b>	In a funding context, this usually refers to a 100% <b>funding level</b> , ie where the assets value equals the <b>liabilities</b> value.
<b>Stabilisation</b>	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery

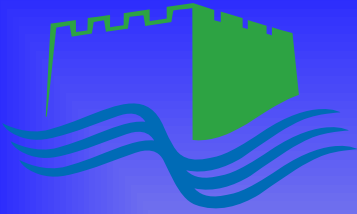
periods; higher discount rates; or some combination of these.

**Theoretical contribution rate**

The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.

**Valuation**

An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.



TOWER HAMLETS

The London Borough of Tower  
Hamlets Pension Fund  
Appendix 4  
Communications Strategy Statement



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## 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  
Mulberry Place  
5 Clove Crescent  
London E14 2BG

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 remain 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 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

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

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

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

### **Branding**

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

### **Accessibility**

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

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

Our objectives with regard to communication with members are:

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

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

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

## Explanation of communications

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

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

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

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

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

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

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

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

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

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

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

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

Our objectives with regard to communication with prospective members are:

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

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

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

**Explanation of communications**

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

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

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

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

**Policy on communication with Employing Authorities**

Our objectives with regard to communication with employers are:

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

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

**Our objectives will be met by providing the following communications:**

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

**Explanation of communications**

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

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

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

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

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



**Policy on communication with senior managers**

Our objectives with regard to communication with senior managers are:

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

Our objectives will be met by providing the following communications:

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

**Explanation of communications**

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

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

**Policy on communication with union representatives**

Our objectives with regard to communication with union representatives are:

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

Our objectives will be met by providing the following communications:

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

**Explanation of communications**

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

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

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

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

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

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

Our objectives will be met by providing the following communications:

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

**Explanation of communications**

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

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

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

**Policy on communication with pension section staff**

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

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

Our objectives will be met by providing the following communications:

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

**Explanation of communications**

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

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

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

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

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

**Policy on communication with tax payers**

Our objectives with regard to communication with tax payers are:

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

Our objectives will be met by providing the following communications:

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

**Explanation of communications**

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

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

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

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

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

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Pension Fund valuation reports <ul style="list-style-type: none"> <li>• Rates and Adjustments (R&amp;A) certificates</li> <li>• Revised R&amp;A certificates</li> <li>• Cessation valuations</li> </ul>	Electronic	Every three years	Via email	Government Departments)/ Her Majesty's Revenue and Customs HMRC)/all Scheme employers
Details of new employers entered into the Fund	Hard copy	As new employers are entered into the Fund	Post	Government Departments /HMRC
Formal resolution of pension disputes	Hard copy or electronic	As and when a dispute requires resolution	Via email or post	Scheme member or their 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 may be received, requesting specific information in relation to the structure of the LGPS or the make up of the Fund

### Performance Measurement

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

### Timeliness

We will measure against the following target delivery timescales:

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

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

**Quality**

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

**Results**

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

**Review Process**

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



**TOWER HAMLETS**

**The London Borough of Tower  
Hamlets Pension Fund  
Appendix 5  
Governance Compliance Statement**



## Governance and Compliance Statement

The London Borough of Tower Hamlets Council is the Administering Authority of the London Borough of Tower Hamlets Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers.

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) Administering Authorities to publish Governance Compliance Statements setting out information relating to how the Administering Authority delegates its functions under those regulations and whether it complies with guidance given by the Secretary of State for Communities and Local Government. It also requires the Authority to keep the statement under review and to make revisions as appropriate and where such revisions are made to publish a revised statement.

### Aims and Objectives

Tower Hamlets Council recognises the significance of its role as Administering Authority to the London Borough of Tower Hamlets Pension Fund on behalf of its stakeholders which include:

- around 15,000 current and former members of the Fund, and their dependants
- over 20 employers within the Tower Hamlets Council area or with close links to Tower Hamlets Council
- the local taxpayers within the London Borough of Tower Hamlets.

In relation to the governance of the Fund, our objectives are to ensure that:

- all staff and Pensions Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund aims to be at the forefront of best practice for LGPS funds
- the Fund manages Conflicts of Interest appropriately

### Structure

The Constitution of the Council sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and that those who made the decisions are accountable to local people.

The Constitution sets out the framework under which the Pension Fund is to be administered as described below.

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.

The governance structure is supported by:

- The Pensions Committee

- Officers of the Council; and
- Professional Advisors

### **Terms of Reference for the Pensions Committee**

The Constitution allows for the appointment of a Pensions Committee which has responsibility for the discharge of all non-executive functions assigned to it.

The following are the terms of reference for the Pensions Committee:

To act as Trustees of the Council's Pension Fund, consider pension matters and meet the obligations and duties of the Council under the Superannuation Act 1972, the Public Service Pensions Act 2013, and other pension legislation.

- 1) To make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, actuaries, advisers, investment managers and custodian's and periodically to review those arrangements.
- 2) To formulate and publish a Statement of Investment Principles.
- 3) To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and to develop a medium term plan to deliver the objectives.
- 4) To determine the strategic asset allocation policy, the mandates to be given to the investment managers and the performance measures to be set for them.
- 5) To make arrangements for the triennial actuarial valuation, to monitor liabilities and to undertake any asset/liability and other relevant studies as required.
- 6) To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles.
- 7) To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
- 8) To receive and approve an Annual Report on the activities of the Fund prior to publication.
- 9) To make arrangements to keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis.
- 10) To keep the terms of reference under review.
- 11) To determine all matters relating to admission body issues.
- 12) To focus on strategic and investment related matters at two Pensions Committee meetings.
- 13) To review the Pension Fund's policy and strategy documents on a regular basis and review performance against the Fund's objectives within the business plan
- 14) To maintain an overview of pensions training for Members.

In addition the Pensions Committee will also co-opt a non-voting employer representative and a non-voting scheme member representative.

## Membership of the Pensions Committee

The Council decides the composition and makes appointments to the Pensions Committee. Currently the membership of the Pensions Committee is a minimum of 7 elected Members from Tower Hamlets Council on a politically proportionate basis and the Pensions Committee will elect a Chair and Vice Chair. All Tower Hamlets Council elected Members have voting rights on the Committee and three voting members of the Committee are required to be able to deem the meeting quorate.

In addition there are two co-opted non-voting members representing employer and Scheme member interests. Although the co-opted representatives do not have voting rights they are treated as equal members of the Committee, they have access to all Committee Advisers, officers, meetings and training as if they were Council Members and have the opportunity to contribute to the decision making process.

Voting rights are restricted to elected Members as they are deemed to be fulfilling the role of Trustees as the Pension Fund with all the legal responsibilities that this entails, it was not felt appropriate to apply the same legal definition to the lay members of the Committee and hence their role as non-voting members.

Members of the Pensions Committee, including co-opted members, are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties; meetings are open to members of the public who are welcome to attend. However, there may be occasions when members of the public are excluded from meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed.

## Meetings

The Pensions Committee shall meet at least four times a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work. Work for the year will be agreed with the Committee to include dedicated training sessions for Committee members.

Agendas for meetings will be agreed with the Chair and will be circulated with supporting papers to all members of the Committee, Officers of the Council as appropriate and the Fund's Investment Advisor.

The Council will give at least five clear working days' notice of any meeting by posting details of the meeting at the Tower Hamlets Town Hall and on the Council's website. The Council will make copies of the agenda and reports open to the public available for inspection at least five clear working days before the meeting. If an item is added to the agenda later, the revised agenda will be open to inspection from the time the item was added to the agenda. The reason for lateness will be specified in the report.

There may on occasions be items which may be exempt from the agenda, reports and minutes of the meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed. Items which are most likely to be excluded are issues where to disclose information would contravene an individual's privacy or where there are financial interests which may be compromised as a result of disclosure for example discussions surrounding contracts.

The Council will make available copies of the minutes of the meeting and records of decisions taken for six years after a meeting. Minutes of meetings and records of decisions are available for inspection on the Council's website [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk).

### **Other Delegations of Powers**

The Pensions Committee act as quasi trustees and oversee the management of the Pension Fund. As quasi trustees the Committee has a clear fiduciary duty in the performance of their functions, they have to ensure that the Fund is managed in accordance with the regulations and to do so prudently and impartially and to ensure the best possible outcomes for the Pension Fund, its participating employers, local taxpayers and Scheme members. Whilst trustees can delegate some of their powers, they cannot delegate their responsibilities as trustees. **Appendix B outlines** the areas that the Pensions Committee has currently delegated though these may be added to from time to time.

Under the Council's Constitution delegated powers have been given to the Corporate Director of Resources in relation to all other pension fund matters, in addition to his role as Chief Financial Officer (often called S151 Officer). As Chief Financial Officer he is responsible for the preparation of the Pension Fund Annual Report & Accounts and ensuring the proper financial administration of the Fund. As appropriate the Corporate Director of Resources will delegate aspects of the role to other officers of the Council including the Investment & Treasury Manager and to professional advisors within the scope of the LGPS Regulations.

### **Pension Board**

With effect from 1 April 2015, each Administering Authority is required to establish a local Pension Board to assist them with:

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator
- ensuring the effective and efficient governance and administration of the Pension Fund

Such Pension Boards are not local authority committees; as such the Constitution of Tower Hamlets Council does not apply to the Pension Board unless it is expressly referred to in the Board's terms of reference. The Tower Hamlets Pension Board established by Tower Hamlets Council and the full terms of reference of the Board can be found within the Council's Constitution. The key points are summarised below.

### **Role of the Pension Board**

The Council has charged the Pension Board with providing oversight of the matters outlined above. The Pension Board, however, is not a decision making body in relation to the management of the Pension Fund and the Pension Fund's management powers and responsibilities which have been delegated by the Council to the Pensions Committee or otherwise remain solely the powers and responsibilities of them, including but not limited to the setting and delivery of the Fund's strategies, the allocation of the Fund's assets and the appointment of contractors, advisors and fund managers.

### **Membership of the Pension Board**

The Pension Board consists of 7 members as follows:

- Three Employer Representatives
- Three Scheme Member Representatives
- One Independent Member (non-voting) to act as chair of the Pension Board

Pension Board members, (excluding any Independent Member), have individual voting rights but it is expected the Pension Board will as far as possible reach a consensus.

A meeting of the Pension Board is only quorate when two of the six Employer and Scheme Member Representatives are present, and where the Board has an Independent Member they must also be present.

Members of the Pension Board are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

### **Meetings**

The Pension Board meets at least twice a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work. The Pension Board will be treated in the same way as a Committee of Tower Hamlets Council and, as such, members of the public may attend and papers will be made public in the same way as described above for the Pension Committee.

### **Policy Documents**

In addition to the foregoing, there are a number of other documents which are relevant to the Governance and management of the Pension Fund. Brief details of these are listed below and the full copies of all documents can either be found on the Pension Fund Website [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk) or by writing to the address given at the end of this document.

### **Funding Strategy Statement**

The Funding Strategy Statement forms part of the framework for the funding and management of the Pension Fund. It sets out how the Fund will approach its liabilities and contains a schedule of the minimum contribution rates that are required of individual employers within the Fund. The Funding Strategy Statement (FSS) is drawn up by the Administering Authority in collaboration with the Fund's actuary and after consultation with the Fund's employers. The FSS forms part of a broader framework which covers the Pension Fund and applies to all employers participating in the Fund. The FSS represents a summary of the Fund's approach to funding the liabilities of the Pension Fund.

### **Statement of Investment Principles**

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 require pension fund administering authorities to prepare, maintain and publish a statement of the principles governing their decisions on the investment of the pension fund.

The areas covered in the statement of investment principles are as follows:

- Types of investments to be held.

- Balance between different types of investments.
- Risk.
- Expected return on investments.
- Realisation of investments.
- The extent to which social, ethical and environmental considerations are taken into account.
- The extent to which the Council complies with the 6 Myners principles of investment practice (2008).

### **Governance Compliance Statement**

This sets out the Pension Fund's compliance with the Secretary of State's Statutory Guidance on Governance in the LGPS. This is attached as Appendix A and shows where the Fund is compliant or not compliant with best practice and the reasons why it may not be compliant.

### **Training Policy**

Tower Hamlets Council has a Training Policy which has been put in place to assist the Fund in achieving its governance objectives and all Pensions Committee members, Pension Board members and senior officers are expected to continually demonstrate their own personal commitment to training and to ensuring that the governance objectives are met.

To assist in achieving these objectives, the London Borough of Tower Hamlets Pension Fund aims to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and
- the Pensions Regulator's (TPR) Code of Practice for Public Service Schemes.

As well as any other LGPS specific guidance relating to the knowledge and skills of Pensions Committee members, Pension Board members or pension fund officers which may be issued from time to time.

Members of the Pensions Committee, Pension Board and officers involved in the management of the Fund will receive training to ensure that they meet the aims of the Training Policy with training schedules drawn up and reviewed on at least on annual basis.

### **Annual Report and Accounts**

As part of the financial standing orders it is the duty of the Chief Financial Officer to ensure that record keeping and accounts are maintained by the Pension Fund. The Pension Fund accounts are produced in accordance with the accounting recommendations of the Financial Reports of Pension Schemes - Statement of Recommended Practice. The financial statements summarise the transactions of the Scheme and deal with the net assets of the Scheme. The statement of accounts is reviewed by both the Pensions Committee and the Audit Committee and incorporated in the Statement of Accounts for the Council. Full copies of the Report and Accounts are distributed to employers in the Fund and other interested parties and a copy placed on the website [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk)

### **Communication Policy**

This document sets out the communications policy of the administering authority and sets out the strategy for ensuring that all interested parties are kept informed of developments in the Pension Fund. This helps to ensure transparency and an effective communication process for all interested parties. A copy of the policy can be found on the Pensions website [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk)

### **Discretions Policies**

Under the Local Government Pension Scheme regulations, the Administering Authority has a level of discretion in relation to a number of areas. The Administering Authority reviews these policies as appropriate and will notify interested parties of any significant changes. Employing Authorities are also required to set out their discretions policies in respect of areas under the Regulations where they have a discretionary power. Copies of both the Administering Authority and the London Borough of Tower Hamlets' Employing Authority Discretions can be found on the website [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk)

### **Pension Administration Strategy and Employer Guide**

In order to assist with the management and efficient running of the Pension Fund, the Pension Administration Strategy and Employer Guide encompassing administrative procedures and responsibilities for the Pension Fund for both the Administering Authority and Employing Authorities has been distributed to employers within the Fund following consultation and can be found on the website [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk).

This represents part of the process for ensuring the ongoing efficient management of the Fund and maintenance of accurate data and forms part of the overall governance procedures for the Fund.

### **Approval, Review and Consultation**

This Governance Policy and Statement was approved at the London Borough of Tower Hamlets Pensions Committee meeting on XXXXX following consultation with all the participating employers in the Fund and other interested parties. It will be formally reviewed and updated at least every year or sooner if the governance arrangements or other matters included within it merit reconsideration.

#### **Contact Information**

Further information on the London Borough of Tower Hamlets Pension Fund can be found as shown below:

London Borough of Tower Hamlets Pension Fund  
Mulberry Place  
5 Clove Crescent  
London  
E14 2BG

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

Website: [www.towerhamlets.gov.uk](http://www.towerhamlets.gov.uk)

<http://moderngov.towerhamlets.gov.uk/mgCommitteeDetails.aspx?ID=392>





PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
<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 and representatives of admitted bodies sit on the Pension Committee.
	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	A report of the Pensions Committee is presented at the following Pensions Committee. All key recommendations of the Pensions Committee 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 Pensions Committee are also members of the Pensions Committee.
<b>REPRESENTATION</b>	<p>That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee 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>	Compliant	Trade unions and admitted bodies are represented on the Pensions Committee.

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Compliant	Papers for Committee and the Pensions Committee 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/ Pensions Committee 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/ Pensions Committee does not currently confer voting rights on non-Councillors in line with common practice 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.

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
<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 Pensions Committee are arranged to take place quarterly.
	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	Union representatives on the Pensions Committee are lay members. Other stakeholders of the Fund are able to make representations at the Annual General Meeting of the Pension Fund.
<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/ Pensions Committee.
<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 a 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.



