



Meeting of the

AUDIT COMMITTEE

Tuesday, 29 September 2009 at 7.30 p.m.

SUPPLEMENTAL AGENDA

	PAGE NUMBER	WARD(S) AFFECTED
6 .1 Tower Hamlets Annual Governance Reports 2008/09 - Council's Accounts and Pension Fund		
	1 - 42	
7 .4 Pensions Fund Annual Report 2008-09		
	43 - 96	

If you require any further information relating to this meeting, would like to request a large print, Braille or audio version of this document, or would like to discuss access arrangements or any other special requirements, please contact:

Zoe Folley, Democratic Services

Tel: 020 7364 4877, E-mail: Zoe.Folley@towerhamlets.gov.uk

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Special Circumstances and Reasons for Urgency in relation to the Annual Governance Report

- The report sets out all matters that are relevant to members of the Audit Committee as this group is charged with responsibility of the Council's governance issues. A key part of this report is in relation to the final accounts work that the Audit Commission carry out to give their opinion on whether the accounts give a true and fair view which is still on going. The report could not be submitted earlier as a number of enquiries were being dealt with by officers and the Audit Commission. Although some enquiries still need to be dealt with, the majority have been resolved, and this is reflected in the report.
- The audit of final accounts is always reliant on many factors and occasionally, the need to fully understand the financial treatment of items in accounts and the appropriateness with standards can result in slightly later reporting. The Audit Committee meeting has also been brought forward from previous years which also means that there is additional time pressure in producing the final report.

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Annual Governance Report

Tower Hamlets Pension Fund

Audit 2008/09

September 2009

DRAFT

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission, explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non executive directors, members or officers and are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

2008/09 Annual Governance Report

I am pleased to present the draft version of my report on the results of my audit work for 2008/09.

A draft of this report was discussed and agreed with the Corporate Director of Resources on 21 September 2009.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- recommend approval of the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 4).

Yours faithfully

Jon Hayes
District Auditor

29 September 2009

Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from material error	No	6
Adequate internal control environment	Yes	7

Audit opinion

- 1 Subject to satisfactory completion of outstanding testing, I expect to issue an unqualified opinion on the Pension Fund financial statements on 30 September 2009.

Financial statements

- 2 The draft financial statements were submitted for audit on 29 June 2009, in accordance with the agreed timetable.
- 3 My audit identified one material error and a number of presentational amendments to the notes to the Fund Account. These are set out in paragraphs 7 and 8.

Next steps

This report identifies the key messages that you should consider before I issue my opinion on the pension fund's accounts, which forms part of my report on the Council's financial statements. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

4 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- take note of the adjustments to the Pension Fund's accounts which are set out in this report (Appendix 2);
- approve the letter of representation on behalf of the Council before I issue my opinion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 4).

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Financial statements

The Pension Fund’s accounts are important means by which the Fund accounts for its stewardship of pension funds. The Council has a final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.

Opinion on the financial statements

- 5 Subject to satisfactory clearance of the outstanding matter below, I plan to issue an audit report on the Council’s financial statements that includes an unqualified opinion on the Pension Fund’s accounts. Appendix 1 contains a copy of my draft audit report.
- 6 My work on the financial statements is substantially complete but not yet finalised. I expect to conclude my work in this area shortly. The key area outstanding is to receive and review the Pension Fund’s Governance Compliance Statement.

Errors in the financial statements

- 7 The draft financial statements contained one material classification error, which was in the Net Assets Statement. Fixed interest securities investment assets of £10,736k had been incorrectly classified as a debtor. This was due to a coding error.
- 8 Our audit identified a number of amendments that were required to the notes to the Fund Account to disclose correctly contributions receivable and benefits payable relating to scheduled and admitted bodies. These were included within contributions receivable and benefits payable relating for the Council in the draft financial statements.
- 9 Management has agreed to adjust the financial statements for the above matters. A summary of these adjustments is contained in Appendix 2.

Recommendations

- | |
|---|
| R1 Ensure that balances are appropriately classified in the Net Assets Statement. |
| R2 Analyse correctly the split of contributions receivable and benefits payable between the Council and admitted and scheduled bodies. |

Letter of representation

- 10 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

Appendix 1 – Independent auditor’s report to Members of the London Borough of Tower Hamlets

Key areas of judgement and audit risk

11 In planning the audit specific risks were identified and areas of judgement were considered as part of the audit. The findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
<p>Contributions</p> <p>With effect from 1 April 2008, employees' contributions to the LGPS are on a tiered basis with differing rates depending on the band in which their pensionable pay for the previous year fell. There is a risk that contributions will not be deducted and collected at the right rates.</p>	<p>Our testing confirmed that the new contribution rates have been entered on the payroll system and that deductions have been made correctly.</p>
<p>Investments</p> <p>The volatility in world financial markets impacts upon the value of the Pension Fund's investment holdings. There are risks around accurate recording at the year end and the adequacy of funding levels.</p>	<p>Our testing has not identified any errors regarding the valuation of Pension Fund investments.</p>

Accounting practice and financial reporting

12 I consider the qualitative aspects of your financial reporting. Table 2 contains the issues I want to raise with you.

Table 2

Issue or risk	Finding
<p>The Pension Fund accounts do not comply fully with the SORP</p>	<p>Our audit identified instances where the supporting notes to the accounts were incomplete and did not comply fully with the SORP requirements. In particular:</p> <ul style="list-style-type: none"> • there is no reconciliation between the opening and closing value of investments; • the level of funding and commentary on the deficit is not disclosed; and • management expenses are not analysed.
<p>Separation of bank accounts for</p>	<p>The Council does not maintain a separate bank</p>

Appendix 1 – Independent auditor’s report to Members of the London Borough of Tower Hamlets

Issue or risk	Finding
Pension Fund and Council cash	account for the Pension Fund. Although this is not yet a legal requirement, holding pension fund cash in a dedicated account would improve transparency and governance.

Recommendation	
R3	Ensure the Pension Fund accounts comply fully with the disclosure requirements of the SORP.
R4	Establish and maintain a separate bank account for pension fund cash.

Appendix 1 – Independent auditor’s report to Members of the London Borough of Tower Hamlets

Opinion on the Authority accounting statements

I have audited the Authority and Group accounting statements and related notes of the London Borough of Tower Hamlets for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account the Collection Fund and the related notes. The Authority and Group accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the London Borough of Tower Hamlets in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Corporate Director of Resources and auditor

The Corporate Director of Resources’s responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority and Group accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

Appendix 1 – Independent auditor’s report to Members of the London Borough of Tower Hamlets

I read other information published with the Authority and Group accounting statements and related notes and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

Opinion

In my opinion:

- the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- the Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Group as at 31 March 2009 and its income and expenditure for the year then ended.

Opinion on the pension fund accounts

I have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the London Borough of Tower Hamlets in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Corporate Director of Resources and auditor

The Corporate Director of Resources’s responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Appendix 1 – Independent auditor’s report to Members of the London Borough of Tower Hamlets

My responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

Opinion

In my opinion, the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered,

Appendix 1 – Independent auditor’s report to Members of the London Borough of Tower Hamlets

whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, I am satisfied that, in all significant respects, the London Borough of Tower Hamlets made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Jon Hayes
District Auditor

Audit Commission
1st Floor, Millbank Tower
Millbank
London
SW1P 4HQ

30 September 2009

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Appendix 2 – Adjusted amendments to the Pension Fund accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 3 Amended misstatements

		Fund Account		Net Assets Statement	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Net assets statement: Fixed interest securities	Misclassification of balance.			10,736	
Net assets statement: Debtors					10,736

		Dr £000s	Cr £000s
		Note 4	
Pensions payable Council	To separately disclose the amounts payable in respect of the Council and Admitted bodies and correct a misclassification in the type of benefit payable.		117
Pensions payable Admitted bodies		117	
Lump sums payable Council			970
Lump sums payable Admitted bodies		712	
Death grant		258	

Appendix 3 – Draft letter of representation

Dear Jon

Tower Hamlets Pension Fund - Audit for the year ended 31 March 2009

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other officers of Tower Hamlets Council, the following representations given to you in connection with your audit of the Pension Fund's financial statements for the year ended 31 March 2009.

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

The Pension Fund has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Pension Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Members meetings, have been made available to you.

Related party transactions

We confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Contingent assets and contingent liabilities

There are no other contingent assets or contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and

Appendix 3 – Draft letter of representation

- no financial guarantees have been given to third parties, other than those already disclosed in the financial statements.

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Pension Fund.

The body has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Irregularities

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

We also confirm that we have disclosed:

- our knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Post balance sheet events

Since the date of approval of the financial statements by Members of the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Signed on behalf of Tower Hamlets Pension Fund

Kevan Collins
Interim Chief Executive

Chris Naylor
Corporate Director of Resources

Appendix 4 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Governance Report 2008/09 - Recommendations						
6	R1 Ensure that balances are appropriately classified in the Net Assets Statement.	3				
6	R2 Analyse correctly the split of contributions receivable and benefits payable between the Council and admitted and scheduled bodies.	2				
8	R3 Ensure the Pension Fund accounts comply fully with the disclosure requirements of the SORP.	2				
8	R4 Establish and maintain a separate bank account for pension fund cash.	2				

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Annual Governance Report

London Borough of Tower Hamlets

Audit 2008/09

September 2009

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
-

2008/09 Annual Governance Report

I am pleased to present the draft version of my report on the results of my audit work for 2008/09.

A draft of this report was discussed and agreed with the Corporate Director of Resources on 21 September 2009.

The report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 11);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- recommend approval of the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Yours faithfully

Jon Hayes
District Auditor

22 September 2009

Key messages

This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.

Financial Statements	Results	Page
Unqualified audit opinion	Yes	6
Financial statements free from material error	No	6
Adequate internal control environment	Yes	8
Value for money		
Arrangements to secure value for money	Yes	10

Audit opinion

- 1 Subject to satisfactory completion of outstanding testing and the resolution of the remaining issues noted in paragraph 7, I expect to issue an unqualified opinion on the financial statements on 30 September 2009. I also plan to issue my certificate at the same time.

Financial statements

- 2 The draft financial statements were submitted for audit on 29 June 2009 in accordance with the agreed timetable. These financial statements were complete but contained two material errors which have been amended for in the final version.
- 3 My audit identified other non-trivial amendments which were adjusted by management. These are summarised in Appendix 2.

Value for money

- 4 I propose issuing a conclusion that the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are adequate (see page 10).

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

5 I ask the Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- note the value for money conclusion (page 10);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members, you have final responsibility for these statements. It is important that you consider my findings before the financial statements and the annual governance statement are authorised for issue.

Opinion on the financial statements

- 6 Subject to satisfactory completion of my work and the clearance of the outstanding matters detailed below, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
- 7 My work on the financial statements is substantially complete but not yet finalised. I expect to conclude my work in this area shortly. The key areas outstanding are:
 - consideration of whether leases for photocopiers are appropriately classified as operating leases; and
 - finalising our testing of the Group Accounts, the Collection Fund and related party transactions.

Errors in the financial statements

- 8 My audit identified two material changes to the draft financial statements, both of which have been amended by management:
 - following a verification exercise of its fixed asset database, the Council identified £120m of fixed assets that were incorrectly included in its balance sheet. The majority of this balance, £100m, related to voluntary aided schools. In the draft financial statements, these assets were removed in year via an entry for losses on disposal of fixed assets in the Income and Expenditure Account. Given that the value of the assets removed was fundamental to the value of the Council's opening balance sheet, this should have been disclosed as a prior period adjustment;
 - £24.4m of long term debt in relation to deferred consideration for PFI had been incorrectly classified as a short-term debtor.
- 9 A number of non-trivial adjustments were made to the draft financial statements and these are summarised in Appendix 2.

Recommendations

- R1** Ensure that errors identified in previous year's financial statements are appropriately classified as prior period adjustments in line with Financial Reporting Standard 3.

Financial statements

R2 Correctly classify amounts falling due to the Council after a period of one year as long term debtors.

Letter of representation

10 Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you. The draft letter includes a specific representation that is sought in respect of potential legal claims arising from the winding up of the Local Authority Mutual Limited (LAML) arrangement.

Key areas of judgement and audit risk

11 In planning my audit, I identified specific risks and areas of judgement that I have considered as part of my work. My findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
The Council established Tower Hamlets Homes, the ALMO, during the year. The relationship between the Council and the ALMO should be reflected in the financial statements in accordance with the SORP.	The Council has prepared Group Accounts to reflect its relationship with the ALMO. We are satisfied that Group Accounting is appropriate for the ALMO. The Group Accounts contained in the draft financial statements were consolidated appropriately and are materially correct.
The current economic climate increased the risk of an impairment arising on the Council's fixed assets and financial instruments (namely, investments).	The Council conducted an impairment review of its fixed assets and has appropriately accounted for the decrease in value arising from current economic conditions. The Council has reviewed its financial instruments and determined that no impairment is required. We are satisfied that impairments have been considered and reflected appropriately in the draft financial statements.
Our 2007/08 Annual Governance Report highlighted the following issues in respect of last year's draft financial statements: <ul style="list-style-type: none">HRA subsidy receivable had not been calculated using the latest available guidance;	My work found that for 2008/09 internal debtors and creditors were correctly excluded from the draft financial statements. My work on the cash flow statement and HRA subsidy receivable is in progress. However, no material issues have been identified to date.

Issue or risk	Finding
<ul style="list-style-type: none"> the cash flow statement contained a number of material errors and had to be re-drafted; and internal debtors and creditors had not been excluded from the consolidated accounts. 	
<p>There have been changes in the key staff responsible for preparing the draft financial statements.</p>	<p>The quality of the closedown processes has improved since last year. The Council is restructuring the financial reporting team and is recruiting permanent staff.</p>

Accounting practice and financial reporting

12 I consider the qualitative aspects of your financial reporting. While our audit has identified two material errors, we have noted an improvement in the quality of the draft financial statements since 2007/08. The Council is currently restructuring its financial reporting to continue to secure further improvement.

Material weaknesses in internal control

13 I have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware. However, we have found the following weaknesses in the operation of controls:

- our testing of a total sample of 40 journals found that in five cases, no evidence could be provided of appropriate authorisation;
- our documentation of the payroll system found that there were no systematic checks in place to ensure that leavers are removed from the payroll correctly;
- the Council has an internal target of issuing invoices within five days of receiving an invoice request. Our testing of a sample of 20 invoices found that in five cases, this target was not met (in two of these cases, the invoices were not issued within 14 working days);

Recommendation
<p>R3 Ensure that all journals are appropriately authorised and that audit trails are retained to demonstrate authorisation.</p>
<p>R4 Introduce controls to ensure that all leavers are removed from the payroll correctly.</p>
<p>R5 Issue invoices promptly to help secure collectability of the debt.</p>

Other governance matters

- 14** In the course of my work this year, I have assessed the Council's arrangements for maintaining sound governance and securing value for money with regard to the termination of the employment of the Council's former Chief Executive. I identified a number of weaknesses. In particular that:
- the termination was announced and made public before the proper processes had been completed;
 - options to mitigate the potential costs to the public purse were not initially considered; and
 - legal and financial advice was not obtained on a timely basis.
- 15** As a result, the Council may have incurred costs in reaching an agreement with the former Chief Executive that could have been avoided. In addition, a Chief Executive whose performance had previously been deemed by the Council to be satisfactory has left its employment. The Council's legal advice was that the final agreement reached was lawful, given the situation that had arisen.
- 16** The Council needs to ensure that such weaknesses do not recur in any future chief officer terminations, in order to maintain proper governance and value for money and to protect the Council's reputation.

Recommendation
R6 Ensure that proper processes are followed for any future terminations of chief officer employment.

Value for money

I am required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. My conclusion is informed by my work on the scored use of resources judgement.

Value for money conclusion

- 17 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. My conclusions on each of the areas are set out in Appendix 4.
- 18 The Council's system of internal control is adequate and has been operatively effectively during 2008/09. I therefore intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains the wording of my draft report.

Appendix 1 – Independent auditor’s report to Members of the London Borough of Tower Hamlets

Opinion on the Authority accounting statements

I have audited the Authority and Group accounting statements and related notes of the London Borough of Tower Hamlets for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account the Collection Fund and the related notes. The Authority and Group accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the London Borough of Tower Hamlets in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Corporate Director of Resources and auditor

The Corporate Director of Resources’ responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the Authority and Group accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority and Group accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

Appendix 1 – Independent auditor’s report to Members of the London Borough of Tower Hamlets

I read other information published with the Authority and Group accounting statements and related notes and consider whether it is consistent with the audited Authority and Group accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority and Group accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority and Group accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority and Group accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority and Group accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion, I also evaluated the overall adequacy of the presentation of information in the Authority and Group accounting statements and related notes.

Opinion

In my opinion:

- the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- the Group financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Group as at 31 March 2009 and its income and expenditure for the year then ended.

Opinion on the pension fund accounts

I have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the London Borough of Tower Hamlets in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Corporate Director of Resources and auditor

The Corporate Director of Resources’s responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Appendix 1 – Independent auditor’s report to Members of the London Borough of Tower Hamlets

My responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword published in the financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

Opinion

In my opinion, the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority’s Responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that

Appendix 1 – Independent auditor’s report to Members of the London Borough of Tower Hamlets

the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, I am satisfied that, in all significant respects, the London Borough of Tower Hamlets made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Jon Hayes
District Auditor

Audit Commission
1st Floor, Millbank Tower
Millbank
London
SW1P 4HQ

30 September 2009

Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

Table 2

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Opening balance - Revaluation Reserve Capital Adjustment Account (carrying value)	To adjust the opening balance to reflect the correct position on assets owned by the Council following the verification exercise.			120,525	
Opening balance – fixed assets (carrying value)					120,525
Long term debtors	Misclassification of a long term debtor relating to PFI deferred consideration.			24,374	
Short term debtors					24,374
Provisions	Reclassification to better reflect the nature of financial incentives granted by the lessor when the Council renewed the leases for Mulberry Place and Anchorage House.			11,006	
Deferred liability					11,006

Appendix 3 – Draft letter of representation

Dear Jon

London Borough of Tower Hamlets - Audit for the year ended 31 March 2009

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other officers of the London Borough of Tower Hamlets, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009 and the associated financial statements of its pension fund.

We acknowledge our responsibility under the relevant statutory authorities for preparing the financial statements which present fairly and for making accurate representations to you.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Members meetings, have been made available to you.

Related party transactions

We confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

Contingent assets and contingent liabilities

There are no other contingent assets or contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties, other than those already disclosed in the financial statements.

Appendix 3 – Draft letter of representation

Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The body has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Irregularities

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

We also confirm that we have disclosed:

- our knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

Post balance sheet events

Since the date of approval of the financial statements by Members of the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements.

Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

Specific representations

The Council investment of £345,000 in Local Authority Mutual Limited (LAML) is expected to be fully recoverable. No legal action is currently being pursued against the Council and no similar claims have been received or are expected to be received.

Signed on behalf of London Borough of Tower Hamlets

Kevan Collins, Interim Chief Executive Chris Naylor, Corporate Director of Resources

Appendix 4 – Value for money criteria

KLOE	Met
Managing Finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes
Strategic asset management	Yes
Workforce	N/A

The 'Workforce' criterion is not assessed at London Boroughs in 2008/09.

Appendix 5 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Annual Governance Report 2008/09 - Recommendations					
6	R1 Ensure that errors identified in previous year's financial statements are appropriately classified as prior period adjustments in line with Financial Reporting Standard 3.	3				
6	R2 Correctly classify amounts falling due to the Council after a period of one year as long term debtors.	3				
8	R3 Ensure that all journals are appropriately authorised and that audit trails are retained to demonstrate authorisation.	2				
8	R4 Introduce controls to ensure that all leavers are removed from the payroll correctly.	2				
8	R5 Issue invoices promptly to help secure collectability of the debt.	1				
9	R6 Ensure that proper processes are followed	2				

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	for any future terminations of chief officer employment.					

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

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COMMITTEE: Audit Committee	DATE: 29th September 2009	CLASSIFICATION: Unrestricted	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director of Resources ORIGINATING OFFICER(S): Ian Talbot, Chief Financial Strategy Manager		TITLE: Local Government Pension Scheme Annual Report Ward(s) affected: N/A		

Special Circumstances and Reasons for Urgency

- The report was unavailable for public inspection within the standard timescales set out in the Authority's Constitution because of the continuation of discussions with the Audit Commission over its contents.
- The Corporate Director of Resources recommends that the Committee considers the report to facilitate compliance with statutory requirements.

1. **SUMMARY**

- 1.1 This report asks the Committee to note the Pension Fund Annual Report.

2. **RECOMMENDATIONS**

- 2.1 Members are recommended

- 2.1.1 To note the attached Pension Fund Annual Report.

BACKGROUND

- 3.1 Under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008 all Local Government Pension Scheme administering authorities must publish an annual report to be made available to scheme members and pensioners
- 3.2 The content of the Report is specified in some detail in the Regulations and in the Department for Communities and Local Government draft guidance. The report provides information on the performance and governance of the Fund in the 2008/09 financial year.
- 3.3 A draft report was considered by the Pensions Committee on 13 August and a copy passed to the Audit Commission for consideration as part of their audit of the Council's annual accounts. The amendments required by the auditors have now been included.

4. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 4.1. The comments of the Corporate Director Resources have been incorporated into the report.

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

- 5.1 Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008 imposes a duty on the Council as an administering authority to prepare a pension fund annual report. The obligation commences on 1 April 2008 and thus applies to the 2008/2009 financial year.
- 5.2 The report should deal with the following matters:
 - (a) management and financial performance during the year of the pension;
 - (b) an explanation of the investment policy for the fund and a review of performance;
 - (c) a report on arrangements made during the year for administration of the fund;
 - (d) a statement by an actuary who carried out the most recent valuation of the fund and the level of funding disclosed by that valuation;
 - (e) a Governance Compliance Statement;

- (f) a Fund Account and Net Asset Statement;
- (g) an Annual Report dealing with levels of performance and any other appropriate matters;
- (h) the Funding Strategy Statement;
- (i) the Statement of Investment Principles;
- (j) statements of policy concerning communications with members and employing authorities; and
- (k) any other material which the authority considers appropriate.

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 The employer's contribution is a significant element of the Council's budget and consequently the performance of the Fund affects the funds available for other corporate priorities.
- 6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

7. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 7.1 There are no Sustainable Action for A Greener Environment implications.

8. RISK MANAGEMENT IMPLICATIONS

- 8.1 The management of the Pension Fund inevitably involves a degree of risk and the methods used to mitigate it are covered fully in the attached draft Report.

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

Brief description of "background papers"

Directorate Submissions

***Name and telephone number of holder
And address where open to inspection***

*Ian Talbot Ext. 4733
Mulberry Place, 4th Floor.*

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Message from Chris Naylor: Corporate Director Resources

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

The Fund has been subject to the current volatility in financial markets. This has resulted in a reduction in fund value of approximately 18% for the year which broadly corresponds to the experience of other pension funds. The performance was enhanced by the exposure to bonds which achieved positive returns which offset the falls in world stockmarkets of up to 30%. This demonstrates the prudence of a diversified portfolio.

It should however 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 unlike pension providers in the private sector.

All pension funds are subject to considerable financial challenges in the future relating to increasing life expectancy and falling investment returns which will inevitably impact on funding and employers' contribution levels. At the same time Council budgets will be subject to pressures resulting from the economic downturn.

Current legislation however provides that the level of Scheme members' basic pension entitlement and contributions are not affected by the financial position of the Fund. It is the responsibility of the Council to ensure that pension entitlements are fully funded and that the impact on Council Tax is minimised.

Chris Naylor

Governance of the Fund's Investments

The Pensions Committee consider all investment aspects of the Pension Fund.

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

During 2008-09 the members of the Investment Panel were: -

Members of the Pensions Committee	Councillor Joshua Peck Councillor Marc Francis Councillor Shiria Khatun Councillor Denise Jones Councillor Fozol Miah Councillor David Snowdon	
Council Officer	Alan Finch	Service Head – Corporate Finance
Professional Advisors	Raymond Haines (Chair of Investment Panel)	Head of Structured Risk Management LV Asset Management
	David O'Hara	Investment Advisor: Hymans Robertson & Co.
Trade Union Representatives	UNISON and GMB	

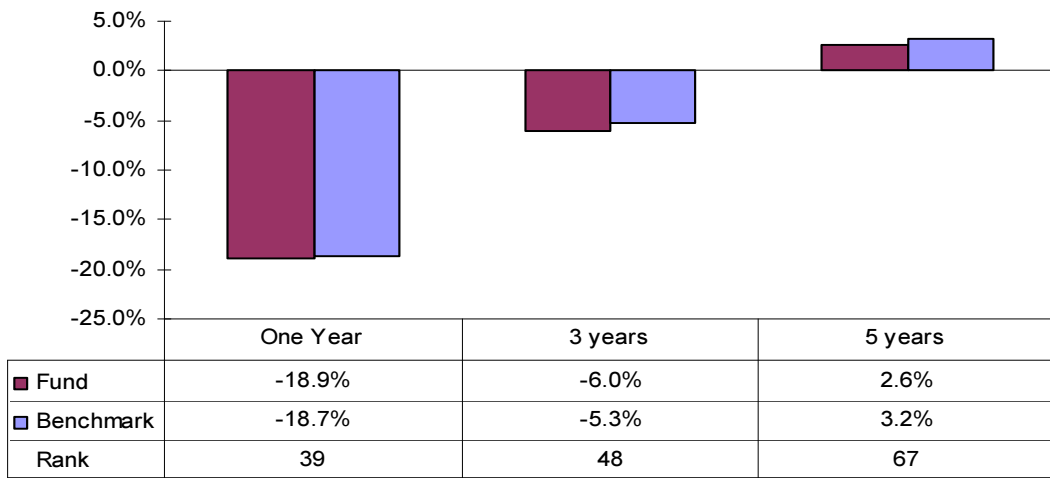
In addition the following organisations assisted in the administration of the Fund's investments during 2008/09: -

Hymans Robertson & Co The WM Company	Actuarial Services Investment Performance Measurement
Audit Commission State Street	External Audit Custody Services
Schroders Investment Management, Aberdeen Asset Management, GMO, Baillie Gifford , Martin Currie Investment Management,Auriel Capital Management and Record Currency Management Limited .	Investment Management

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 2008/09 the fund achieved a return on its investment portfolio of -18.9% which was marginally below the benchmark return of -18.7%. The negative returns reflect the continuing turbulence in world financial markets resulting from the liquidity crisis.



This performance ranked the Fund 39th out of the approximately 100 Councils participating in the WM Company survey.

The performance demonstrates that the changes to the investment management structure are starting to impact on performance because the spread between Fund performance and the benchmark return has narrowed in the shorter periods. This is also reflected in the improved ranking which compares the performance of this fund against that of other Councils.

The relatively poor performance over the other periods is attributable to disruption from the restructuring of the fund to address long term underperformance.

Fund Management Activity

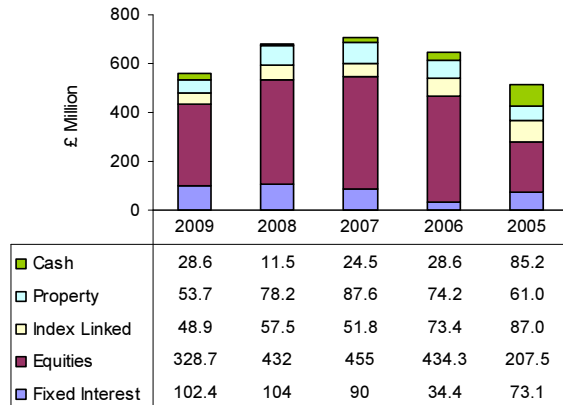
The year was essentially a period of consolidation in which the manager appointments and asset allocation changes resulting from the restructuring initiated in 2004/05 were allowed to develop. However the Investment Panel did initiate a review of the fixed interest mandate because of concerns over manager performance.

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

Financial Accounts

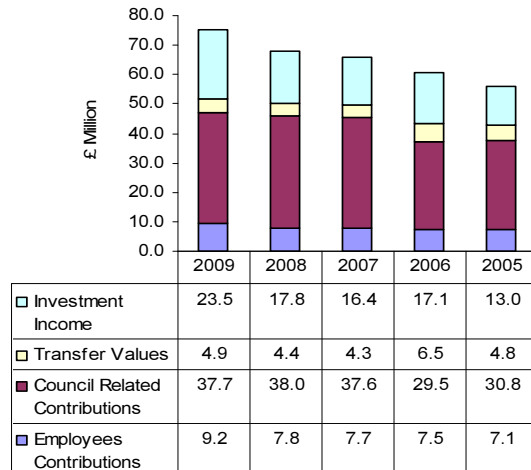
During the financial year 2008/09 the value of the Fund fell by £121m. The change in the value of the fund is principally attributable to the performance of the financial markets in which the Council holds its investments.

Fund Value



The income of the Fund has increased by £7.3 million (11%) over the year with the increase principally resulting from investment income. Over the five year period the main reason for the increase has been additional investment income of £10.5 million (81%) followed by the Council's contribution which has increased by £6.9 million (22%). The increase in the employer's contribution corresponds to that specified by the actuary as part of the deficit recovery strategy.

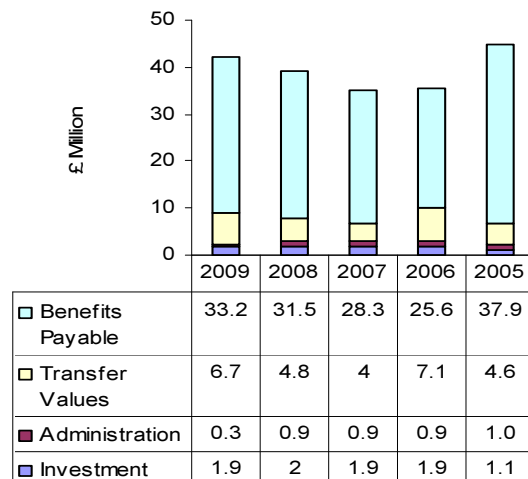
Income



The increase in the employee's contributions reflects the new graduated contributions payable under the revised pension regulations issued by the Government.

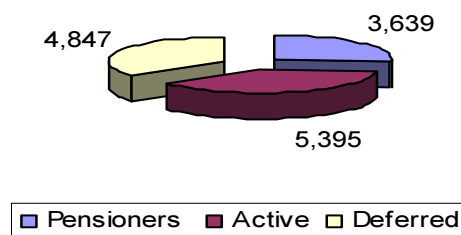
Over the year costs have increased by £2.9 million (7%). The increase is principally attributable to an increase in the benefits payable by £1.7 million (5%) and transfer values of £1.9 million (40%). Transfer values are the amounts paid over when Fund members transfer their benefits from one fund to another.

Costs



Pension Fund Accounts and Report 2008/09

The Fund currently has a membership of 13,881 comprising the elements as set out in the graph.



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

The full accounts are as set out in Appendix 1. The accounts were audited by the Council's external auditors the Audit Commission.

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 Policy Statement

Appendix 6 Governance Compliance Statement

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

Pension Fund Accounts and Report 2008/09

Appendix 1

PENSION FUND ACCOUNTS

	Note	2009 £'000	2008 £'000
FUND ACCOUNT AS AT 31ST MARCH			
Dealings with members, employers and others directly involved in the scheme			
Income			
Contributions receivable from			
Employers	3	37,755	38,015
Employees or members	3	9,164	7,784
Transfer values receivable (individual)		4,862	4,426
Total income		51,781	50,225
Expenditure			
Benefits payable			
Pensions	4	26,685	25,088
Lump sum payments/grants	4	6,495	6,383
Payments to and on account of leavers			
Refunds of contributions		6	10
Transfer values payable (individual)		6,679	4,803
Administration		326	946
Contributions equivalent premium		30	3
Total expenditure		40,221	37,233
NET ADDITIONS FROM DEALINGS WITH MEMBERS		11,560	12,992
RETURN ON INVESTMENTS			
		2008/2009	2007/2008
		£'000	£'000
Investment income	10	23,535	17,780
Change in market value: Realised		(81,917)	65,861
Change in market value: Unrealised		(72,192)	(116,253)
Investment management expenses		(1,875)	(2,001)
NET RETURN ON INVESTMENTS		(132,449)	(34,613)
Net decrease in the the fund during the year	11	(120,889)	(21,621)
Opening net assets of the scheme	11	683,222	704,843
CLOSING NET ASSETS OF THE SCHEME		562,333	683,222
NET ASSETS STATEMENT AS AT 31ST MARCH			
		2009	2008
		£'000	£'000
Investments Assets			
Fixed interest securities - Public Sector		54,006	39,262
Fixed interest securities - Private Sector		39,363	52,340
Fixed interest securities - Overseas		9,078	12,366
Index Linked Securities - Public Sector		48,922	57,501
Equities - UK		108,288	168,745
Equities - Overseas		220,378	263,343
Managed and Unitised Funds			
Property		53,668	78,188
Other		23,887	34
		557,590	671,779
Other Net Assets			
Debtors less Creditors		1,215	2,978
Cash		3,528	8,465
TOTAL NET ASSETS		562,333	683,222

Pension Fund Accounts and Report 2008/09

NOTES TO THE PENSION FUND ACCOUNT

1. INTRODUCTION

The Pension Fund is 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 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 employees, from the employer and from interest and dividends 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. The only items that are required to be excluded by regulations are liabilities to pay pensions and other benefits in the future which are reported on separately in the actuary's statement.

2. ACCOUNTING POLICIES

(a) Accounts

The accounts summarise the transactions and net assets of the Pension Fund and comply in all material respects with the Statement of Recommended Practice (Financial Reports of Pensions Schemes), but the disclosure requirements are limited to those shown below.

(b) Basis of preparation

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

The financial statements of the Fund do not take account of liabilities to pay pensions and other benefits after 31st March 2009.

(c) Investments

Investments are shown in the Net Assets Statement at their market value, which has been determined as follows:

- (i) Listed securities are shown by reference to bid price at the close of business on 31 March 2009
- (ii) Unit trust and managed fund investments are stated at the mid point of the latest prices quoted by their respective managers prior to 31 March 2009.
- (iii) Where appropriate, investments held in foreign currencies have been valued on the relevant basis and translated into sterling at the rate ruling on the 31 March 2009.
- (iv) Freehold property and leasehold property are included on the basis of their open market value.

3. CONTRIBUTIONS

Contributions represent the total amounts receivable from the employing authority in respect of its own contributions and those of its pensionable employees. The employers' contributions are made at a rate determined by the Fund's actuary necessary to maintain the Fund in a state of solvency, having regard to existing and future liabilities. The Primary Contribution Rate used during the financial year ending 31 March 2009 was 15.8%. Contributions shown in the revenue statement may be categorised as follows:

	2008/2009	2007/2008
	Total £'000	Total £'000
Employees		
Council employees normal contributions	8,611	7,542
Admitted bodies employees normal contributions	553	242
Employee contributions	9,164	7,784
Employers		
Council normal employer's contributions	20,247	18,198
Admitted bodies normal employer's contributions	1,704	490
Council special employer's contributions	21,951	18,688
Employers' contributions	37,755	38,015
Total contributions	46,919	45,799

Note: The Council is required to operate an Additional Voluntary Contributions (AVC) scheme for employees. In 2008/09 employees made contributions of £53,873 into the AVC Scheme operated by Norwich Union. The contributions are not included in the Pension Fund Accounts but are deducted from salaries and remitted directly to the provider.

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4. BENEFITS, REFUNDS OF CONTRIBUTIONS AND TRANSFER VALUES

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

	2008/2009	2007/2008
	Total £'000	Total £'000
Pensions		
Council	26,685	24,660
Admitted bodies		428
	<u>26,685</u>	<u>25,088</u>
Lump sums		
Council	6,495	6,383
Admitted bodies		
	<u>6,495</u>	<u>6,383</u>
TOTAL BENEFITS	33,180	31,471

5. DEBTORS AND CREDITORS

All transactions are accounted for on an accruals basis. The following material amounts were due to, or payable from, the Pension Fund as at 31st March 2009. All amounts related to the administering authority

	2008/2009	2007/2008
	£'000	£'000
Amounts receivable		
Investment sales	8,350	1,122
Dividends receivable	1,407	2,212
Tax recoverable	371	236
Interest receivable	705	523
Admitted Bodies' Contributions	114	309
	<u>10,947</u>	<u>4,402</u>
Amounts payable		
Investment purchases	8,920	895
Lump sums payable	282	(10)
Administration expenses	530	539
	<u>9,732</u>	<u>1,424</u>
Amounts receivable less amounts payable	1,215	2,978

6. CASH

The cash balance can be further analysed as follows:

	2008/2009	2007/2008
	£000	£000
GMO	2,406	2,915
INVESTEC		33
Aberdeen: Fixed Interest Portfolio	1,996	958
Aberdeen: UK Equities	1,462	238
Schroders: Multi Asset Portfolio	13	(1)
Schroders: Property Portfolio	319	2,097
Martin Currie	666	1,165
Merrill Lynch	30	1
London Borough of Tower Hamlets	(3,364)	1,059
TOTAL CASH	3,528	8,465

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7. TAXATION

UK Income Tax

The fund is an exempt approved fund under the Finance Act 1970 and is therefore not liable to UK income tax on interest, dividends and property income, nor to capital gains tax.

Value Added Tax

By virtue of the Council being the administrating authority, VAT input tax is recoverable on all fund activities.

Overseas Tax

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

8. MEMBERSHIP OF THE FUND

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

	2009	2008
London Borough of Tower Hamlets		
Active Members	4,865	5,382
Pensioners	3,561	3,590
Deferred Pensioners	4,664	4,328
	13,090	13,300
Admitted Bodies		
Active Members	530	148
Pensioners	78	54
Deferred Pensioners	183	180
	791	382

The following bodies have been admitted into the Fund:

- Tower Hamlets Community Housing
- Redbridge Community Housing Limited
- East End Homes
- Greenwich Leisure Limited
- Swan Housing
- Bethnal Green and Victoria Park Housing Association
- Toynbee Housing Association
- Tower Hamlets Homes
- Bees

During the financial year the Council established an Arms Length Management Organisation - Tower Hamlets Homes - to manage its dwellings stock. This process involved the transfer of 397 scheme members and the admission of Tower Hamlets Homes into the scheme as a scheduled employer.

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9. INVESTMENT MANAGEMENT

The structure in the year was as set out below.

<u>Manager</u>	<u>Mandate</u>
GMO	Global Equity
Martin Currie	UK Equity
Schroders property	Property
Investec	Residual Venture Capital Fund
Baillie Gifford	Overseas Equities
Aberdeen Bonds	Fixed Interest, UK Equities and Private Equity*
Auriel	Currency manager
Record	Currency manager

The market value of the fund comprises the following.

	2008/2009		2007/2008	
	£ million	%	£ million	%
GMO	138.2	24.4	173.5	25.4
Martin Currie	65.9	11.6	88.5	13.0
Schroders property	61.8	10.9	80.4	11.8
Aberdeen Bonds	153.2	27.1	162.9	23.8
Aberdeen Equities	45.6	8.1	67.1	9.8
Baillie Gifford	85.3	15.1	109.8	16.1
Auriel	9.8	1.7		
Record	6.4	1.1		

The relatively high level of trading activity in the previous year reflects the transition from a balanced to a specialist management structure. The purchases and sales are set out below:

	2008/2009	2007/2008
	£'000	£'000
Purchases	256,833	497,948
Sales	(310,484)	(393,494)
NET SALES	(53,651)	104,454

There were no stock lending arrangements operational in the year.

The movement in market value of securities held may be summarised as follows:

	Market Value 1 Apr 2008	Purchases	Sales	Change in Market Value	Market Value 31 Mar 2009
	£000	£000	£000	£000	£000
GMO	169,630	97,565	(93,421)	(38,739)	135,035
Baillie Gifford	109,762	0	0	(24,424)	85,338
Martin Currie	86,468	52,908	(59,564)	(14,970)	64,842
Aberdeen Equities	66,228	8,191	(19,588)	(11,185)	43,646
Schroders	78,188	11,437	(7,580)	(20,728)	61,317
Aberdeen Bonds	161,469	76,660	(129,161)	42,203	151,171
Auriel	14,000	14,000	(296)	(3,884)	9,820
Record		7,000		(613)	6,387
Aberdeen No.2	34				34
	671,779	267,761	(309,610)	(72,340)	557,590

10. INVESTMENT INCOME

There was no stock lending arrangements operational in the financial year. Dividends and interest shown in return on investments are broken down as follows:

	2008/2009	2007/2008
	£'000	£'000
Rent from properties	2,415	1,919
Interest from fixed interest securities	3,051	2,490
UK equities	5,500	7,285
Foreign equities	12,966	6,271
Interest on cash deposits	(512)	(321)
Foreign tax	115	132
Underwriting commission		4
TOTAL	23,535	17,780

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11 UNLISTED SECURITIES

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

	2008/2009 £000	2007/2008 £000
Unlisted	32	66
Listed	550,350	680,178
Working Capital	11,951	2,978
	562,333	683,222

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 2007 statutory triennial revaluation of the Pension Fund completed by the actuary (Hymans Robertson) estimated the deficit on the Fund to be approximately £205 million and the funding level to be 78%. This compares to a deficit at the previous revaluation in 2004 of £192 million and a corresponding funding level of 73%.

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

	£ Million
2008/2009	12.50
2009/2010	12.50
2010/2011	12.50

In addition the contributions were increased by RPI plus 1.5% with effect from 1st April 2009.

The method of calculating the employer's contribution rate derives the cost of the benefits building up over the year following the valuation date. This method is known as the "Projected Unit Method". It is a method considered appropriate by the actuary for a Fund open to new members. As the Fund remains open to new members, its age profile is not currently rising significantly.

If the age profile began to rise significantly, the projected unit method would calculate an increase in current service cost as scheme members approached retirement. In completing the valuation, the actuary has adopted a market value method to derive the financial assumptions by considering various average yields and average market values in the 12 months leading to the valuation date. This represents a change from previously adopted traditional techniques where the assumptions adopted have reflected expectations of long term averages.

The assumptions used in the calculation and applied during the intervalation period are summarised as follows:

	2008	2004
Investment Returns (Equities)	5.9%	6.7%
Pay Increases	4.7%	4.4%
Price Inflation	3.2%	2.9%

The next statutory revaluation is due in 2010 with the results to be implemented in April 2011.

13 REGULATIONS

The Social Services Act 1986, the Financial Services Act, the Pensions Act and the Local Government Pension Scheme Regulations 1995 and 1997 have imposed a number of changes on local authority Pension Funds. In particular:

- Contributors now have the right to make additional voluntary contributions to enhance their pension. The Council made such a scheme available to staff through Norwich Union.
- Permanent full time employees can opt out of the Local Government Scheme and make their own pension fund arrangements.
- Since 1995, all employees (except teachers) are eligible to join the scheme.
- The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2002 - SI 2002 No.1852 - requires administering authorities to update and publish a Statement of Investment Principles and Myners Compliance Statement. These documents are available on the Council's website.
- The Council is also required to prepare and publish a Communications Strategy, Governance Statement and Funding Strategy Statement all of which are available on the Council's website.

14. RELATED PARTY TRANSACTIONS

Information in respect of material transactions with related parties is disclosed elsewhere within the Pension Fund accounts.

During the year no trustees or Council chief officers with direct responsibility for pension fund issues, have undertaken any declarable transactions with the Pension Fund, other than the following:-

- Administrative services were undertaken by the Council on behalf of the Pension Fund.
- The Pension Fund had a temporary loan of £3.364 million from the Council as at the 31st March 2009 which will be repaid in the next financial year.

15. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31 March 2009.

16. POST BALANCE SHEET EVENTS

There are no significant post balance sheet events to report.

Appendix 2

Statement of Investment Principles

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

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

The Myners Code of Investment Principles

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

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

Fund Objective

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

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

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

Investment Strategy

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

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

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

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

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

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

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

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

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

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

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

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

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

Appendix 3

FUNDING STRATEGY STATEMENT

1. Introduction

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

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson & Co, and after consultation with the Fund’s employers and investment adviser and is effective from 31st March 2005.

1.1 Regulatory Framework

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

1.1.2 The FSS forms part of a framework which includes:

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

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

1.2 Reviews of FSS

1.2.1 The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31st March 2011.

1.1.2 The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues.

2. Purpose

2.1 Purpose of FSS

2.1.1 The Office of the Deputy Prime Minister (ODPM) 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.

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

2.2 Purpose of the Fund

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

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

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

2.2.3 The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex A.

2.3 Aims of the Funding Policy

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

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

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

- 3.1.1 Employer contributions are normally made up of two elements:
- a) the estimated cost of future benefits being accrued, referred to as the “future service rate” plus
 - b) an adjustment for the funding position (or “solvency”) of accrued benefits relative to the Fund’s solvency target, “past service adjustment”. If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.
- 3.1.2 The Fund’s actuary is required by the regulations to report the Common Contribution Rate¹, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period [of 20 year/equivalent to the remaining working lifetime of all the employers’ Scheme members].
- 3.1.3 The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer². It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.
- 3.1.4 In effect, the Common Contribution Rate is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.
- 3.1.5 For some employers it may be agreed to pool contributions, see Section 3.7.6.
- 3.1.6 Annex A contains a breakdown of each employer’s contributions following the 2004 valuation for the financial years 2005/06, 2006/07 and 2007/08. It includes a reconciliation of each employer’s rate with the Common Contribution Rate. It also identifies which employers’ contributions have been pooled with others.
- 3.1.7 Any costs of non ill-health early retirements must be paid as lump sum payments at the time of the employer’s decision in addition to the contributions described above (or by instalments shortly after the decision).
- 3.1.8 Employers’ contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

3.2 Solvency and Target Funding Levels

- 3.2.1 The Fund’s actuary is required to report on the “solvency” of the whole fund at least every three years.

- 3.2.2 "Solvency" for ongoing employers is defined to be the ratio of the market value of assets on the value placed on accrued benefits on the Fund Actuary's ongoing funding basis. This quantity is known as a funding level.
- 3.2.3 The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority.
- 3.2.4 The fund operates the same target funding level of all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. Please refer to paragraph 3.8 for the treatment of departing employers.

3.3 Ongoing Funding Basis

- 3.3.1 The demographic assumptions are intended to be best estimates of future experience in the Fund. They vary by type of member reflecting the different profile of employers.
- 3.3.2 The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.
- 3.3.3 It is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.
- 3.3.4 Given the very long-term nature of the liabilities, a long-term view of prospective returns from equities is taken. For the 2007 valuation, it is assumed that the Fund's equity investments will deliver an average return of 1.4% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation.

The same financial assumptions are adopted for all ongoing employers.

3.4 Future Service Contribution Rates

- 3.4.1 The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admitted Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.2 Employers that admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically, these rates will be derived

using the Projected Unit Method of valuation with a one-year control period.

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

- 3.4.3 Both future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Adjustments for Individual Employers

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

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

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;

over the period between each triennial valuation.

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

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

- the actual timing of employer contributions within any financial year;
- the effect of more or fewer withdrawals than assumed;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

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

3.6 Asset Share Calculations for Individual Employers

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

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

3.7 Stability of Employer Contributions

3.7.1 Deficit Recovery Periods

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

3.7.1.2 The Administering Authority normally targets the recovery of any deficit over a period not exceeding [the remaining working lifetime of each employer's active members]. However, these are subject to the maximum lengths set out in the table below:

Type of Employer	Maximum Length of Deficit Recovery Period
Best Value Admission Bodies	The period from the start of the revised contributions to the end of the employer's contract.
All other types of employer	A period equivalent to the expected future working lifetime of the remaining scheme members.

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

3.7.2 Surplus Spreading Periods

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

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

3.7.3 Phasing in of Contribution Rises

3.7.3.1 Best Value Admission Bodies are not eligible for phasing in of contribution rises. Other employers may opt to phase in contribution rises as follows:

- for employers contributing at or above its future service rate in 2004/2005, phasing in the rise in employer contributions over a period of three years;
- for employers contributing at less than its future service rate in 2004/2005, phasing in the rise in contribution rates over a period of two years.

3.7.4 Phasing in of Contribution Reductions

3.7.4.1 Any contribution reductions will be phased in over six years for all employers except Best Value Admission Bodies who can take the reduction with immediate effect.

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

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

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

3.7.6 Pooled Contributions

3.7.6.1 Smaller Employers –

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

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

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

3.7.6.2 Other Contribution Pools –

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

3.8 Admission Bodies Ceasing

3.8.1 Admission Agreements for Best Value contractors are assumed to expire at the end of the contract.

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

3.8.3 If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

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

- (1) For Best Value Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.
- (2) For non Best Value Admission Bodies that elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in the future. This could give rise to significant payments being required.
- (3) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

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

3.9 Early Retirement Costs

3.9.1 Non Ill-Health Retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits on age retirement 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.

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

4. Links to Investment Strategy

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

4.1 Investment Strategy

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

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

5. Key Risks and Controls

5.1 Types of Risks

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

- financial
- demographic;
- regulatory; and
- governance

5.2 Financial Risks

Risk		Summary of Control Mechanisms
5.2.1	Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between formal valuations at whole fund level, provided on a annual basis.
5.2.2	Inappropriate long-term investment strategy	Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities. Consider measuring performance

		and setting managers' targets relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.
5.2.3	Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	Inter-valuation as above.
5.2.4	Active investment manager under-performance relative to benchmark	Short-term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.
5.2.5	Pay and price inflation significantly more than anticipated	Seek feedback from employers on scope to absorb short-term contribution rises.
5.2.6	Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	Seek feedback from employers on scope to absorb short-term contribution rises. Mitigate impact through deficit spreading and phasing in of contribution rises.

5.3 Demographic Risks

Risk		Summary of Control Mechanisms
5.3.1	Pensioners living longer	<p>Set mortality assumptions with some allowance for future increase in life expectancy.</p> <p>Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.</p> <p>Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.</p>
5.3.2	Deteriorating patterns of early retirements	Employers are charged the extra capital cost of non ill-health retirements following each individual decision.

		Employer ill-health retirement experience is monitored.
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5.4 Regulatory

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

5.5 Governance

Risk		Summary of Control Mechanisms
5.5.1	Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements)	The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.
5.5.2	Administering Authority not advised of an employer closing to new entrants	The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuations. Deficit contributions are expressed as monetary amounts.
5.5.3	Administering Authority failing to commission the	In addition to the Administering Authority monitoring membership

	<p>Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt</p>	<p>movements on a quarterly basis, it requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements.</p>
<p>5.5.4</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> <ul style="list-style-type: none"> • Seeking a funding guarantee from another Scheme employer, or external body, wherever possible. • Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. • Vetting prospective employers before admission. • When permitted under the regulations requiring a band to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.

ANNEX A – RESPONSIBILITIES OF KEY PARTIES

The Administering Authority should:

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

The Individual employer should:

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

The Fund actuary should:

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

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 10 employers and approximately 14,000 scheme members in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

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

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

Telephone: 020 7364 4251

Facsimile: 020 7364 4593

Email: pensions@towerhamlets.gov.uk

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 Practice¹ 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 Office of the Deputy Prime Minister, solicitors, the Pensions Advisory Service, and other pension providers. We also consider as part of this policy how we communicate with these interested parties.

¹ Code of Practice – Reasonable periods for the purposes of the Occupational Pension Schemes (Disclosure of Information) Regulations 2006 issued September 2005

How we communicate

General communication

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

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

Branding

As the Pension Fund is administered by London Borough of Tower Hamlets, all literature and communications will conform with, 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:

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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
Roadshows/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 roadshows, 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.

Roadshows/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.

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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.

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- 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

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- 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

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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.

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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.

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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"> • Rates and Adjustments 	Electronic	Every three years	Via email	Government Departments)/ Her Majesty's Revenue and

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(R&A) certificates <ul style="list-style-type: none"> • Revised R&A certificates • Cessation valuations 				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 my received, requesting specific information in relation to the structure of the LGPS or the make up of the Fund

Performance Measurement

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

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Timeliness

We will measure against the following target delivery timescales:

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

Quality

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

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

Results

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

Review Process

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

Appendix 5

London Borough of Tower Hamlets Pension Fund
Governance Policy Statement

1. Background

- 1.1 The Local Government Pension Scheme (Amendment)(No.2) Regulations 2005 require all Councils which administer a pension fund to publish a Governance Policy Statement by 1st April 2006 and review and revise it if there is a material change in their policies.
- 1.2 The Statement provides a framework for the leadership, direction and control of the pension service to ensure they achieve the agreed aims and objectives and in doing so serve the best interest of Council Taxpayers and the scheme members.
- 1.3 The Regulations provide that the Governance Policy Statement must set out if they delegate any part of their function to a Committee, sub committee or officer and if they do provide details of: -
 - The frequency of that Committee or subcommittees meetings
 - The terms of reference, structure and operational procedures of that committee or subcommittee and
 - The representation of admitted bodies on that Committee or subcommittee.

2. Executive Responsibility

- 2.1 The Council of the London Borough of Tower Hamlets is the administering authority under the Local Government Pension Scheme (LGPS) and has executive responsibility for the Fund.
- 2.2 The Council delegates its responsibility for administering the Fund to the Pension Committee. The terms of this delegation are as set out in the Council Constitution and provide that the Committee is responsible for consideration of all pension matters and discharging the obligations and duties of the Council under the Superannuation Act 1972 and various statutory matters relating to investment issues.
- 2.3 These terms of reference encompass: -
 - Determination of investment policy objectives
 - Appointment of investment managers
 - Monitoring investment performance and
 - Making representations to Government on any proposed changes to the LGPS.
- 2.3 The Pensions Committee which comprises nine Members of the Council meets on a quarterly basis with special meetings arranged as necessary.
- 2.4 The Committee is subject to the Council's Financial Regulations and is advised on investment issues by an Investment Panel, which includes professional advisors.

- 2.5 The meetings of the Pensions Committee are open to the public and the procedures of that Committee is as set out in the Council Constitution.
- 2.6 Currently no provision exists in the Committee's terms of reference for participation by admitted bodies on the Committee. The number of admitted bodies is increasing as a result of the transfer of Council functions and it is proposed to review the position on admitted body representation.

3. Officer Delegation

- 3.1 The following functions have been formally delegated to officers by the Pensions and Accounts Committee: -
 - The Corporate Director, Resources has delegated authority to admit external bodies to the Fund. (Ap11th August 2004)
 - Specified officers are authorised to receive pension payments in trust. (20th December 2004)
 - 3.2 The Pensions Committee delegate specific functions on the appointment of managers on a case by case basis after consideration of reports by that Committee.
 - 3.3 Committee retained responsibility for all policy decisions relating to the investment portfolio. Responsibility for the day to day operation of the management arrangements and administration of the portfolio is delegated to the Corporate Director, Resources.
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4. Review of the Governance Policy Statement
 - 4.1 The policy statement will be reviewed annually and revisited and re-published following any material changes in the above arrangements.

Appendix 6

London Borough of Tower Hamlets Pension Fund Governance Compliance Statement

1. Background

1.1 Regulation 31(3) of The Local Government Pension Scheme Regulations 1998 prescribes the content of the Statement and Regulation 34(1)(e) requires it to be included in the Annual Report

1.2 The content should include:

- An outline of the governance structure and the roles and responsibilities of each element within the structure (including whether the element is executive or advisory) eg
 - Pensions Panel / Pensions Committee
 - Any related sub committees

- Membership of Pensions Panel / Committee and any associated sub-committees within a matrix showing for each member :
 - Voting rights
 - Attendance at meetings
 - Training received during the reporting period

- Policy and processes of managing conflict of interest

2. Executive Responsibility

2.1 The Council of the London Borough of Tower Hamlets is the administering authority under the Local Government Pension Scheme (LGPS) and has executive responsibility for the Fund.

2.2 The Council delegates its responsibility for administering the Fund to the Pensions Committee. The terms of this delegation are as set out in the Council Constitution and provide that the Committee is responsible for consideration of all pension matters and discharging the obligations and

duties of the Council under the Superannuation Act 1972 and various statutory matters relating to investment issues.

- 2.3 These terms of reference encompass: -
- Determination of investment policy objectives
 - Appointment of investment managers
 - Monitoring investment performance and
 - Making representations to Government on any proposed changes to the LGPS.
- 2.3 The Pensions Committee which comprises nine Members of the Council meets on a quarterly basis with special meetings arranged as necessary.
- 2.4 The Committee is subject to the Council's Financial Regulations and is advised on investment issues by an Investment Panel, which includes professional advisors.
- 2.5 The meetings of the Pensions Committee are open to the public and the procedures of that Committee is as set out in the Council Constitution.
- 2.6 In 2008-09 no provision exists in the Committee's terms of reference for participation by admitted bodies on the Committee. The number of admitted bodies is increasing as a result of the transfer of Council functions and it is proposed to review the position on admitted body representation.

3. Officer Delegation

- 3.1 The following functions have been formally delegated to officers by the former Pensions and Accounts Committee: -
- The Corporate Director, Resources has delegated authority to admit external bodies to the Fund. (Ap11th August 2004)
 - Specified officers are authorised to receive pension payments in trust. (20th December 2004)
- 3.2 The Pensions Committee delegate specific functions on the appointment of managers on a case by case basis after consideration of reports by that Committee.

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

3.4 The LGPS (Administration) Regulations 2008 require this Statement to cover the extent to which the delegation procedures comply with guidance given by the Secretary of State. This guidance is currently awaited.

4. Membership of Pensions Committee and Investment Panel 2008-09

Attendances at Pensions Committee 2008/09

Attendees	Voting Rights	Meetings Scheduled		
		26-Jun cancelled	30-Oct	18-Feb cancelled
Members				
Cllr Helal Abbas	√		Present	
Cllr Mark Francis	√		Present	
Cllr Denise Jones	√		Present	
Cllr Shiria Khatun	√		Present	
Cllr Joshua Peck	√		Present	
Cllr Fozol Miah	√			
Cllr David Snowdon	√			
Officers				
Alan Finch	x		Present	
Jim Ricketts	x		Present	
Kelly Powell	x		Present	
Zoe Folley	x		Present	
Guest				
Raymond Haines	x		Present	

4.1 In 2009-10 more meetings have been scheduled and there has been an increased level of attendance.

4.2 Matters of potential conflicts of interest are dealt with under Part 5 (Codes and Protocols) of the Council's Constitution.

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