Pension Board

Monday, 11 September 2023 at 10.00 a.m.
Committee Room - Tower Hamlets Town Hall, 160 Whitechapel Road, London E1 1BJ

Supplemental Agenda

Reasons for Urgency

The reports in the supplemental pack were not published five clear days in advance of the meeting. Clearances for the report were received later than anticipated which resulted in the publishing deadline being missed for the reports to be presented to the Pensions Board. It does however meet the deadline for publication for the Pensions Committee, who are the main recipient for these reports.

6 .2 Pension Overpayment Policy (Pages 3 - 18)

6 .3 Funding Strategy Statement Update and Academy Funding Policy Update (Pages 19 - 54)

6 .4 Review of Internal Controls of Investment Managers and Custodian - London CIV (Pages 55 - 72)

6 .5 Whole Fund Funding update (Pages 73 - 84)

6 .6 Pensions Administration and LGPS Quarterly Update (Pages 85 - 96)

7. PENSIONS COMMITTEE AGENDA FOR THE FORTHCOMING MEETING

8. ANY OTHER BUSINESS

9. EXCLUSION OF PRESS AND PUBLIC

In view of the contents of the remaining items on the agenda the Committee is recommended to adopt the following motion: “That, under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government

(Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act,1972."

EXEMPT SECTION (Pink Papers)
The Exempt/Confidential (pink) papers for consideration at the meeting will contain information, which is commercially, legally or personally sensitive and should not be divulged to third parties. If you do not wish to retain these papers after the meeting, please hand them to the Democratic Services Officer present or dispose of them in the confidential bins.

9 .1 ESG, Voting, Engagement and Stewardship update (Pages 97 - 174)

9 .2 Cost Transparency - Investment Management Costs (Pages 175 - 182)

9 .3 Risk Register (Pages 183 - 192)

Contact for further enquiries:

Farhana Zia, Democratic Services Officer,

farhana.zia@towerhamlets.gov.uk

020 7364 0842

Town Hall, 160 Whitechapel Road, London, E1 1BJ

http://www.towerhamlets.gov.uk/committee

Non-Executive Report of the: **Pensions Board** 11 September 2023	TOWER HAMLETS
Report of: Caroline Holland Interim Director Resources	**Classification:** Open
Administering Authority Discretions – Overpayment of Pensions Policy	

Executive Summary

The proposed Pensions Overpayments Policy attached as Appendix 1 sets out the steps that the London Borough of Tower Hamlets Pension Fund (LBTHPF) will take on discovery of an overpayment of pension made to retired member of the LGPS, a beneficiary or estate of a retired member of the LGPS.

The aim of the proposed Policy is to reduce the scope for overpayments being made and to set out a consistent and fair approach for the recovery of overpayments where these occur, thereby reducing the prospect of Internal Dispute Resolution Procedure proceedings or Pension Ombudsman challenges.

Recommendations:

The Pensions Board is recommended to:

1. Consider and review the Policy on Pension Overpayments (the Pension Overpayments Policy)

2. Recommend to the Pensions Committee to approve the policy and delegates to the Corporate Director Resources the authority to update the Pension Overpayment policy as required from time to time to reflect changes in working practices and/or the law.

3. Recommend that the Pensions Committee approve publication on the Pension Fund website.

4. Recommend that this policy is reviewed every three years by the Pensions Board.

1. REASONS FOR THE DECISIONS

1.1 The Policy sets out:

- Steps that will be taken by LBTHPF to minimise the risk of overpayments occurring.
- The responsibilities of scheme members where they identify or suspect an overpayment.
- The procedure to be followed by LBTHPF where overpayments of pension have been made, both in cases where the member has died or where the member is living.
- Cases where LBTHPF may not seek recovery of an overpayment.
- The discretion for LBTHPF to pay any tax charge arising where an overpayment is deemed by HMRC to be an "unauthorised payment".
- The principles within the Policy are intended to apply equally to members of the Fund.

1.2 An 'Overpayment of Pension Policy' will also strengthen the Fund's position should a complaint be made using the Internal Dispute Resolution Procedure which, if exhausted without resolution, can be referred by the scheme member or their representative to the Pensions Ombudsman.

2. ALTERNATIVE OPTIONS

2.1 There are no alternatives to this report. Regulation states, and best practice dictates, that a Pension Fund should have a range of written policies and procedures in place. It is good practice to ensure the Fund has a policy in place regarding the treatment of overpaid pensions following the death of a pensioner or dependant or other circumstances.

2.2 Having a policy in place ensures that any overpayments are treated in a fair and equitable manner to prevent the administration team seeking individual write off approvals.

3. DETAILS OF THE REPORT

3.1 The Policy attached at Appendix 1 applies to:

- All members and former members, which in this policy includes survivor and pension credit members of the Fund who have received one or more payments;
- Executors of the Estates of deceased London Borough of Tower Hamlets Pension Fund members;
- Beneficiaries of Fund members where those beneficiaries have received one or more payments from that Fund;
- Members of the staff who administer pensions; and
- The Pensions Committee

3.2 The aim of the proposed Policy is to reduce the scope for overpayments being made and to set out a consistent and fair approach for the recovery of overpayments where these occur, thereby reducing the prospect of Internal Dispute Resolution Procedure proceedings or Pension Ombudsman challenges.

3.3 The policy outlines the circumstances where the recovery of monies is pursued, along with the considerations as t the commercial viability of recovery, the reasons for write-off and actions undertaken to mitigate the loss to the taxpayer.

Disputes

3.4 If the member or dependant is not happy with a decision taken in accordance with this policy, they have the right of appeal through the relevant pension scheme's Internal Dispute Resolution Procedure (IDRP) which can be found on the Fund's website: https://www.towerhamletspensionfund.org

Policy Monitoring

3.5 This Policy will be reviewed formally on a 3-year basis but can be reviewed more frequently and amended if appropriate at the request of the Pensions Committee or significant changes in process or legislation.

4. EQUALITIES IMPLICATIONS

4.1 There are no direct equality implications regarding this matter.

4.2 The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that it is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who so not.

4.3 Tower Hamlets Council has a legal requirement to make sure its policies, and the way it carries out its work, do not discriminate against anyone.

4.4 DLUHC and HMT undertake equality impact assessments with regard to the provisions of overriding legislation and LGPS.

5. OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

Risk Management

5.2 There is always a risk of challenge when any discretion is exercised.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 There are no direct financial implications arising from this report, although it is anticipated that implementation of the Policy will reduce the chance of overpayments being made and improve prospects of recovery where overpayments are made both of which will improve financial performance for the Fund.

7. COMMENTS OF LEGAL SERVICES

7.1 Although there are no apparent legal implications or risks within the content of this Report, under the LGPS Regulations, the Council, as Administering Authority is required to formulate and keep under review the policies that apply in respect of exercising the discretions referred to in this report.

7.2 The Council must publish written statements of the policies.

Linked Reports, Appendices and Background Documents

Linked Report

- List any linked reports.
- NONE.

Appendices

- List any appendices [if Exempt, Forward Plan entry MUST warn of that]
- Overpayment of Pension Policy – Appendix 1

Local Government Act, 1972 Section 100D (As amended)

List of "Background Papers" used in the preparation of this report
List any background documents not already in the public domain including officer contact information.

- https://www.legislation.gov.uk/ukpga/2010/15/section/149/enacted

- Limitation Act - https://www.legislation.gov.uk/ukpga/1980/58/contents

Officer contact details for documents:
Miriam Adams Interim Head of Pensions and Treasury
Email: Miriam.Adams@towerhamlets.gov.uk

1.0 Introduction

This is the overpayments policy of the London Borough of Tower Hamlets Pension Fund (LBTHPF) (the Fund). This Policy sets out the course of action it will take in the event of overpayments.

The Policy aims to ensure that there is a clear process on how to prevent overpayments arising, as well as how overpayments are managed and recovered once they are identified.

Scope

2.0 The policy applies to:

- All members and former members, which in this policy includes survivor and pension credit members of the Fund who have received one or more payments.
- Executors of the Estates of deceased London Borough of Tower Hamlets Pension Fund members.
- Beneficiaries of Fund members where those beneficiaries have received one or more payments from that Fund.
- Members of the staff who administer pensions; and
- The Pensions Committee

Prevention of Overpayments

3.1 The Fund will take reasonable steps to minimise the risk of overpayments occurring to the following:

a) Monthly reconciliations of refunds of contributions, pensions paid, retirement grants, death grants and lumpsums (Senior Accountant Pension).

b) Action promptly all bacs return including payroll and non payroll bacs return (Pensions Admin Team Leaders)

c) Ensure that all calculations are checked by Pension Admin Team Leaders or Senior Pension Officers before processing for payments

d) Ensure that monthly pensioners payroll runs (main and supplementary) are checked and signed off before giving the payroll team the go ahead to process bacs (Senior Accountant Pension).

e.) Monthly reconciliations between zellis pensioners payroll system and altair pensions administration system (Senior Accountant Pension)

f) Remainders are included in all correspondence with members that LBTHPF must be advised of changes in circumstances, or of the death of a scheme member (Pensions Admin Team Leader)

g) All pension payments must be checked in agresso before approval by Pensions Admin Team Leaders.

h) Suspend a scheme member's pension payment where any scheme correspondence is returned. This allows officers time to investigate fully to ensure that overpayment does not occur; for example, mail may be returned where the scheme member has died (Pension Officers).

i) Monthly checking of Tell Us Once. The Fund is signed up to the Tell Us Once service. This allows a bereaved person to inform central and local government services of a death at one time instead of having to contact each service individual. (Pensions Admin Team Leaders).

j) The National Fraud Initiative is conducted twice a year; it compares files of pensioners with the Department for Work and Pensions database of the deceased and highlights matches for investigation. Officers should investigate matches, purchase certificates as required (Pension Admin Team Leaders).

k) The Fund participates in overseas life existence checks, by regularly requiring pensioners to provide independently verified proof to ensure that only legitimate pensions are being paid and to reduce the likelihood of fraudulent activity.

l) Changes to payroll by officers must be made in a correct and timely manner. This would be in circumstances such as a change from short-term dependant's to a long-term pension (Pension Officers).

m) A report is run on a quarterly basis to on the pensions administration system to identify individuals in receipt of a child's pension. Further investigations are then carried out for children that are identified as over the age of 18 to ensure they are still entitled to receive a pension (Senior Pension Officers).

Responsibility of Scheme Members

3.2 Scheme members have a responsibility to notify LBTHPF if they identify or suspect that pension payments are in excess of what they ought to be. There is an expectation that individuals will review payments against quotes received from the Fund.

Steps a member should take:

A query should be raised in writing where a member believes payments to be inconsistent with their entitlement.
This can be done via the Member Self Service Portal:

Or by email to pensions@towerhamlets.gov.uk

Or by phone to 0207 364 4251

Or by post to:
Tower Hamlets Pension Fund
Town Hall
160 Whitechapel Road
London E1 1BJ

3.3 **Managing Overpayments of Pension and Lump Sums**

Where overpayment of pension occurs, officers will generally endeavour to collect money owing to it promptly, efficiently and economically. Outlined below are the steps LBTHPF will take depending on the circumstances of the overpayments.
In all cases, formal legal action through the courts to recover debts will be a last resort and commenced generally where other routes have failed to achieve a resolution or where it is legally necessary to do so to protect the position of the Fund.

Managing overpayments of pension on the death of a scheme member

3.4 Pension payments are made monthly in arrears and even with prompt notification od a member passing away there is a risk of overpayment, given that payroll deadlines are in advance of actual payment date; at a minimum, a portion of the final payment will, as a consequence, have been overpaid.

Notification of a death of a pensioner member of the scheme does not always happen immediately and as such it is not always possible to stop payment of the pension after a point in the payroll month and so an overpayment can occur. Upon notification that a member has died, LBTHPF will immediately stop payroll, then seek to confirm the date of death and will calculate the net pension overpayment.
The Fund will always try to contact the deceased member's next of kin or their estate to explain the overpayment and the options for recovery of this.
Officers will seek to agree proposed method of recovery before any action is taken to recover the overpayment. Such methods of recovery include:

a) Making a reduction to any death grant payable. The amount of the death grant will need to be greater than the overpayment for this approach to be taken.
b) Agreeing a one-off payment from the member's estate.
c) If there is a dependant, agreeing a reduced dependent's pension with them over a reasonable period of time.

3.5 Where the Fund has overpaid a death grant, the dependant's pension(s) will not immediately be reduced, officers will contact the dependant(s) to explain the error and provide the option of returning the overpayment via a one-off payment which will be invoiced directly, or via a reduction to the dependant's pension.

3.6 Where there is more than one dependant and some are not yet adults, the Fund will generally seek to engage with the adult dependant(s) to resolve all the dependants' overpayments of pension, if this is possible.

3.7 Where recovery of an overpayment is to be made through a reduction to an ongoing dependant’s pension, the recovery period will be determined reasonably on a case-by-case basis depending on the size of the overpayment, the size of the dependant's pension and the age of the dependant but will not be shorter than the length of time of the overpayments.

3.8 Where it has not been possible to make contact with the deceased member’s next of kin or their estate, an invoice will be raised to “The Estate of [Member’s name]” and issued to the member’s last recorded address, or the address of the personal representative of their estate if known.
The invoice will be issued with a covering letter seeking direct return of the overpayment where possible or admission of the claim against the estate of the late member where direct return of funds is not possible.

3.9 In the event that recovery of the overpayment cannot be achieved by agreement with the next of kin or the estate, or there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered or LBTHPF is unable to make contact with either, then recovery and the over payment amount is less than £150.00 gross, the Fund will consider writing off the debt against the last employer’s liability.

A value of £150.00 or less in the instance of the death of a scheme member has been deemed by the Fund as uneconomical to pursue once initial steps have been taken. In such circumstances, the Fund’s approach will be that the sum written off is treated as a liability against the scheme member’s former employer.

All correspondence regarding an overpayment will be handled sensitively in the initial stages due to the circumstances surrounding how the overpayment has occurred.

An invoice will be raised by the Fund to recover an overpayment which is greater than £150.00 upon the death of a scheme member.

In the event that recovery of the overpayment cannot be achieved by agreement with the next of kin or the estate, or LBTHPF is unable to make contact with either, and the amount in question is greater than £150.00, then recovery of the overpayment will be handled under Tower Hamlets Council’s debt recovery policy.

Managing overpayments of children’s pensions failing to cease at the appropriate time

3.10 An eligible child as defined by the LGPS Regulations 2013, is entitled to receive a pension until such a time as their circumstances change and they are no longer eligible to receive a pension from the Fund.

In these cases, the individual in receipt of the pension is responsible for informing the Fund of a change in circumstances to ensure the pension is ceased at the appropriate time, failure to do so would result in an overpayment.

Should an overpayment of pension occur as a result of late notification of change of circumstances, the Fund will generally seek to recover overpayments that are greater than £150.00 (gross) in value unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part).

A value of £150.00 or less has been deemed by the Fund as uneconomical to pursue. In such circumstances, the Fund's approach will be that the sum written off is treated as a liability against the scheme member's former employer.

An invoice will be raised by the Fund to recover the overpayment which is greater than £150.00 as a result of the late notification of the change in circumstances. The invoice will be sent to the individual whose bank account the child's pension was being paid into

Managing overpayments of pension following incorrect information supplied by the employer in respect of the scheme member

3.11 Should an overpayment of pension occur as a result of inaccurate information provided by the scheme member's employer on retirement, the Fund will generally seek to recover all monies unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part). A value of £150.00 (gross) or less has been deemed by the Fund uneconomical to pursue due to the administrative time involved.

Overpayments that are greater than £150.00 in value will be recovered through the scheme member's ongoing pension as this allows for the appropriate adjustment for tax. The pension will be reduced to the correct level for the next available monthly pension payment after a 4-week notice period. The scheme member will be notified in writing of the error and the course of action to be taken.

Where there is no ongoing pension from which to deduct the overpaid amount, an invoice will be arranged by the Fund to recover the overpayment which is greater than £150.00 in value.

Managing overpayments of pension as a result of the incorrect rate of pension paid by the Fund and the member can be said to be reasonably aware of the overpayment.

3.12 There are several reasons why a pension could be paid at an incorrect higher rate. The most common reasons are detailed in the table below, but it should be noted that this is not an exhaustive list.

	Type of overpayment	**How overpayment has occurred**
1	Administration error upon creation of Pension payroll record	Incorrect (overstated) rate of pension inputted onto payroll record but member informed in writing of the correct rate of pension to be paid.
2	Entitlement to pension ceasing	Non notification that a child's pension is no longer payable as the child aged 18 or above is no longer in full time education or vocational training.
3	Entitlement to current rate of pension ceasing	A Pension Sharing Order or Earmarking Order being received after the implementation date meaning that the pension has been overpaid since that implementation date.
4	Failure to action an alteration to the payroll record/reduction in pension	Failing to implement the change from the higher short term dependents pension to the lower long-term rate.
5	Error not spotted when pension calculation is checked	All pension calculation should be checked by a Pensions Admin Team Leader or Senior Pensions Officer before it is entered in agresso. Officers may miss the error while checking or approving the payment

3.13 If the scheme member has been notified of the correct rate of pension in writing and is receiving a higher amount. It can be said that the member can reasonably be aware that they are being overpaid as the scheme member has been notified of the correct rate in writing.

Managing overpayments of pension following an incorrect rate of pension being paid by the Fund and it can be said that the member cannot have known of the overpayment

3.14 The table below illustrates how an overpayment of a member's pension can occur without the member being aware. It should be noted that the table below is not an exhaustive list.

	Type of overpayment	**How overpayment has occurred**
1	Administration error upon calculation and notification of benefit entitlement (includes dependants' pensions)	Incorrect (overstated) rate of pension inputted onto payroll record and member informed in writing of the, incorrect, rate of pension to be paid.

2	Incorrect level of Guaranteed Minimum Pension (GMP) being paid	New information from HMRC leads to a revised rate of GMP to be used which, due to the different way cost of living increases are applied to GMP and the excess over GMP, means that, overall, a lower level of pensions increase should have been paid.
3	Pensions Increase	Pensions Increase inaccurately applied to the elements of a pension in payment.

Recovery Period

4.1 The Limitation Act 1980 states that "*An action founded on simple contract shall not be brought after the expiration of six years from the date on which the cause of action accrued*".

However, section 32(1) of the Act effectively 'postpones' the date by which an administering authority may make a claim to recover monies in certain circumstances. It states, "*the period of limitation shall not begin to run until the plaintiff has discovered the fraud, concealment or mistake (as the case may be) or could with reasonable diligence have discovered it*". The potential effect of section 32(1) in relation to any overpayment and its recovery will be considered on a case-by-case basis.

4.2 Therefore the Fund will generally seek to recover overpayments that have been discovered within the last 6 years with the relevant postponement applied if applicable in line with the Limitation Act unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part).

4.3 Examples of limitation periods and how they operate in relation to overpayments are included in this policy.

4.4 The Fund will seek to recover overpayments that have occurred within the last 6 tax years plus the current tax year or all the overpayment period if shorter.

4.5 It should be borne in mind that where the Fund seeks to recover overpayments, there may be arguments raised as to why the overpayments should not be recovered (in whole or in part). These will need to be considered on a case-by-case basis and, if successful, may affect the ability of the Fund to recover the overpayment (in whole or in part).

Length of time to recover overpayment

5.1 The Fund will allow a pension overpayment to be recovered over the same amount of time as the overpayment occurred. Upon challenge the Fund can allow this to be extended by a further 50% of the time period in which the overpayment occurred.

Scheme member is unable to return overpayment

6.1 In cases where officer have followed all of the above process and a Scheme member is unable to return the overpayment, the Fund will seek legal advice and follow the Tower Hamlets Council recovery process. This approach will reduce the number of Internal Disputes and referral to the Pensions Ombudsman. For any cases that do reach the Pensions Ombudsman, LBTHPF would have demonstrated engagement and negotiation with the individual.

Scheme member refuses to engage in any correspondence with regards to overpayment

7.1 In cases where the Scheme member refuses to engage in any correspondence the Fund will suspend the pension after three written attempts of contacts within three months. This should prompt the member to get in touch and allow for discussions to take place, where appropriate the Fund will seek expert legal advice.

Cases where LBTHPF may not seek recovery

8.1 The Fund will not seek to recover overpayments discovered as a result of Bulk 'reconciliation' exercises (such as the GMP reconciliation exercise) which may result in the discovery of overpayments or pension. In view of the size of these exercises and the number of potential overpayments, decisions concerning the writing-off of those overpayments will be made on a case-by-case basis.

8.2 Overpayments less than £150.00 which Officers have deemed uneconomical to pursue.

Monitoring repayments

9.1 In cases where recovery is not being made through the payroll or an invoice has been raised, the responsibility for chasing the payment initially rents with the Pension Officer and Team Leader responsible for the case. If Fund Officers remain unsuccessful in collection of outstanding debt a decision will be made by the Heas of Pensions and Treasury or the Pensions Administration Manager to decide whether to take legal action or seek assistance of the Council's Debt Recovery Team.

10. Write off in the event of death of a member

10.1 For all scenarios mentioned above, Officers have the ability to exercise discretion in the event of legal reasons and/or exceptional circumstances to ensure no individual is unfairly treated. If the pursuing recovery of an overpayment was to cause hardship and/or if there are legal reasons as to why the overpayment may not be recovered (in whole or in part) this would be taken into account as would the cost effectiveness of recovery. All applications made to write off an overpayment will be investigated on a case-by-case basis to be presented by the Pensions Admin Team Leader and final decision will be made by the appropriate officer listed in the table below dependent upon the amount potentially being written off.

10.2 Overpayments where hardship has been established will be submitted for write off through the appropriate channels.

10.3 If there is no ongoing pension, after consideration of the case, the amount may be written off.

Total value of Overpayment*/**	Authority to write off Overpayment
No more than £150.00 on death of a pensioner and initial steps taken to recover	Automatic write off. Pensions Admin Team Leader or Pensions Admin Manager
£200-£2,000	Head of Pensions and Treasury
£2,000-£5,000	Director Finance Procurement and Audit
£5,000-£10,000	Corporate Director Resources (s151 Officer)
Over £10,000	Chief Finance Officer Seek approval of Chair of Pensions Committee
Over £20,000	Seek approval of Pensions Committee

*The value of overpayment occurring within the last 6 full tax years plus current tax year

** Subject to a full evidence based report produced by Officers of the Fund

Unauthorised Payments

11.1 The Fund believes that in the vast majority of cases, overpayments of pension will have arisen due to a genuine error and where these are waived by the Fund, in full or in part, they will be authorised payments under the Registered Pension Schemes (Authorised Payments) Regulations 2009

11.2 In the event that an overpayment is unauthorised, and the member incurs a tax charge, LBTHPF may offer to pay the tax charge on behalf of the member in circumstances where the member could not reasonably have known of the overpayment.

Write off in the event that the member is a living pensioner

12.1 If the member cannot make the repayment, then the Fund would advise the employer that we have not been able to recoup the money.

Overpayments due to Fraud or Corruption

13.1 On rare occasions members' benefits may be overpaid due to:

- Fraud by the member on their estate
- Fraud by the employer
- Fraud by a pension officer
- Other criminal activity such as blackmail or corruption

Where an overpayment is discovered to have been made due to fraud or any other criminal act, the pension will be suspended, and an attempt will be made to recover the overpayment of pension and lump sum immediately.
The Fund will immediately involve internal audit in such cases and the settlement of overpayments may be resolved by the Courts of Law.

Underpayments

14.1 Should an underpayment to pension occur, any underpayment of pension will be rectified in the next available pay period after underpayment has been identified.

Interest will be paid on the underpaid amount(s) in line with LGPS Regulations. Interest will be paid on pension payments which are more than 1 year late, and on lump sum payments which are more than 1 month late. Interest payable is calculated at one per cent above base rate on a day-to-day basis from the due date of payment and compounded on a three-monthly basis.

Disputes

15.1 If the member or dependant is not happy with a decision taken in accordance with this policy, they have the right of appeal through the relevant pension scheme's Internal Dispute Resolution Procedure (IDRP) which can be found on the Fund's website: https://www.towerhamletspensionfund.org

Policy Monitoring

16.1 This Policy will be reviewed formally on a 3-year basis but can be reviewed more frequently and amended if appropriate at the request of the Pensions Committee or significant changes in process or legislation.

This page is intentionally left blank

London Borough of Tower Hamlets Pension Fund

Draft Funding Strategy Statement
25 September 2023

Welcome to the London Borough of Tower Hamlets Pension Fund's funding strategy statement

This document sets out the funding strategy statement (FSS) for London Borough of Tower Hamlets Pension Fund.

The London Borough of Tower Hamlets Pension Fund is administered by London Borough of Tower Hamlets Council, known as the administering authority. London Borough of Tower Hamlets Council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 13 March 2023.

There's a regulatory requirement for London Borough of Tower Hamlets Council to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact miriam.adams@towerhamlets.gov.uk.

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

The London Borough of Tower Hamlets Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.
Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission**

bodies (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at https://www.towerhamletspensionfund.org/ .

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A)

1.6 How is the funding strategy specific to the London Borough of Tower Hamlets Pension Fund?

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution which will reflect the total assets the employer holds
- **an allowance for the fund's expen**ses – usually added into the primary contribution rate.

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. Further information on the model is available in Appendix D. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

The fund permits the prepayment of employer contributions in specific circumstances. The fund's policy on prepayments will be published on the fund's website.

2.2 The contribution rate calculation

Table 2: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	**Council**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding target*	Ongoing, assumes long-term fund participation	Ongoing, assumes long-term fund participation	Ongoing, assumes long-term fund participation	Ongoing, but may move to low-risk exit basis		Contractor exit basis, assuming fixed-term contract in the fund
Minimum likelihood of success	70%	75%	75%	70% if guaranteed, 80% otherwise	70% if guaranteed, 80% otherwise	70% if guaranteed, 80% otherwise
Maximum time horizon	20 years	20 years	20 years	Average future	Average future	Outstanding contract term

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	Council	Colleges	Academies	Open to new entrants	Closed to new entrants	(all)
				working lifetime	working lifetime	
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					
Secondary rate	% of payroll or monetary amount	Monetary amount	% of payroll	% of payroll or monetary amount	% of payroll or monetary amount	% of payroll or monetary amount
Stabilised contribution rate?	Yes	No	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority				Preferred approach: contributions kept at primary rate. Contractors may be permitted to reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	At the discretion of the Administering Authority	At the discretion of the Administering Authority	None	None	None

** Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority*

See Appendix D for further information on funding targets.

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The fund adopts a stabilised approach to setting contributions for the Council, as noted in the table above, which keeps contribution variations within a pre-determined range from year-to-year. The Council is a large, secure, long term employer that can better absorb the short term funding level volatility over the longer term.

After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy for the Council. For some other employers, contribution increases or decreases may be phased.

Contribution strategies which are overly reliant on future increases in contributions will not be permitted in the interests of intergenerational fairness and cost efficiency objectives.

Table 1: current stabilisation approach

Type of employer	Council
Maximum contribution increase per year	+1% of pay
Maximum contribution decrease per year	-1% of pay

Stabilisation criteria and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes.

2.4 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The fund's policy is available from the administering authority. A review may lead to an increase or decrease in contributions.

2.5 What is pooling?

The administering authority operates contribution rate pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In a contribution rate pool, contributions are set to target full funding for the pool as a whole, rather than for individual employers.

Employers in a pool maintain their individual funding positions, tracked by the fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate. Setting contributions in this way means that while the fund receives the contributions required, the risk that employers develop a surplus or deficit increases.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't disclosed to pooled employers, unless agreed by the administering authority.

CABs that are closed to new entrants aren't usually allowed to enter a pool.

If an employer leaves the fund, the required contributions are based on their own funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

2.6 What are the current contribution pools?

- **Schools** – generally pool with their funding council, although there may be exceptions for specialist or independent schools.

- **Smaller TABs** – may be pooled with the letting employer.

2.7 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

The fund permits the prepayment of employer contributions in specific circumstances. Further details will be available in the fund's prepayment policy available here https://www.towerhamletspensionfund.org/

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread in exceptional circumstances if the administering authority agrees.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum. Such strain costs are the responsibility of the member's employer to pay.

The Fund recognises ill health early retirement costs can have a significant impact on an employer's funding and contribution rate, which could ultimately jeopardise their continued operation.

To mitigate this, employers may choose to use external insurance. If an employer provides satisfactory evidence to the Fund of a current external insurance policy covering ill health early retirement strains, then:

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

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

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

Each fund employer has a notional share of the fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

If an employee moves one from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring (see section 4).

4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body. New designated employers may also join the fund if they pass a designation to do so.

On joining, the fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

5.2 New academies

New academies (including free schools) join the fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. They won't be pooled with other employers unless the academy is part of a multi-academy trust (MAT). If they are part of a MAT, the new academy may be combined with the other MAT academies to set contribution rates. The new academies' contribution rate is based on the current funding strategy (set out in section 2) and the transferring membership.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

The Fund's Academies Policy is available here https://www.towerhamletspensionfund.org/

5.3 New admission bodies as a result of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. In general, the funding arrangements are set up as one of the following two options:

(i) Pass-through admissions

The Fund may look at new admission bodies being set up via a pass-through arrangement.

(ii) Other admissions

The liabilities for transferring active members will be calculated by the Fund actuary on the day before the outsourcing occurs. New contractors will be responsible for all pension risks and allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial allocation, depending on the contract-specific circumstances.

You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

Where the letting authority is an Academy and the new admission body will be set up on a pass-through arrangement, the ‘DfE Academy Trust LGPS Guarantee policy’ will apply to the outsourcing. In this situation, the Fund’s policy is to require the new admission body to be closed to new members to ensure that the ‘DfE Academy Trust LGPS Guarantee policy’ applies. Alternatively, if the new admission body is set up via another arrangement (noted in ii above), the academy must ensure that the requirements set out in the ‘DfE Academy Trust LGPS Guarantee policy’ are met before completing an outsourcing. Where the ‘DfE Academy Trust LGPS Guarantee policy’ terms cannot be met, and no suitable alternative is agreed, the Fund may refuse the contractor entry to the Fund as an admission body. It is critical for any academy (or MAT) considering any outsourcing to contact the Fund initially to fully understand the administrative and funding implications.

The DfE Academy Trust LGPS Guarantee policy is retrospective and therefore may cover admission bodies not otherwise covered prior to May 2023.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the fund. Contribution rates will be set using the same approach as other designated employers in the fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority’s satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely

- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

The Fund's admissions policy is available from the administering authority.

Where an academy is the letting employer, the Fund will expect academies to ensure and confirm that the outsourcing complies with the requirements set out in the 'DfE Academy Trust LGPS Guarantee' before permitting an admission body in the Fund. Where this requirement is met, no additional risk assessment or security will typically be required for the admitted body as the pension liabilities will be covered by the DfE Academy Guarantee.

Where the admission body does not meet the requirements of the DfE Academy Trust LGPS Guarantee policy, the Fund will review each case individually to decide if the admission body must provide security before being admitted to the Fund. In these cases, the Fund will typically require the academy to evidence that they have sought and received permission from the Education and Skills Funding Agency to act as a guarantor.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

The bulk transfer policy is available here https://www.towerhamletspensionfund.org/

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the employer leaves the fund.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers from the risk of future loss when an employer leaves the scheme. The basis adopted for the cessation calculation is below. The assumptions for each basis are defined in Appendix D.

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are recharged to the employer by the fund.

The cessation policy is available here https://www.towerhamletspensionfund.org/

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The exit credit policy is contained within the cessation policy and is available from the administering authority.

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement
- if an exiting employer enters into a deferred debt agreement, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The employer flexibility on exit policy is contained within the cessation policy and is available from the administering authority.

7.5 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the fund and either:

a) their asset share runs out before all ex-employees' benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis

b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- *establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward*
- *support the regulatory framework to maintain **as nearly constant employer contribution rates as possible***
- *ensure the fund meets its **solvency and long-term cost efficiency** objectives*
- *take a **prudent longer-term view** of funding those liabilities.*

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax raising authorities and representatives of other participating employers*'.

The consultation process included issuing a draft version to participating employers and attending an open employers' forum.

A3 How is the FSS published?

The FSS as required is emailed to participating employers and employee and pensioner representatives for consultation. Summaries are issued to members on request and a full copy is included in the fund's annual report and accounts. Copies are freely available on request, sent to investment advisers and independent advisers and published on the website at https://www.towerhamletspensionfund.org/

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, reviewed by the Pensions Board and agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at https://www.towerhamletspensionfund.org/

Appendix B – Roles and responsibilities

B1 The administering authority:

1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations

2 manages any conflicts of interest from its dual role as administering authority and a fund employer

3 collects employer and employee contributions, investment income and other amounts due

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy

7 communicates with employers so they understand their obligations

8 safeguards the fund against employer default

9 works with the fund actuary to manage the valuation process

10 provides information to the Government Actuary's Department so they can carry out their statutory obligations

11 consults on, prepares and maintains the funding and investment strategy statements

12 tells the actuary about changes which could affect funding

13 monitors the fund's performance and funding, amending the strategy statements as necessary

14 enables the local pension board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

3 have appropriate policies in place to work within the regulatory framework

4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.

6 make any required exit payments when leaving the fund.

B3 The fund actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency

2 provides information to the Government Actuary Department so they can carry out their statutory obligations

3 advises on fund employers, including giving advice about and monitoring bonds or other security

4 prepares advice and calculations around bulk transfers and individual benefits

5 assists the administering authority to consider changes to employer contributions between formal valuations

6 advises on terminating employers' participation in the fund

7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement

2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS

3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements

4 governance advisers may be asked to advise the administering authority on processes and working methods

5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures

6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is set out in the board terms of reference available in the constitution of the administering authority at

https://democracy.towerhamlets.gov.uk/documents/s203507/Part%20B%20Responsibility%20for%20Functions%20and%20Decision%20Making%20Procedures.pdf.

Details of the key fund-specific risks and controls are below and set out in the risk register which is available on request.

C2 Financial risks	
Risk	**Control**
Fund assets don't deliver the anticipated returns that underpin the valuation of liabilities and contribution rates over the long term.	Anticipate long-term returns on a prudent basis to reduce risk of under-performing. Use specialist advice to invest and diversify assets across asset classes, geographies, managers, etc. Analyse progress at three-year valuations for all employers. Roll forward whole Fund liabilities between valuations.
Inappropriate long-term investment strategy.	Consider overall investment strategy options as part of the funding strategy. Use asset liability modelling to measure outcomes and choose the option that provides the best balance. Operate various strategies to meet the needs of a diverse employer group.
Active investment manager under-performs relative to benchmark.	Use quarterly investment monitoring to analyse market performance and active managers, relative to index benchmark.
Pay and price inflation is significantly more than anticipated.	Focus valuation on real returns on assets, net of price and pay increases. Use inter-valuation monitoring to give early warning. Invest in assets with real returns. Employers to be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Increased employer's contribution rate affects service delivery.	Consider phasing to limit sudden increases in contributions.
Orphaned employers create added Fund costs.	Seek a cessation debt (or security/guarantor). Spread added costs among employers

C3 Demographic risks	
Risk	**Control**
Pensioners live longer, increasing Fund costs.	Set mortality assumptions with allowances for future increases in life expectancy. Use the Fund actuary's experience and access to over 50 LGPS funds to identify changes in life expectancy that might affect the longevity assumptions early.
As the Fund matures, the proportion of actively contributing employees declines relative to retired employees	Monitor at each valuation, consider seeking monetary amounts rather than % of pay. Consider alternative investment strategies.
Deteriorating patterns of early retirements	Charge employers the extra cost of non ill-health retirements following each individual decision. Monitor employer ill-health retirement experience and insurance is an option
Reductions in payroll cause insufficient deficit recovery payments.	Review contributions between valuations. This may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.
C4 Regulatory risks	
Risk	**Control**
Changes to national pension requirements or HMRC rules.	Consider all Government consultation papers and comment where appropriate. Monitor progress on the McCloud court case and consider an interim valuation or other action once more information is known. Build preferred solutions into valuations as required.
Time, cost or reputational risks associated with any DLUHC intervention triggered by the Section 13 analysis	Take advice from the actuary and consider the proposed valuation approach, relative to anticipated Section 13 analysis.
Changes to employer participation in LGPS funds leads to impacts on funding or investment strategies.	Consider all Government consultation papers and comment where appropriate. Take advice from the fund actuary and amend strategy
C5 Governance risks	
Risk	**Control**
The administering authority is not aware of employer membership changes, for example a large fall in employee members, large number of retirements, or is not advised that an employer is closed to new entrants.	The administering authority develops a close relationship with employing bodies and communicates required standards. The actuary may revise the rates and adjustments certificate to increase an employer's

	contributions between valuations Deficit contributions may be expressed as monetary amounts
Actuarial or investment advice is not sought, heeded, or proves to be insufficient in some way	The administering authority maintains close contact with its advisers. Advice is delivered through formal meetings and recorded appropriately. Actuarial advice is subject to professional requirements like peer review.
The administering authority fails to commission the actuary to carry out a termination valuation for an admission body leaving the Fund.	The administering authority requires employers with Best Value contractors to inform it of changes. CABs' memberships are monitored and steps are taken if active membership decreases
An employer ceases to exist with insufficient funding or bonds.	It's normally too late to manage this risk if left to the time of departure. This risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body. Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Requiring a bond to protect the Fund, where permitted. Requiring a guarantor for new CABs. Regularly reviewing bond or guarantor arrangements. Reviewing contributions well ahead of cessation
An employer ceases to exist, so an exit credit is payable.	The administering authority regularly monitors admission bodies coming up to cessation. The administering authority invests in liquid assets so that exit credits can be paid.

C6 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

C7 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy the fund has included climate scenario stress testing in the contribution modelling exercise for the Council at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The Committee approved the draft 2020/21 TCFD report in March 2022. The results of these stress tests may be used in future to assist with additional disclosures prepared in line with future Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The same stress tests were not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the Council makes up the vast majority of the fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

The Fund has a Responsible Investment Policy Framework and a separate Climate Change Policy, both of which were last agreed by Pensions Committee in June 2021 and September 2021 respectively

Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns								
		Index Linked Gilts (long)	UK Equity	Private Equity	Property	Listed Infrastructure Equity	Diversified Growth Fund (low equity beta)	All World ex UK Equity in GBP Unhedged	Multi Asset Credit (sub inv grade)	Inflation (CPI)
10 years	16th %'ile	-3.1%	-0.4%	-1.2%	-0.6%	-1.1%	1.4%	-0.4%	1.7%	1.6%
	50th %'ile	-0.7%	5.7%	9.4%	4.4%	4.9%	3.2%	5.8%	3.5%	3.3%
	84th %'ile	2.0%	11.6%	20.1%	9.5%	10.9%	5.1%	11.9%	5.2%	4.9%
20 years	16th %'ile	-2.6%	1.7%	2.4%	1.4%	1.2%	2.1%	1.8%	2.8%	1.2%
	50th %'ile	-0.9%	6.2%	10.0%	5.0%	5.6%	3.8%	6.3%	4.4%	2.7%
	84th %'ile	0.8%	10.6%	17.6%	8.9%	10.1%	5.7%	11.1%	6.0%	4.3%
40 years	16th %'ile	-1.1%	3.2%	4.7%	2.6%	2.6%	2.5%	3.4%	3.6%	0.9%
	50th %'ile	0.3%	6.7%	10.3%	5.5%	6.1%	4.4%	6.8%	5.3%	2.2%
	84th %'ile	1.9%	10.2%	16.1%	8.8%	9.8%	6.5%	10.4%	7.1%	3.7%
	Volatility (Disp) (1 yr)	9%	18%	30%	15%	18%	5%	18%	6%	3%

D3 What financial assumptions were used?

Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate. UK Government Bond yields are used in funding as an objective measure of the risk-free rate of return.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except transferee admission bodies and closed community admission bodies	2.2%
Low-risk exit basis	Community admission bodies closed to new entrants	0%**
Contractor exit basis	Transferee admission bodies	A margin consistent with the approach used to allocate assets to the employer on joining the fund

** subject to change if move to a risk-based cessation approach.

Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a whole fund funding level at the 2022 valuation, a discount rate of 4.6% applies. This is based on a prudent estimate of investment returns, specifically, that there is an 65% likelihood that the fund's assets will return future investment returns of 4.6% over the 20 years following the 2022 valuation date.

For certain employers that will cease based on a different discount rate from above, the funding levels have been calculated with reference to the relevant discount rate approach.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to 0.2% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions	
Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	60% of maximum tax-free cash
50:50 option	0.5% of members will choose the 50:50 option.

Males

Figures will be inserted following the initial results report being produced.

Incidence per 1000 active members per year								
Age	**Salary scale**	**Death before retirement**	**Withdrawals**		**Ill-health tier 1**		**Ill-health tier 2**	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.17	606.46	1000.00	0.00	0.00	0.00	0.00
25	117	0.17	400.59	751.84	0.00	0.00	0.00	0.00
30	131	0.20	284.23	533.36	0.00	0.00	0.00	0.00
35	144	0.24	222.07	416.68	0.10	0.07	0.02	0.01
40	150	0.41	178.79	335.37	0.16	0.12	0.03	0.02
45	157	0.68	167.94	314.94	0.35	0.27	0.07	0.05
50	162	1.09	138.44	259.32	0.90	0.68	0.23	0.17
55	162	1.70	109.02	204.31	3.54	2.65	0.51	0.38
60	162	3.06	97.17	182.02	6.23	4.67	0.44	0.33
65	162	5.10	0.00	0.00	11.83	8.87	0.00	0.00

Females

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.10	563.88	514.11	0.00	0.00	0.00	0.00
25	117	0.10	379.42	345.88	0.10	0.07	0.02	0.01
30	131	0.14	318.05	289.90	0.13	0.10	0.03	0.02
35	144	0.24	274.51	250.12	0.26	0.19	0.05	0.04
40	150	0.38	228.47	208.09	0.39	0.29	0.08	0.06
45	157	0.62	213.20	194.16	0.52	0.39	0.10	0.08
50	162	0.90	179.75	163.52	0.97	0.73	0.24	0.18
55	162	1.19	134.12	122.13	3.59	2.69	0.52	0.39
60	162	1.52	108.09	98.31	5.71	4.28	0.54	0.40
65	162	1.95	0.00	0.00	10.26	7.69	0.00	0.00

D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?

Low-risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

1. The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 1.7% pa on 31 March 2022.
2. The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
3. Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

Contractor exit basis

Where there is a guarantor (eg in the case of contractors where the local authority guarantees the contractor's admission in the fund), the contractor exit basis will apply.

The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contributions rates. Specifically, the discount rate is set based on a margin above the risk-free rate consistent with the approach used to allocate assets to the employer on joining the fund.

This page is intentionally left blank

Non-Executive Report of the: **Pensions Committee** Monday, 25 September 2023	TOWER HAMLETS
Report of: Corporate Director Resources	**Classification:** Open
Funding Strategy Statement Update and Policy on Academy Funding Update	

Executive Summary

This report covers updates to the Funding Strategy Statement's and Academy Funding Policy in light of recent policy issued by the Education & Skills Funding Agency (ESFA) regarding the operation of the DfE Academy Guarantee and its application to academy outsourcings issued in May 2023. The Committee received the Funding Strategy Statement in October 2022 and the final post employer consultation in March 2023 following completion of the triennial valuation.

Recommendations:

The Pensions Committee is recommended to:

1. Note the content of this report; and

2. Approve the revised Funding Strategy Statement as asset out in Appendix A which includes the updates to Academies; and

3. Approve the revised policy on Academy Funding Appendix B.

1. REASONS FOR THE DECISIONS

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

1.2 The FSS will be revised and published whenever there is a material change to the policy on the matters set out in the FSS.

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

2. ALTERNATIVE OPTIONS

2.1 There is no alternative because there is a requirement for Members of the Pensions Committee to approve any significant changes to the Funding Strategy Statement and associated policies.

3. DETAILS OF THE REPORT

3.1 The Education & Skills Funding Agency (ESFA) recently released a policy paper regarding the operation of the DfE Academy Guarantee and its application to academy outsourcings. The key updates from the new policy are:

i) An explicit statement that pension liabilities associated with academy outsourcings in the below scenarios are now guaranteed by the DfE. This is an important development as previously not all outsourcings were covered by the previous guarantee.

ii) The scenarios covered are set out below. This is only applicable to staff who are eligible for LGPS and if the admission is operating under a 'pass-through' arrangement.

a. Staff currently working for an academy transfer to an outsourced contractor under TUPE.
b. Staff who transfer to an outsourced contractor under TUPE before the academy converted (ie when it was still a maintained school) and the outsourcing contract passes to the academy following conversion.
c. Staff who currently work for the local authority which is providing services to the academy under a contract, but the contract is then awarded to another third-party contractor and the staff transfer to the contractor under TUPE.

iii) Academies do not need to request ESFA approval in the above scenarios. If the outsourcing is not covered under the scenarios, then academies still must contact ESFA for approval.

iv) ESFA's view is that this now removes the need for a bond for outsourcings in these scenarios. If an administering authority still insists on a bond then the contractor has to provide it as academies cannot provide bonds for LGPS liabilities.

v) The policy is retrospective in its application.

3.2 The scheme actuary has suggested updating the wording in the FSS, or any associated policy, to ensure that this new guidance is reflected.

Other considerations

3.2 Consider making pass-through the default arrangement for all academy outsourcings to ensure they are covered by this new guarantee policy.

3.3 Review if the changes affect any existing outsourcings and if changes are needed to security arrangements/admission agreements.

Review internal processes for administering academy outsourcings to ensure that it falls under the scenarios covered by the guarantee policy and what action needs to be taken if it does not.

3.4 In light of these considerations, officers have informed the actuary of the need to arrange a short meeting with academies to discuss implications of these changes. Officers will feed back to the Committee any concerns raised by academies although these changes are much welcomed.

4. EQUALITIES IMPLICATIONS

4.1 The Funding Strategy Statement aims to ensure all employers are treated fairly.

5. OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

Risk Management

5.2 All material, financial and possibility of risks have been considered and addressed within the report and its appendices and the FSS will provide the Pension Fund with a solid framework in which to achieve a full funding status over the long term. Risks are monitored quarterly via the Risk Register.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 There are no direct financial implications arising from this report. The Fund is required to produce an FSS which sets out the underlying assumptions and principles that are adopted when valuing the Fund's liabilities and setting contribution rates. Appropriate contribution rates by the various employers are necessary for the Pension Fund to approve its funding level.

7. COMMENTS OF LEGAL SERVICES

7.1 Regulation 58 (1) of the Local Government Pension Scheme Regulations 2013 requires an administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.

7.2 Regulation 58(3) requires the Fund to keep the statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy set out in the statement, and if revisions are made, publish the statement as revised.

7.3 The review of the funding strategy statement has been undertaken by the Fund Actuary and Fund officers with reference to 7.2 above as required.

Linked Reports, Appendices and Background Documents

Linked Report

- List any linked reports
-
- State NONE if none.

Appendices

- List any appendices [if Exempt, Forward Plan entry MUST warn of that]
- Funding Strategy Statement (FSS) (Appendix 1)
- Academy Funding Policy (Appendix 2)

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
List any background documents not already in the public domain including officer contact information.

- These must be sent to Democratic Services with the report
- State NONE if none.

Officer contact details for documents:
Or state N/A

London Borough of Tower Hamlets Pension Fund

Policy on academy funding

Effective date of policy	13 March 2023
Date approved	13 March 2023
Amendment date	25 September 2023
Next review	December 2025 or change in legislation whichever is earlier

1 Introduction

The purpose of this policy is to set out the administering authority's funding principles relating to academies and Multi-Academy Trusts (MATs).

1.1 Aims and Objectives

The administering authority's objectives related to this policy are as follows:

- to state the approach for the treatment and valuation of academy liabilities and asset shares on conversion from a local maintained school, if establishing as a new academy or when joining or leaving a MAT
- to state the approach for setting contribution rates for MATs
- to outline the responsibilities of academies seeking to consolidate
- to outline the responsibilities of academies when outsourcing

1.2 Background

As described in Section 5.2 of the Funding Strategy Statement (FSS), new academies join the fund on conversion from a local authority school or on creation (eg newly established academies, Free Schools, etc). Upon joining the fund, for funding purposes, academies may become stand-alone employers or may join an existing MAT.

Funding policy relating to academies and MATs is largely at the fund's discretion, however guidance on how the fund will apply this discretion is set out within this policy.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contains general guidance on Scheme employers' participation within the fund which may be relevant but is not specific to academies.

There is currently a written ministerial guarantee of academy LGPS liabilities, which was reviewed in 2022. This has been further supplemented by the 'DfE Academy Trust LGPS Guarantee policy' of May 2023.

Academy guidance from the Department for Education and the Department for Levelling Up, Housing and Communities may also be relevant.

2 Statement of Principles

This Statement of Principles covers the fund's approach to funding academies and MATs. Each case will be treated on its own merits but in general:

- the fund will seek to apply a consistent approach to funding academies that achieves fairness to the ceding council, MATs and individual academies.
- the fund's current approach is to treat all academies within a MAT as separate employers, unless a request to pool them for contribution rate setting purposes is received from the MAT.
- academies must consult with the fund prior to carrying out any outsourcing activity. The Fund expects academies to ensure that any outsourcing complies with the requirements set out in the 'DfE Academy Trust LGPS Guarantee policy' and confirm to the Fund that the requirements are met. Where the 'DfE Academy Trust LGPS Guarantee policy' terms cannot be met, and no suitable alternative is agreed, the Fund may refuse admission of the contractor as an admission body.
- the fund will generally not consider receiving additional academies into the fund as part of a consolidation exercise except actuarial advise is sought.

3 Policies

3.1 Admission to the fund

As set out in section 5.2 of the FSS:

Asset allocation on conversion

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund its deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

Contribution rate

New academy contribution rates are based on the current funding strategy (set out in section 2 of the FSS) and the transferring membership. If a converting academy is joining an existing MAT within the fund then the converting academy will pay their individual calculated contribution rate until the subsequent formal actuarial valuation of the fund, at which point an updated MAT contribution rate will be calculated based on the academies present in the MAT at that point in time.

3.2 Multi-academy trusts

Asset tracking

The fund's current policy is to individually track the asset shares of each academy within the fund. Where a MAT exists, the individual asset shares may be pooled together to provide a pooled funding level or for setting a pooled contribution rate.

Contribution rate

If an existing academy is joining an existing pooled MAT (within the fund), in general, the transferring academy will pay the certified contribution rate of the MAT it is joining.

At the discretion of the fund, a new contribution may be calculated by the fund actuary to allow for impact of the transferring academy joining the MAT.

Academies leaving a MAT

As set out in section 5.2 of the FSS, if an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT. The individual asset share of that academy (as tracked individually) will be transferred to the new MAT in full, noting that this may be more (or less) than 100% of the transferring liabilities.

3.3 Merging of MATs (contribution rates)

If two MATs merge during the period between formal valuations, the new merged MAT will pay the higher of the two certified individual MAT rates until the rates are reassessed at the next formal valuation (NB where one or both MATs are paying a monetary secondary contribution rate these will be converted to a % of pay for the purposes of determining the new merged contribution rate).

Alternatively, as set out in the fund's contribution review policy and per Regulation 64 A (1)(b) (iii) the MAT may request that a contribution review is carried out. The MAT would be liable for the costs of this review.

3.4 Cessations of academies and multi-academy trusts

A cessation event will occur if a current academy or MATs cease to exist as an entity or an employer in the fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employers within the fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers as described in 3.2 above.
- In all other circumstances, and following payment of any cessation debt, section 7.5 of the FSS would apply.

3.5 Academy consolidations

If an academy or MAT is seeking to merge with another MAT outside of the fund they would need to seek approval from the secretary of state to consolidate their liabilities (and assets) into one LGPS fund. It is the fund preference that academies do not seek to consolidate across different LGPS Funds.

Where a direction has been granted the fund does not generally accept academy consolidations into the fund. The fund will provide the necessary administrative assistance to academies seeking to consolidate into another LGPS fund, however the academy (or MAT) will be fully liable for all actuarial, professional and administrative costs.

3.6 Outsourcing

An academy (or MAT) may outsource or transfer a part of its services and workforce via an admission agreement to another organisation (usually a contractor). The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership.

The contractor will pay towards the LGPS benefits accrued by the transferring members for the duration of the contract, but ultimately the obligation to pay for these benefits will revert to the academy (or MAT) at the end of the contract.

It is the fund's preference for the contractor's contribution rate to be set equal to the letting academy's (or MAT's) total contribution rate.

It is critical for any academy (or MAT) considering any outsourcing to contact the fund initially to fully understand the administrative and funding implications. The academy should also read and fully understand the fund's admissions / pass-through policy.

In all cases, academies must ensure that the requirements set out in the 'DfE Academy Trust LGPS Guarantee policy' are met before completing an outsourcing. Where the outsourcing is being done on a pass-through basis, the Fund's policy is to require the new admission body to be closed to new members to ensure that the 'DfE Academy Trust LGPS Guarantee policy' applies Where the Guarantee policy terms cannot be met, and no suitable alternative is agreed, the Fund may refuse the contractor entry to the Fund as an admission body.

Where an outsourcing from an LEA school continues in operation after conversion to academy status, the academy will be deemed responsible for the outsourced members at the end of the contract.

3.7 Accounting

Academies (or MATs) may choose to prepare combined FRS102 disclosures (eg for all academies within a MAT). Any pooling arrangements for accounting purposes may be independent of the funding arrangements (eg academies may be pooled for contribution or funding risks but prepare individual disclosures, or vice versa).

4 Practicalities and process

To be considered on a case by case basis

5 Related Policies

The fund's approach to admitting new academies into the fund is set out in the Funding Strategy Statement, specifically "Section 5 – What happens when an employer joins the fund?"

- Contribution review policy
- Cessation policy
- Bulk transfer policy

Non-Executive Report of the: **Pensions Committee** Monday 25 September 2023	TOWER HAMLETS
Report of Interim Corporate Director Resources	**Classification:** Unrestricted
Review of Internal Controls at Investment Managers and Custodian – London CIV	

Originating Officer(s)	Miriam Adams, Interim Head of Pensions & Treasury
Wards affected	All wards

Summary

This report presents the finding of the review of the adequacy of internal control measures put in place by the London CIV and their review of underlying fund managers controls. Officers have reviewed the available AAF 01/06 and SSAE3402 for investment managers whom the Fund has direct relationships with. These internal control reports signifies that a service organization has had its control objectives and control activities examined by an independent accounting and auditing firm.

The third-party internal controls oversight summary report received from LCIV concludes that no significant changes in the internal control environment for the period 1 April 2022 to 31 March 2023 was reported and bridging letters were provided by LCIV underlying managers covering periods to 31 March 2023 not covered by the internal control reports.

The Committee considered reports for Northern Trust, Schroders, Legal & General, Goldman Sachs and Insights in June. London CIV report was not available at the time of the June Committee and Board meetings.

Recommendations:

The Pensions Committee is recommended to:

1. Note the report contents; and

2. Note that the London CIV Third Party Controls and Oversight Summary Report at 31 March 2023 (Appendix 1).

1. REASONS FOR THE DECISIONS

1.1 There are no alternative decisions to be made.

2. ALTERNATIVE OPTIONS

2.1 The review of fund managers' AAF 01/06 and ISAE 3402 reports and associated reports should provide some assurance to the Pension Fund (Members and Trustees) that fund managers including London CIV have adequate controls and safeguards are in place to for managing the Fund's assets. It is appropriate for the committee and Fund members to be kept abreast of any risks identified through this process and the likely impact of such risks to the Fund.

3. DETAILS OF REPORT

3.1 The Pensions Regulator Code of Practice 9 Internal Controls requires Trustees to review internal controls as part of risk management.

3.2 There are a range of internal control reports produced in different countries in response to local and regulatory pressures. The guidance allows service organisations to disclose their controls activities and processes to their clients and the auditors of their clients in a uniform reporting format.

3.3 The publication of a service auditor's report prepared in accordance with a country's authoritative guidance indicates that a service organisation has had its service control objectives and control activities examined by an independent accounting and auditing firm.

The importance of these assurance reports is that they can provide appropriate audit evidence under ISA (UK & I) 402.

Review of London CIV Internal Control Reports

3.4 London CIV Sub-funds are monitored using the London CIV Fund Monitoring Framework. This Framework is described in the LCIV Investment Governance Document and associated policies which are shared with Client Fund Investors.

3.5 LCIV assess Sub-funds against the eight criteria summarised in their third-party controls oversight summary report (Appendix 1). The third-party controls report also explains the operational oversight activities performed by LCIV over third party vendors covering portfolio management and fund administration.

.

London CIV Fund Monitoring Framework

3.6 Key risk areas assessed as part of their process is listed below:

- Fraud risk
- Operational risk
- Counterparty risk
- Regulatory risk
- Legal risk
- Information and cyber security risk

3.7 LCIV officers prepare criteria scores and the recommended Monitoring Status, which is then presented to the LCIV Investment Panel, chaired by the Chief Investment Officer (CIO), for ratification.

LCIV Fund or Sub-fund	**Investment Manager**	**Last Operational Due Diligence date**
LCIV Diversified Growth fund	Baillie Gifford	August 2020
LCIV Global Alpha Growth Paris Aligned fund		
LCIV MAC fund	CQS	April 2022
	PIMCO	February 2022
LCIV Sustainable Equity fund	RBC Global Asset Management (UK) Limited ('RBC')	September 2020
LCIV Absolute Return fund	Ruffer LLP	August 2020
LCIV Renewable Infrastructure fund	BlackRock Financial Management Inc	September 2021

	Foresight Group LLP	March 2021
	Stonepeak Global Renewables Advisor LLC	March 2021
	Quinbrook	April 2021
	Macquarie	March 2023
LCIV UK housing fund	CBRE	March 2023

Portfolio managers internal control reports

3.8 LCIV reports state that Officers of LCIV review manager reports and any identified control issues are discussed with the investment managers as par to the investment oversight process.

Based on LCIV review of the internal control reports, LCIV have confirmed that there are no issues which they would like to bring to the attention of client funds as the internal control reports are unqualified. As of the report date, the table below is a summary of internal control reports reviewed by LCIV.

LCIV Fund or Sub-fund	Investment Manager	Auditor	Date of Internal Control report	Auditors' sign off date	Qualified ?
LCIV Diversified Growth fund	Baillie Gifford	PwC	**30/04/2022**	07/06/2022	No
LCIV Global Alpha Growth Paris Aligned fund					
	CQS	RSM	**30/09/2022**	30/01/2023	No
LCIV MAC fund	PIMCO	PwC	**30/09/2022**	01/03/2023	No
LCIV Sustainable Equity fund	RBC Global Asset Management (UK) Limited ('RBC')	PwC	**30/04/3022**	04/08/2022	No
LCIV Absolute Return fund	Ruffer LLP	EY	**31/03/2022**	08/07/2022	No
LCIV Renewable Infrastructure fund	BlackRock Financial Management Inc	EY	**31/10/2022**	23/12/2022	No
	Foresight Group LLP	BDO	**31/03/2022**	12/07/2022	No
	Stonepeak Global Renewables Advisor LLC	EY	**30/09/2022**	Nov-22	No
	Quinbrook	BDO	**30/09/2021**	24/02/2022	No
	Macquarie*	n/a	**n/a**	n/a	n/a
LCIV UK housing fund	CBRE*	n/a	**n/a**	n/a	n/a

* Manager recently appointed

4. EQUALITIES IMPLICATIONS

4.1 There are no direct equalities implications to this report.

5. OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

Risk Management Implications

5.2 The review of the AAF 01/06 and SSAE3402 internal control reports of third parties that manage Pension Fund assets ensures that fund managers can demonstrate that they are properly managing pension fund assets as stewards of the Fund and are following procedures that do not expose fund assets to any undue risks.

5.3 Pension Fund assets could be exposed to undue risk where AAF 01/06 and SSAE 3402 reports are not in place or adequate internal controls and safeguard measures are lacking in the management of Fund assets.

5.4 The risks arising from this investment performance are included in the Pension Fund risk register.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 Whilst the performance and effective controls of the investment manager and custodian is of paramount importance in the performance of the Pension Fund, there are no direct financial implications arising from this report.

6.2 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for other corporate priorities.

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

7. COMMENTS OF LEGAL SERVICES

7.1 This is a noting report for the pension committee. There are no direct legal implications arising from this report. The position regarding the internal controls for the London CIV Sub-funds is outlined in this report and appendix.

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- London CIV Third Party Controls Oversight Summary 31 March 2023 – Appendix 1

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

Officer contact details for documents:

- Miriam Adams, Interim Head of Pensions & Treasury x4248

THIRD PARTY CONTROLS OVERSIGHT SUMMARY
31 March 2023

As of April 2023

Introduction

The following report is prepared for client funds invested in the Authorised Contractual Scheme, the Exempt Unauthorised Trusts and the Scottish Limited Partnership managed by London LGPS CIV Limited ('London CIV') and explains the operational controls oversight activities performed by London CIV over third party vendors covering:

- Portfolio Management
- Fund Administration

We have also provided details of our corporate governance framework and this year to include details on our cyber security arrangements.

Contents

1. Portfolio Management

London CIV completes initial Operational Due Diligence('ODD') on potential new investment managers following a standard agenda and reporting structure. The report is then assessed by the London CIV investment team and any weaknesses or identified issues discussed with the manager. Any monitoring items identified in the ODD are discussed and resolved during quarterly investment oversight meetings. ODD is repeated on a triennial cycle unless investment oversight identifies an earlier requirement.

Key risk areas assessed as part of this process are summarised as follows:

- Fraud risk – the risk that poor internal controls over cash and assets results in misappropriation of assets.
- Operational risk – the risk that poor processes and weak internal controls result in an operational error which may include trade errors, incorrect allocations, failed trade or incorrect position keeping which leads to P&L loss and/or misstatement of NAV.
- Counterparty risk – the risk that deteriorating credit health of trading and or custody counterparties results in a financial loss.
- Regulatory risk – the risk that poor policies and procedures, lack of employee training, or insufficient resourcing leads to a regulatory action.
- Legal risk – the risk that the organization and fund structures are not set up appropriately for the activities conducted or that investment behaviour leads to litigation.
- Information and cyber security risk – the risk that the organization from a systems perspective does not effectively monitor and prevent unauthorized access to their systems which leads to a loss of sensitive data or business interruption.

The examples above seek to illustrate the types of risk events that could occur and are not exhaustive.

Initial Due Diligence

Generally, initial due diligence begins when the investment team has identified a potential investment manager for a mandate that has been approved by the London CIV Investment Oversight Committee ('IOC'). On occasion, to aid in generating the investment manager short list, operational due diligence may be engaged to conduct a light due diligence to identify any high- risk areas.

An initial request list of documents is provided to the investment manager to perform a desktop review prior to the initial on-site meeting.

Guidance for discussion points and risks to consider within each section are included in the Operational Due Diligence Report Template. A framework for assessing each of the areas is also included.

On-site discussions are conducted with the functional heads of each of the key business areas as well as investment professionals (where relevant). The goal is to obtain and verify relevant information to assess the risk areas as well as assess their suitability for the role. The evaluation of the people designing, controlling, and performing the key functions within the organisation is integral to the process.

The number of on-site meetings and follow up phone calls is at the discretion of the operational due diligence function. Additional due diligence may be conducted on service providers including calling the outsourced middle office provider, administrator or depositary to confirm key details directly.

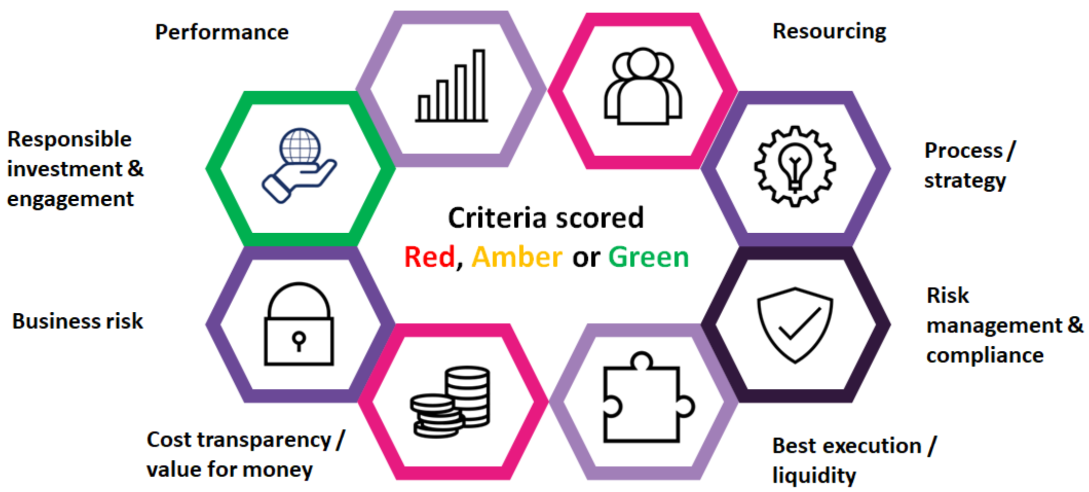
IDD Summary

London CIV Sub-funds are monitored using the London CIV Fund Monitoring Framework. This Framework is described in the Investment Governance Document and associated policies which are shared with Client Fund investors.

The Sub-funds are assessed against the eight criteria summarised below. The criteria are reviewed on a quarterly basis through analysis of performance and risk metrics, portfolio characteristics, transaction activity and interviews with investment managers.

On an annual basis, or more frequently if required, we conduct an in-depth review of each Sub-fund. These reviews require in-depth engagement with research, portfolio management, risk management, trading and other personnel at investment management firms. This is supplemented by detailed analysis of portfolios and trends in performance and risk measures.

London CIV Fund Monitoring Framework



Each of the criteria is scored 'red', 'amber' or 'green'. The characteristics of 'green' scores are summarised below – this 'key' is used to ensure consistency in the assessment of the criteria.

Monitoring: What Does Green Look Like?

Performance	Resourcing	Process/strategy	Responsible Investment and engagement	Business risk	Risk management and compliance	Cost transparency/ value for money	Best execution /liquidity /deployment
• Outperforming relevant benchmark over medium (3 years) and long-term (5 years+) • Keeping pace with peers • Pattern of returns and risk profile in line with expectations	• Resource level remains adequate. • Skillset remains aligned to requirements • Decision makers benefit from strong support (inc. tools and systems) • Teams stable	• Process remains fit for purpose and is applied consistently • Manager regularly reappraises approach	• Strong commitment to best practice evidenced in decision-making processes and remuneration, committed to continuous improvement. • Trend in key metrics (PRI score, carbon footprint, adherence to Stewardship Code etc) positive or stable.	• Business stable, key decision-makers well supported • Incentives aligned to client objectives • Ownership stable.	• Comprehensive risk management process overseen by independent team remains in place. • Key decision-makers continue to exhibit strong awareness of risks. • Suitable risk monitoring system in place, sources of risk aligned to expectations. • Strong record of compliance.	• Full transparency provided • Fees and other costs in line with or lower than median for comparable strategies • Strategy delivers value net of costs.	• Turnover (pace of deployment) in line with expectations. • Strong execution function • All relevant trading / sourcing channels covered. • No evidence of slippage in implementation of buy and sell ideas. • Liquidity profile aligned to expectations • Capacity is managed carefully.

Sub-funds are then assigned a Monitoring Status of Normal, Enhanced or On Watch. Ultimately, the Monitoring Status reflects London CIV's assessment of the ability of the investment managers to achieve Sub-fund objectives over the medium to long-term.

Normal

- Performance & risk in line with expectations
- No major concerns with resourcing or execution of key processes
- Best practice in RI & engagement
- Cost transparent and adds value net of costs

Enhanced

- Performance & risk not consistently aligned to expectations
- Concerns that issues with resourcing, business risk or execution of key processes are affecting achievement of objectives
- Commitment to RI falters
- Cost transparent but does not consistently add value

Watch

- Persistent variances in performance or risk profile relative to expectations
- Evidence that objectives will not be achieved because of shortcomings in resourcing or execution of key processes
- Commitment to RI lags peers
- Strategy fails to deliver value net of fees

Criteria scores and the recommended Monitoring Status are presented to the Investment Panel, chaired by the Chief Investment Officer (CIO), for ratification. The Investment Panel meets monthly. Recommendations to place a fund on Watch must be ratified by the Executive Committee on the recommendation of the CIO.

Where a Sub-fund is on Enhanced Monitoring or Watch we share our concerns with investment managers and agree an action plan and timeline to address the issues identified. The Monitoring Status of Sub-funds, and action plans, are shared with investors in the Sub-funds.

Ongoing Monitoring

Ongoing monitoring is a key aspect of the operational due diligence process to both reaffirm the initial recommendation and follow up on the areas of interest and concern. As part of the investment management's team ongoing monitoring, high level questions are asked regarding material changes to assets under management, key personnel, and performance. If there are unexpected changes in any of those areas, operational due diligence may be asked to perform more frequent monitoring. Otherwise, on-site operational due diligence will generally be undertaken on a Tri-annual basis.

The latest ODD performed on each manager is set out in the table below:

Investment Manager	London CIV Fund or Sub-fund	Last ODD on-site
Baillie Gifford & Co Limited	LCIV Diversified Growth Fund	August 2020
Baillie Gifford & Co Limited	LCIV Global Alpha Growth Fund	
Baillie Gifford & Co Limited	LCIV Global Alpha Growth Paris Aligned Fund	
CQS	LCIV MAC Fund	April 2022
JPMorgan Asset Management	LCIV Emerging Market Equity Fund	February 2023
Newton Investment Management Limited	LCIV Global Equity Fund LCIV Real Return Fund	July 2022
Morgan Stanley Investment Management ('MSIM')	LCIV Global Equity Core Fund	June 2020
Longview Partners LLP	LCIV Global Equity Focus Fund	August 2022
PIMCO Europe Ltd	LCIV Global Bond Fund LCIV MAC Fund	February 2022
Pyrford International Ltd	LCIV Global Total Return Fund	July 2020
RBC Global Asset Management (UK) Limited ('RBC')	LCIV Global Sustainable Equity Fund	September 2020
RBC Global Asset Management (UK) Limited ('RBC')	LCIV Global Sustainable Equity Exclusion Fund	
Ruffer LLP	LCIV Absolute Return Fund	August 2020
State Street Global Advisers	LCIV Passive Equity Progressive Paris Aligned Fund	August 2021
Aviva Investors Global Services Limited	LCIV Inflation Plus Fund	November 2022
BlackRock Financial Management Inc	LCIV Renewable Infrastructure Fund	September 2021
Foresight Group LLP	LCIV Renewable Infrastructure Fund	March 2021

Investment Manager	London CIV Fund or Sub-fund	Last ODD on-site
Stonepeak Global Renewables Advisor LLC	LCIV Renewable Infrastructure Fund	March 2021
Quinbrook	LCIV Renewable Infrastructure Fund	April 2021
Macquarie	LCIV Renewable Infrastructure Fund	March 2023
Pemberton Capital Advisors LLP*	LCIV Private Debt Fund I	August 2022
Churchill Asset Management LLC	LCIV Private Debt Fund I	February 2021
Local Pension Partnership Investment Ltd	The London Fund	November 2020
StepStone Real Assets LP	LCIV Infrastructure Fund	November 2021
CBRE	LCIV UK housing Fund	March 2023

* The Investment Manager does not prepare an internal controls report

.

Portfolio Managers Internal Control Reports

Throughout the year, London CIV collect and track the internal controls reports of the investment managers listed above. Each of the reports is reviewed and any identified control issues are discussed with the investment managers as part of the investment oversight process. Bridging letter requests are sent to all the investment managers seeking confirmation up to 31 March 2022 where possible.

Based on the review of the internal control reports listed below there are no issues that London CIV would like to bring to the attention of the client funds as the internal control reports are unqualified. As of the report date, the following is a summary of internal controls reports reviewed:

	Name of Manager	Fund	Date of Report	auditors' sign off date	Qualified?	Auditor
1	CQS	LCIV MAC FUND LCIV ALTERNATIVE CREDIT FUND	30/09/2022	30/01/2023	No	RSM
2	Pimco	LCIV MAC FUND LCIV GLOBAL BOND FUND	30/09/2022	01/03/2023	No	PwC
3	Baillie Gifford & Co	LCIV GLOBAL ALPHA GROWTH FUND LCIV DIVERSIFIED GROWTH FUND LCIV GLOBAL ALPHA GROWTH PARIS ALIGNED FUND	30/04/2022	07/06/2022	No	PwC
4	Newton	LCIV GLOBAL EQUITY FUND LCIV REAL RETURN FUND	30/09/2021	27/05/2022	No	KPMG
5	Longview	LCIV GLOBAL EQUITY FOCUS FUND	31/12/2022	23/03/2023	No	EY
6	RBC	LCIV SUSTAINABLE EQUITY FUND LCIV SUSTAINABLE EQUITY EXCLUSION FUND	30/04/2022	04/08/2022	No	PwC
7	JPM	LCIV EMERGING MARKET EQUITY FUND	31/12/2022	26/04/2023	No	PwC
8	Pyrford	LCIV GLOBAL TOTAL RETURN FUND	31/10/2022	14/12/2022	No	PwC
9	MSIM	LCIV GLOBAL EQUITY QUALITY	30/06/2022	22/12/2022	No	Deloitte
10	Ruffer	LCIV ABSOLUTE RETURN FUND	31/03/2022	08/07/2022	No	EY
11	State Street	LCIV PASSIVE EQUITY PROGRESSIVE PARIS ALIGNED FUND	30/09/2022	08/11/2022	No	EY
12	Churchill	LCIV Private Debt Fund	30/09/2022	18/11/2022	No	EY
13	Pemberton	LCIV Private Debt Fund	n/a	n/a	n/a	n/a
14	Aviva	LCIV Real Estate Long Income Fund	30/09/2022	25/01/2023	No	PwC
15	Stepstone	LCIV Infrastructure Fund	30/06/2022	16/09/2022	No	EY
16	Blackrock	LCIV Renewable Infrastructure Fund	31/10/2022	23/12/2022	No	EY
17	Foresight	LCIV Renewable	31/03/2022	12/07/2022	No	BDO

	Name of Manager	Fund	Date of Report	auditors' sign off date	Qualified?	Auditor
		Infrastructure Fund				
18	Quinbrook	LCIV Renewable Infrastructure Fund	30/09/2021	24/02/2022	No	BDO
19	Stonepeak	LCIV Renewable Infrastructure Fund	30/09/2022	Nov 2022	No	EY
20	LPPI	The London Fund LP	31/10/2022	17/03/2023	No	PwC

2. Fund Administrator - Northern Trust ("NT") Due Diligence

NT provides fund administration, custody and transfer agency services. A series of service monitoring measures including regular contact with all relevant business groups in NT and more structured service feedback channels exist. A summary of this is as follows:

- For each service, there is a Service Level Description (SLD) agreement which is reviewed on an annual basis and NT assigns a relationship manager to each operational area.
- KPI from each SLD form the criteria to rate NT/s service on a monthly basis. Monthly service review meetings are held between London CIV operation team and all service managers from NT to review management information of the past month
- Weekly depositary meetings are held between London CIV senior managers and the depositary.
- Bimonthly meetings are held between the London CIV fund accounting team and the NT relationship manager
- Quarterly tax service review meetings take place to discuss and track withholding tax related matters
- On a biannual basis London CIV review the audited SOC I control report from NT. The latest report review was as follows:

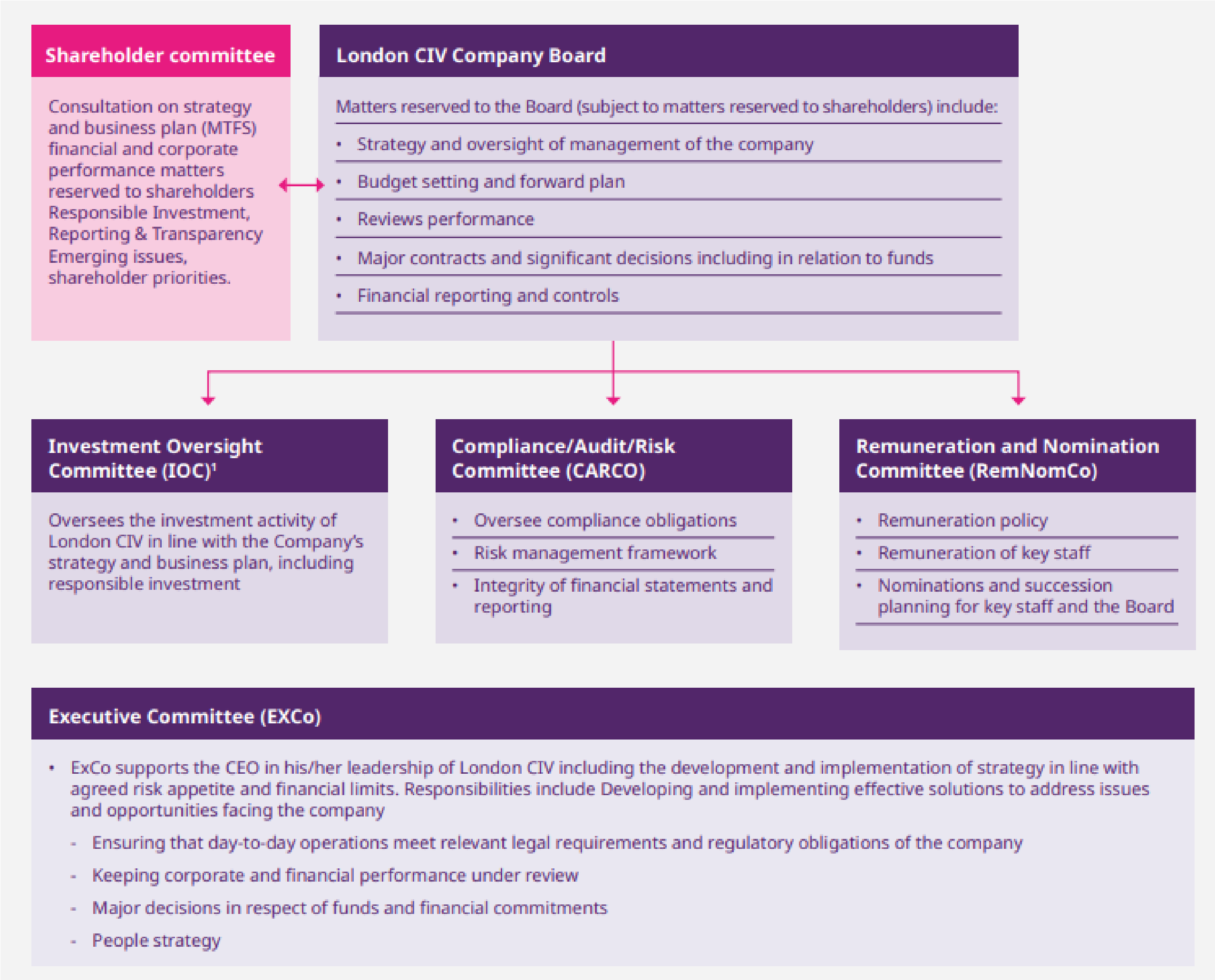
Report	Report date	Sign off date	Qualified?	Auditor
SOC 1	30/09/2022	18/11/2022	No	KPMG

- On an annual basis, NT will share with London CIV Cyber Security report see the cyber security section below for further details.
- On an annual basis, the operations team complete an annual due diligence of the Fund Administrator covering the general company updates, Risk Management, Fund Accounting, Transfer Agent and Custody activities to understand the latest controls and procedures including any changes in the year.

3. London CIV Corporate Governance Framework

The overall strategic direction, management and general policy of London CIV is vested in the Board, which is responsible for major decisions unless reserved to shareholders. The Executive Directors, led by the Chief Executive, are responsible for the day- to-day management of the company and there is an Executive Committee which is attended by other senior managers in the firm. The Board Committees are an Investment Oversight Committee (IOC); a Compliance, Audit, and Risk Committee (CARCO); and a

Remuneration and Nomination Committee (RemNomCo) which includes the Chair of the Shareholder Committee amongst its membership. The Shareholder Committee is a consultative committee to the Board. Please see below a diagram for the current London CIV committee structure.



The Executive Committee meets once a month whereas the Investment Oversight Committee (IOC) and Compliance, Audit and Risk Committee (CARCO) meet quarterly and on an exception basis to the Board.

Any errors or incidents that impact the funds operations follow internal risk management procedures and events are entered onto the compliance risk log. For all logged events a report is produced reviewed by a senior manager or director of London CIV and presented to CARCO.

4. Information and Cyber Security

Introduction

London CIV continues to improve its cyber security posture, in 2022 we achieved CyberEssentials accreditation and we are now further enhancing our policies and processes in alignment with ISO27001. We have expanded the scope of our Penetration Testing to cover a wider range of threat vectors and remediate any high risk items raised.

Internal cyber and IT security reviews

In conjunction with our managed IT service provider, we have conducted a full review of our IT infrastructure, this is in addition to our ongoing monthly service review meetings. The infrastructure review has led to our developing an enhancement programme which will be delivered during 2023.

Other services are provided via secure cloud portals. These include:

- Microsoft 365 for Office and Email
- Mimecast for advanced email security and business continuity
- Dual Factor Authentication Controls
- Endpoint protection software
- Next Generation Firewalls

External suppliers are assessed as to their cyber security preparedness as part of the London CIV due diligence process.

5. Limitations on distribution

This summary report has been prepared for the investors in the Authorised Contractual Scheme, Exempt Unauthorised Unit Trusts and The London Fund. London LGPS CIV Limited is the Alternative Investment Fund Manager for all these funds and is authorised and regulated by the Financial Conduct Authority.

The information contained in this summary report is confidential to London LGPS CIV Limited and its investors and no other party is entitled to rely on it. It may not be published or distributed to the public nor may any third party rely on the information in this document.

Non-Executive Report of the: **Pensions Committee** Monday, 25 September 2023	TOWER HAMLETS
Report of: Corporate Director Resources	**Classification:** Open
Funding Update 21 June 2023	

Executive Summary

The funding update is provided to illustrate the estimated funding position from 31 March 2022 to 21 June 2023.

The projected benefit payments used in this calculation are based on the membership data and the financial and demographic assumptions used for the 2022 formal valuation and in line with the Funding Strategy Statement (FSS) dated March 2023. However, they have been updated to reflect actual pension increases since the valuation and changes in future long-term inflation expectations derived consistently with the approach in the current FSS.

The funding level is derived as a ratio of the value of the Fund's assets to the value of its accrued liabilities. Actual benefit payments in the future will be in respect of both service accrued up to today ("past service") and service that will be accrued in the future (" future service"). However, the funding level presented is only in respect of past service benefits.

The funding level is only a snapshot in time based on a single set of assumptions about the future and is therefore sensitive to the choice of assumptions, in particular the expected future investment return assumption.
Based on the Fund targeting an annual future investment return which has a 92% likelihood of being achieved on an ongoing basis, the past service funding position has improved from being 123% funded (surplus of £37m) to being 155% funded (surplus of £70m). The improvement has been largely driven by strong investment performance since 31 March 2022.

Recommendations:

The Pensions Committee is recommended to:

1. Note the content of this report.

2. Note that any investment decisions taken which fail to provide the desired returns will impact estimated funding levels.

1. REASONS FOR THE DECISIONS

1.1 Tower Hamlets Council as the Fund's administering authority recognises that effective risk management is an essential part of good governance.

1.2 The purpose of the valuation is to review the current funding strategy and ensure that the Fund has a contribution plan and investment strategy in place that will enable it to pay members' benefits as they fall due. This report is for noting.

2. ALTERNATIVE OPTIONS

2.1 This report serves as a monitoring tool for funding level as well as acting as a risk management tool.

3. DETAILS OF THE REPORT

3.1 Since the 2022 triennial valuation, this report considers the funding position on 21 June 2023:

- The past service funding position has improved from a surplus of a £37m (123% funded) to £70m (155% funded). This funding position is based on the Fund targeting an annual future investment return which has a 92% likelihood of being achieved.
- The future investment return required to be notionally fully funded has remain at 3.4% p.a. The likelihood of the Fund's assets achieving this required level of return has increased from 78% to 92%.

Investment returns since the valuation at 31 March 2022

3.2 Investment returns are based on actual returns where available and index returns otherwise.

Investment strategy	Actual/index	From	To	Return
Whole fund	Actual	1 April 2022	31 March 2023	(4.46%)
Whole fund	Index	1 April 2023	21 June 2023	1.63%

3.3 The table below shows that assumed investment return would be required at each date for the deficit to be exactly zero, along with the likelihood of the investment strategy achieving this return. An increase in this likelihood corresponds to an improvement in the funding position.

Monetary amounts in £bn	Ongoing basis 31 March 2022	Ongoing basis 21 June 2023
Assets	2.02	1.97
Liabilities		
– Active members	0.50	0.38
– Deferred pensioners	0.35	0.24
– Pensioners	0.79	0.65
Total liabilities	1.65	1.27
Surplus/(deficit)	0.37	0.70
Funding level	123%	155%
Required return assumption (% pa) for funding level to be 100%	3.4%	3.4%
Likelihood of assets achieving this return	78%	92%

4. EQUALITIES IMPLICATIONS

4.1 There are no direct equalities implications on the content of this report.

5. OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

Risk Management

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

6. COMMENTS OF THE CHIEF FINANCE OFFICER

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

7. COMMENTS OF LEGAL SERVICES

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

7.2 Regulation 58 of the Local Government Pension Scheme Regulations 2013 requires the Council as an administering authority to publish and maintain a funding strategy statement. This report provides the Committee with an update on the whole Fund's actuarial position at 21 June 2023.

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

Linked Reports, Appendices and Background Documents

Linked Report

- List any linked reports
- NONE

Appendices

- Hymans Funding Update report 21 June 2023 - Appendix 1

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
List any background documents not already in the public domain including officer contact information.

- These must be sent to Democratic Services with the report
- State NONE if none.

Officer contact details for documents:
Miriam Adams, Interim Head of Pensions & Treasury
Email: miriam.adams@towerhamlets.gov.uk

London Borough of Tower Hamlets Pension Fund Funding update report at 31 March 2023

This report is addressed to the Administering Authority of the London Borough of Tower Hamlets Pension Fund. This document should be read in conjunction with the fund's current Funding Strategy Statement.

The purpose of this report is to provide the funding position of the London Borough of Tower Hamlets Pension Fund as at 31 March 2023 and show how it has changed since the previous valuation at 31 March 2022. This report has not been prepared for use for any other purpose and should not be so used. The report should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. Hymans Robertson LLP accept no liability where the report is used by or disclosed to a third party unless such liability has been expressly accepted in writing. Where permitted, the report may only be released or otherwise disclosed in a complete form which fully discloses the advice and the basis on which it is given.

The figures presented in this report are prepared only for the purposes of providing an illustrative funding position and have no validity in other circumstances. In particular, they are not designed to meet regulatory requirements for valuations.

This report also contains the data and assumptions underlying the results and the reliances and limitations which apply to them.

1 Results

1.1 Funding position update

The table below shows the estimated funding position at 31 March 2022 and 31 March 2023.

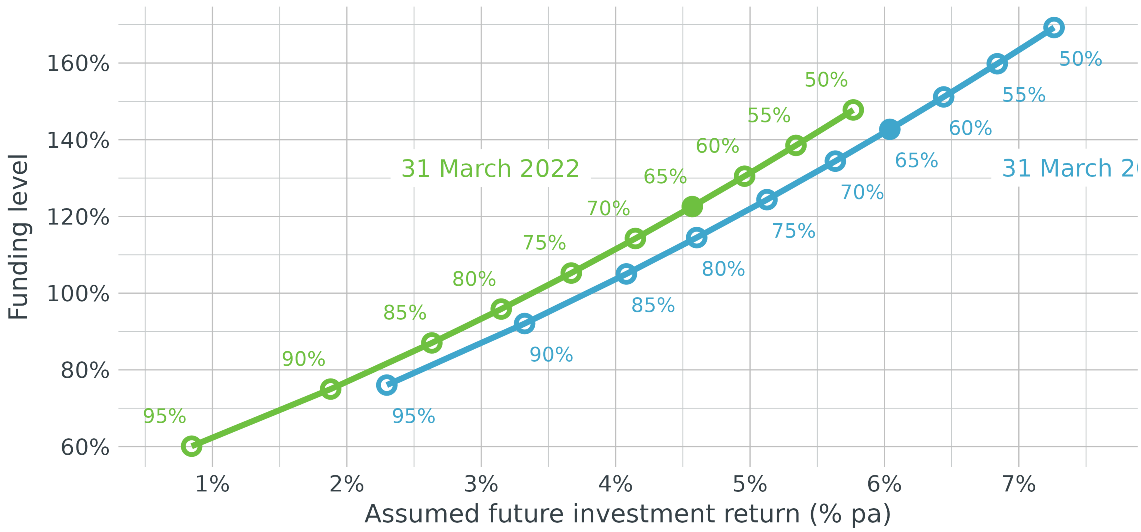
Please note that the asset value at 31 March 2023 shown in this report may differ to the actual asset value at that date because it is an estimate based on estimated cashflows (see section 3.2). However, the estimated value is consistent with the liabilities and therefore gives a more reliable estimate of the funding position than the actual asset value at the same date.

The table also shows what assumed investment return would be required at each date for the deficit to be exactly zero, along with the likelihood of the investment strategy achieving this return. An increase in this likelihood corresponds to an improvement in the funding position.

	Ongoing basis	Ongoing basis
Monetary amounts in £bn	31 March 2022	31 March 2023
Assets	2.02	1.94
Liabilities		
– Active members	0.50	0.40
– Deferred pensioners	0.35	0.27
– Pensioners	0.79	0.69
Total liabilities	1.65	1.36
Surplus/(deficit)	0.37	0.58
Funding level	123%	143%
Required return assumption (% pa) for funding level to be 100%	3.4%	3.5%
Likelihood of assets achieving this return	78%	89%

1.2 Funding level range chart

The chart below shows how the funding level varies with the assumed rate of future investment returns, comparing the position at 31 March 2022 with the updated position at 31 March 2023 . The percentages next to each point show the likelihood of the investment strategy achieving that return (for further details see section 3.4). The solid coloured point indicates the assumed future investment return and funding level on the Ongoing basis.



1.3 Funding level progression

The chart below shows the estimated funding level (ratio of assets to liabilities) over time between 31 March 2022 and 31 March 2023. It allows for changes in market conditions and other factors described in Appendix A. If the fund has moved to a different basis since 31 March 2022 this may give rise to step changes in the funding level on the date of the change.

2 Next steps

2.1 Understanding the results

The results at 31 March 2023 in this report are estimates based on rolling forward the fund's funding position from 31 March 2022. You should understand the methodology and limitations of this approach described in appendices A and B.

Decisions should not be based solely on these results and your Hymans Robertson LLP consultant should be contacted to discuss any appropriate action before any is taken. Please also bear in mind that the information is estimated and consider other factors beyond the funding level or surplus/deficit. These could include, but are not limited to, changes to investment strategy, membership profile and covenant strength (where relevant).

Please get in touch with your usual Hymans Robertson contact if you wish to discuss the results in this report further.

3 Data and assumptions

3.1 Membership data

The membership data underlying the figures in this report was supplied by the fund for the purpose of the valuation at 31 March 2022 and is summarised below:

31 March 2022	Number	Average age	Accrued benefit (£k pa)	Payroll (£k pa)
Active members	6,977	54.4	33,490	191,846
Deferred pensioners	10,502	53.1	21,621	
Pensioners and dependants	6,937	68.3	51,464	

The membership is assumed to evolve over time in line with the demographic assumptions described in the Funding Strategy Statement. Please see Appendix A for details of the rollforward methodology which includes the estimated changes in membership data which have been allowed for.

3.2 Cashflows since the valuation at 31 March 2022

We have allowed for the following cashflows in estimating the assets and liabilities at 31 March 2023. Cashflows are assumed to be paid daily. Contributions are based on the estimated payroll, certified employer contributions (including any lump sum contributions) and the average employee contribution rate at 31 March 2022. Benefits paid are projections based on the membership at 31 March 2022.

Estimated cashflows (£k)	31 March 2022 to 31 March 2023
Employer contributions	54,315
Employee contributions	13,911
Benefits paid	62,080
Transfers in/(out)	0

3.3 Investment returns since the valuation at 31 March 2022

Investment returns are based on actual returns where available and index returns otherwise.

Investment strategy	Actual/index	From	To	Return
Whole fund	Actual	1 April 2022	31 March 2023	(4.46%)

The total investment return for the whole period is (4.46%).

3.4 Financial assumptions

The financial assumptions used to calculate the liabilities are detailed below. For further details please see the Funding Strategy Statement.

Assumption	31 March 2022	31 March 2023
Funding basis	Ongoing	Ongoing
Discount rate methodology	Expected returns on the Main Fund strategy over 20 years with a 65% likelihood	Expected returns on the Main Fund strategy over 20 years with a 65% likelihood
Discount rate (% pa)	4.6%	6.0%
Pension increase methodology	Expected CPI inflation over 20 years with a 50% likelihood	Expected CPI inflation over 20 years with a 50% likelihood
Pension increases (% pa)	2.7%	2.3%

Salary increases are assumed to be 0.0% pa above pension increases, plus an additional promotional salary scale.

3.5 Demographic assumptions

Demographic assumptions are set out in the Funding Strategy Statement. All demographic assumptions, including longevity assumptions, are the same as at the most recent valuation at 31 March 2022.

Life expectancies from age 65, based on the fund's membership data at 31 March 2022, are as follows. Non-pensioners are assumed to be aged 45 at that date.

	Ongoing basis	
Life expectancy from age 65 (years)	Male	Female
Pensioners	21.7	24.2
Non-pensioners	22.8	25.7

Appendix A - Technical information

A.1 Funding update methodology

The last formal valuation of the fund was carried out as at 31 March 2022. The results in this report are based on projecting the results of this valuation forward to 31 March 2023 using approximate methods. The rollforward allows for

- estimated cashflows over the period as described in section 3.2;
- investment returns over the period (estimated where appropriate) as described in section 3.3;
- changes in financial assumptions as described in section 3.4;
- estimated additional benefit accrual.

The CARE, deferred and pensioner liabilities at 31 March 2023 include a total adjustment of 7.2% to reflect the difference between actual September CPI inflation values and the assumption made at 31 March 2022. The adjustment for each year's actual inflation is applied from 1 October that year, cumulative with prior years' adjustments, which may lead to step changes in the funding level progression chart.

In preparing the updated funding position at 31 March 2023 no allowance has been made for the effect of changes in the membership profile since 31 March 2022. The principal reason for this is that insufficient information is available to allow me to make any such adjustment. Significant membership movements, or any material difference between estimated inputs and actual ones, may affect the reliability of the results.The fund should consider whether any such factors mean that the rollforward approach may not be appropriate.

No allowance has been made for any early retirements or bulk transfers since 31 March 2022. There is also no allowance for any changes to Local Government Pension Scheme (LGPS) benefits except where noted in the formal valuation report or Funding Strategy Statement.

A.2 Sensitivity of results to assumptions

The results are particularly sensitive to the real discount rate assumption (the discount rate net of pension increases) and the assumptions made for future longevity.

If the real discount rate used to value the accrued liabilities decreases then the value placed on those liabilities will increase. If the real discount rate was 1.0% pa lower then the liabilities at 31 March 2023 would increase by approximately 21%.

In addition, the results are sensitive to unexpected changes in the rate of future longevity improvements. If life expectancies improve at a faster rate than allowed for in the assumptions then, again, a higher value would be placed on the liabilities. An increase in life expectancy of 1 year would increase the accrued liabilities by around 3-5%.

Appendix B - Reliances and limitations

The last formal valuation of the fund was carried out as at 31 March 2022 and these calculations rely upon the results of that valuation. The reliances and limitations that applied to that valuation apply equally to these results. The results of the valuation have been projected forward using approximate methods. The margin of error in these approximate methods increases as time goes by. The method may not be appropriate if there have been significant data changes since the previous formal valuation (for example redundancy exercises, significant unreduced early retirements, ill health retirements and bulk transfers). The methodology assumes that actual experience since the valuation at 31 March 2022 has been in line with our expectations.

The data used in this exercise is summarised in section 3. Data provided for the purposes of the formal valuation at 31 March 2022 was checked at the time for reasonableness and consistency with other sources. Data provided since then (eg actual investment returns) has been used as-is. The data is the responsibility of the Administering Authority and the results rely on the data.

The results in this schedule are based on calculations run on 26 June 2023 using the data set out in section 3. Any other factors coming to light after this report was prepared have not been allowed for and could affect the results. If any data has materially changed since 26 June 2023 the results could be materially different if they were recalculated.

Some financial assumptions may be based on projections from our Economic Scenario Service (ESS) model which is only calibrated at each monthend. Results between monthends use the latest available calibration, adjusted in line with the movement in market conditions. This adjustment is approximate and there may be step changes at monthend dates when a new ESS calibration is factored in.

The methodology underlying these calculations mean that the results should be treated as indicative only. The nature of the fund’s investments means that the surplus or deficit identified in this report can vary significantly over short periods of time. This means that the results set out should not be taken as being applicable at any date other than the date shown.

As with all modelling, the results are dependent on the model itself, the calibration of the underlying model and the various approximations and estimations used. These processes involve an element of subjectivity and may be material depending on the context. No inferences should be drawn from these results other than those confirmed separately in writing by a consultant of Hymans Robertson LLP.

Decisions should not be based solely on these results and your Hymans Robertson LLP consultant should be contacted to discuss any appropriate action before any is taken. Hymans Robertson LLP accepts no liability if any decisions are based solely on these results or if any action is taken based solely on such results.

This report complies with the relevant Technical Actuarial Standards.

This page is intentionally left blank

Non-Executive Report of the: **Pensions Committee** Monday, 25 September 2023	TOWER HAMLETS
Report of: Caroline Holland, Interim Corporate Director, Resources	**Classification:** unrestricted
Pensions Administration and LGPS Quarterly Update – June 2023	

Originating Officer(s)	Miriam Adams
Wards affected	(All Wards)

Executive Summary

To provide Members with information relating to the administration and performance of the Fund over the last quarter as well as update on key LGPS issues and initiatives which impact the Fund.

Recommendations:

The Pensions Committee is recommended to:

1. Note and comment on the contents of this report and appendix.
2. Agree the admission of Nourish Catering

1. REASONS FOR THE DECISIONS

1.1 This Committee need to receive this report on a regular basis to discharge its duty.

2. ALTERNATIVE OPTIONS

2.1 There are no alternative options to this report.

3. DETAILS OF THE REPORT

ADMINISTRATION UPDATE

Scheme Membership on 30 June 2023.

3.1 A core part of running the pension fund is the maintenance of scheme membership records that enable scheme benefits to be calculated in addition to dealing with new members joining and members leaving the scheme. This activity is carried out in house. The team also deals with employer related issues, including new employers and cessation. Task outstanding reported last quarter slightly moved since reported due to reopening of a few frozen and pensioner cases since quarter end report.

Membership Numbers	Active	Deferred	Undecided	Pensioner	Frozen
LGPS	7,775	8,399	164	7,203	3,013
% of Membership	29.28%	31.63%	0.62%	27.13%	11.35%
Change from last quarter	(35)	7	116	64	123

Membership Category	At 31/03/23	+/- Change (%)	At 31/03/2023
Active	7,810	-0.4	7,810
Deferred	8,392	0.1	8,392
Undecided	48	241.7	164
Pensioner (incl spouse & dependant members)	7,139	0.9	7,203
Frozen	2,890	4.3	3,013
Total	**26,279**	**1.0**	**26,554**

3.2 The table below shows tasks completed and outstanding during the quarter.

Retirements	Altair Workflow	Target days	April Cases at Start	April New Cases	April Cases Processed	April Cases Outstanding	May-23 Cases at Start	May-23 New Cases	May-23 Cases Processed	May-23 Cases Outstanding	Jun-23 Cases at Start	Jun-23 New Cases	Jun-23 Cases Processed	Jun-23 Cases Outstanding
Voluntary	AHEARLYA	15	10	7	5	12	12	4	6	10	10	6	6	10
Redundancy	AHREDUNA	15	1	0	0	1	1	4	2	3	3	4	5	2
Medical	AHIHRETA	15	2	2	1	3	3	2	2	3	3	0	2	1
Late	AHLATERA	15	4	10	2	12	12	8	10	10	10	6	10	6
Flexible	AHFLEXRA	15	1	0	1	0	0	4	3	1	1	1	1	1
Deferred into Payment	AHDBPAYA	15	22	17	17	22	22	22	13	31	31	27	34	24
			40	36	26	50	50	44	36	58	58	44	58	44
Transfers														
Transfer In - Quotes	AHTVIQ	10	8	15	13	10	10	14	15	9	9	16	17	8
Transfer Out - Quotes	AHTVOQ	10	7	17	13	8	8	11	16	3	3	17	16	4
Transfer In - Actual	IFAIN03 & TVIN03		13	8	9	12	12	9	8	13	13	11	11	13
Transfer Out - Actual	IFAOUT02 & TVOUT02		10	6	9	7	7	10	6	11	11	14	7	18
			38	46	44	37	37	44	45	36	36	58	51	43
Refunds														
Refund Calculations	AHRFNDF	10	10	81	70	21	21	32	48	5	5	42	37	10
Refund Payments	AHRFNDA	10	15	16	23	8	8	49	42	15	15	31	30	16
			25	97	93	29	29	81	90	20	20	73	67	26
Estimates														
Voluntary	AHBENEST & AHEARLYC	15	15	26	27	14	14	29	26	17	17	39	30	26
Redundancy	AHREDUNQ	15	1	5	4	2	2	8	9	1	1	6	6	1
Medical	AHIHRETQ	15	3	1	3	1	1	0	0	1	1	0	0	1
Late	AHLATERQ	15	2	3	5	0	0	3	1	2	2	5	5	2
Flexible	AHFLEXRQ	15	2	1	3	0	0	3	2	1	1	3	2	2
Deferred into Payment	AHDBPAYQ	15	28	18	34	12	12	15	21	6	6	33	15	24
			51	54	76	29	29	58	59	28	28	86	58	56
Deferred														
Deferred Calculations	AHDEFLV	30	21	39	38	22	22	24	23	23	23	25	26	22
Opt Out														
Opt Out	OPTOPRT2	2	29	39	55	13	13	29	31	21	21	48	41	28
New Starters														
New Starters	AHNEWST	40	11	76	70	17	17	67	76	8	8	67	73	2
Nominations														
Nomination Changes	AHNOMIN	10	3	4	6	1	1	5	3	3	3	6	6	3
Address														
Address Changes	AHADDRES	15	9	37	35	11	11	39	29	21	21	27	43	5
Bank Account														
Bank Accoun Change	BANKCHGE	0	4	6	8	2	2	7	4	5	5	12	6	11
General Enquiry														
General Enquiry	AHMEMBER	10	65	102	112	55	55	208	202	61	61	137	150	48
Deaths														
Death Cases - General	AHDEATH	15	62	33	33	62	62	43	32	73	73	45	31	87
TOTAL			**358**	**569**	**596**	**328**	**328**	**649**	**630**	**357**	**357**	**628**	**610**	**375**

3.3 The above tables exclude most tasks received via the pension team inbox and telephone queries. Most queries are currently actioned immediately without logging them to avoid further delay to existing workload. Some queries like refunds, opt outs, death notifications, leavers, retirement quotes are logged as tasks and allocated to members of the team to action.

3.4 The pensions email inbox response time lag is now down to 4 days. This is a significant improvement from 3 years ago when the back log to respond to emails was over 12 months in some instances and majority of cases over 6 months.

A dedicated agency employee cover has been assigned in the last 12 months to clear outstanding back log and ensure that queries are now attended or assigned to an officer promptly. It is anticipated that a permanent post will be created to cover this work stream at some point. The number of emails received via the inbox ranges between 35 to 55 each day.

The team aims to target a turnaround time of 24 hours to either action the query or raise tasks for a member of the team to action if complex.

Performance Against CIPFA Pensions Administration Suggested Targets

3.5 The table below shows performance against CIPFA suggested timelines between the period April to June 2023. Some tasks such as transfers in and out as well as processing of deaths and retirements require initial responses from 3rd parties, other pension funds, lawyers or scheme members which sometimes take time.

Due date on all cases are never amended or revised except in exceptional circumstances to enable officers effective monitor time taken to complete tasks and review process changes in the team which might be required.

Performance during the quarter was significantly impacted by staff annual leave and long term sickness.

Retirements	Altair Workflow	Target days	April % Within Target	May % Within Target	June % Within Target
Voluntary	AHEARLYA	15	60	0	60
Redundancy	AHREDUNA	15	-	100	60
Medical	AHIHRETA	15	100	50	50
Late	AHLATERA	15	100	10	40
Flexible	AHFLEXRA	15	0	100	100
Deferred into Payment	AHDBPAYA	15	41.18	50	40
Transfers					
Transfer In - Quotes	AHTVIQ	10	61.54	73.33	52.94
Transfer Out - Quotes	AHTVOQ	10	81.25	57.14	87.5
Transfer In - Actual	IFAIN03 & TVIN03				
Transfer Out - Actual	IFAOUT02 & TVOUT02				
Refunds					
Refund Calculations	AHRFNDF	10	79.71	62.22	75.76
Refund Payments	AHRFNDA	10	59.09	83.33	53.85
Estimates					
Voluntary	AHBENEST & AHEARLY(	15	81.48	95.83	86.21
Redundancy	AHREDUNQ	15	100	77.78	83.33
Medical	AHIHRETQ	15	33.33	-	-
Late	AHLATERQ	15	80	100	100
Flexible	AHFLEXRQ	15	100	100	100
Deferred into Payment	AHDBPAYQ	15	54.5	80.95	78.57
Deferred					
Deferred Calculations	AHDEFLV	30	89.47	91.3	79.17
Opt Out					
Opt Out	OPTOPRT2	2	78.18	70.97	68.42
New Starters					
New Starters	AHNEWST	40	100	100	100
Nominations					
Nomination Changes	AHNOMIN	10	60	100	33.33
Address					
Address Changes	AHADDRES	15	85.71	89.66	77.5
Bank Account					
Bank Accoun Change	BANKCHGE	0	100	100	100
General Enquiry					
General Enquiry	AHMEMBER	10	73.87	83.9	79.59
Deaths					
Death Cases - General	AHDEATH	15	66.67	30.71	67.74
			73.30	**74.22**	**72.78**

EMPLOYER UPDATES

3.6 Employers with active members on 30 June 2023.

Administering Authority	**Scheduled Bodies**
London Borough of Tower Hamlets	Attwood Academy (Ian Mikardo School)
Admitted Bodies	Boleyn Mult-Academy Trust
Age UK East London	Bishop Challoner
Atlantic Cleaning Services	Canary Wharf College
Compass Contract Services Limited	City Gateway
East End Homes	Cyril Jackson Academy
Greenwich Leisure Limited	East London Arts & Music
Juniper Ventures Ltd	Gateway (Bethnal Green & Vic)
Mediquip	Letta Trust (Stebon and Bygrove Schools)
Olive Dining	London Enterprise Academy
One Housing Group (formerly Island Homes)	Mulberry Academy
Phoenix Trust – closed scheme	Paradigm Trust (Culloden, Old Ford and Solebay Primary Schools)
Purgo Supplies Services Ltd	Sir William Burrough
Tower Hamlets Community Housing Limited	St. Pauls Way Community School
Taylor Shaw	Tower Hamlets Homes Limited
Vibrance (formerly Redbridge Community Housing Limited)	Wapping High School
Wettons Cleaning Limited	
Nourish Catering	

Employer Insourcing

3.7 The following insourcing arrangements is ongoing:
Leisure services insourcing - Tower Hamlets Council
Tower Homes (THH) - Tower Hamlets Council 1 November 2023

New Employer Admissions

3.8 Nourish Catering Ltd in respect of contracts with Thomas Baxter and John Scarr schools and Chisenhale and Old Palace.

Employer Data Quality

3.9 The Council's Payroll team has since commenced uploading monthly council employee payroll data to the pensions iconnect system in April 2023. This means that all employers in the scheme now upload employee payroll data.

Data extracted remain incomplete and inaccurate in some instances, the payroll/pensions working group chaired by the Director of Finance Procurement and Audit meets monthly to looking into payroll system issues which result in inaccurate data being provided to pensions.

Online payslip for pensioners

3.10 Tower Hamlets Council has launched the online payslips app for all employees, schools staff and pensioners. The app enables pensioners to access their payslips on a monthly basis and eventually save on annual costs of issuing paper P60 and annual payslips. Although take up for pensioners is expected to be low at the onset the team is working on communication and additional work to ensure pensioners provide the Fund with email addresses.

Employer Cessation

3.11 No reported employer cessations during the June 2023 quarter.

LGPS SCHEME and LEGISLATIVE UPDATES

2022 Scheme valuation report

3.12 On 10 August 2023, the LGPS Scheme Advisory Board published its 2022 Scheme valuation report. The report is compiled from data drawn from local fund valuation report. It shows:

- the average funding level has improved from 98 per cent in 2019 to 107 per cent in 2022 (on local funding bases) – all fund valuation reports show an improvement since 2019
- the average contribution rate to meet future service costs rose from 18.6 per cent of payroll in 2019 to 19.8 per cent of payroll in 2022
- overall contribution rates fell from 22.9 per cent of payroll in 2019 to 21.1 per cent of payroll in 2022 – this reflects lower deficit contributions
- employee contribution rates marginally increased from 6.5 per cent of pay to 6.6 per cent.

Scheme Advisory Surpluses Working Group

3.13 The SAB plans to set up a small working group to look at the issues presented by the improving funding position across the LGPS. The objective is to provide general advice for administering authorities and employers that are in surplus or are likely to become so. The kinds of issues this raises include:

- What impact could / should being in surplus have on employer contributions?
- When is it appropriate to set a negative secondary contribution rate?
- What impact could / should being in surplus have on investment and funding strategies? While open defined benefit schemes may not need to de-risk, some:

   - employers in the scheme might prefer such a strategy
   - funds may be looking at a different strategy that enables them to realise more of their surplus.

- How to best communicate being in a surplus position to employers and member representatives? Are communications needed for:

   - admitted bodies which could exit and have received their international accounting standard 19 figures showing substantial surpluses

   - scheduled bodies which cannot exit but still have questions about the benefits of a surplus position.

Pensions dashboards

3.14 On 9 August 2023, DWP updated the deferred connection guidance and forms in readiness for pensions dashboard. The update reflects the changes made by the Pensions Dashboards (Amendment Regulations 2023), which came into force on 9 August 2023. The guidance is for trustees and managers of relevant occupational pensions schemes wishing to apply to defer connection beyond 31 October 2026. It sets out the rules, issues to consider, how to apply and how DWP will consider applications.

A revised staging date timetable will be set out in guidance and all schemes in scope will need to be connected by 31 October 2023. The stagging timetable will indicate when schemes are scheduled to connect, based on their size and type. Although the timelines in guidance will not be mandatory, schemes will be expected to demonstrate how they have had regard to the guidance.

Additional Pension and Club transfers

3.15 The Cabinet Office has confirmed that additional pension bought by paying APC's should be transferred on Club terms when a Club transfer takes place.

Life Time Allowance

3.16 HMRC has issued draft legislation for removing the lifetime allowance (LTA) April 2024. The proposed legislation removes the structure of the LTA and the LTA charge from 6 April 2024 and includes lots of transitional provisions for people with existing LTA protections.

Economic Activity of Public Bodies (Overseas Matters) Bill

3.17 On 23 June 2023 the Government published a Bill which, if enacted, would prevent administering authorities from making investment decisions "influenced by political or moral disapproval of foreign sates", except where is required by formal Government legal sanctions, embargoes and restrictions. While private sector pension funds have been excluded, the LGPS would be covered by the Bill. TPR would be responsible for overseeing compliance. The Bill will be considered by the House of Commons Public Bill Committee, which is expected to first sit on 5 September 2023. The Committee has issued a call for evidence and the SAB will be considering this further.

McCloud legislative Update

3.18 The process of data collection from employers is still ongoing templates were issued to employers. 30% of employers returned data. However, others are yet to return include Council.

Officers will require additional resources to focus fully on McCloud, contact with employers who have failed to return requested data as data correction as necessary. It is anticipated this would be a senior level resource at Grade K or above for a period of 12 to 18 months.

Completed Tasks	**Responsible for**
The following activities have been completed so far: • Kick off call/Employer survey (Fund/ • Run reports and identify all in scope members • Employer contact details supplied • Data issued to employers with deadline of 15th August 2022 • 2nd chaser sent to employers • Deadline of 15th August. 25 employers have responded so far (30%)	• LBTH/Heywood • Heywood • LBTH • Heywood • Heywood
• Periodic checkpoint call held with Heywood on way forward to discuss how to deal with employers who have not responded	• LBTH/Heywood
Slippage and remediation actions	
• Additional resources required by Fund to focus on McCloud and related employer bottlenecks. **October 2023** • Fund looking into possibility of extracting data from historic payroll records in Resource Link payroll system and transferring over to datasheet. **October 2023** • Update implementation plan **December 2023** **Risks** • Review time scales and targets **September 2023**	• LBTH • Heywood /LBTH • LBTH/Heywood

Member Self Service (MSS) Roll Out

3.19 The role out of Member Self Service (MSS) continues although, take up remain low. Officers will be visiting school over the next few months to register LGPS members.

4. EQUALITIES IMPLICATIONS

4.1 There are no specific equalities implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration.

5. OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 There are no direct financial implications arising from the contents of this report.

7. COMMENTS OF LEGAL SERVICES

7.1 The Pensions Committee is required to consider pension matters and ensure that the Council meets it statutory duties in respect of the Fund. It is appropriate having regard to these matters for the Committee to receive information from the Pensions Administration team about the performance of the administration functions of the pension fund and updates on the LGPS generally.

7.2 When carrying out its functions as the administering authority of the fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don’t (the public sector duty).

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Employer monthly data submission (Appendix 1)

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

https://ri.lgpsboard.org/items

Officer contact details for documents:
Miriam Adams – Interim Head of Pensions & Treasury
3rd Floor 160 Whitechapel Road, E1 1BJ
Email: miriam.adams@towerhamlets.gov.uk

Appendix 1

Monthly Data Submission on 30 June 2023
(Employer data submission is not a guarantee that correct data was submitted)

Employer Name	Employer Code	Employer Type	Data Submitted to
Age UK	00045	Admitted Body	30/06/2023
Atlantic Cleaning Services	00037	Admitted Body	31/07/2023
City Gateway	00025	Admitted Body	31/07/2023
Compass Contract	00027	Admitted Body	30/04/2023
Greenwich Leisure Limited	00007	Admitted Body	31/08/2023
Juniper Catering St Saviours	00040	Admitted Body	31/05/2022
Juniper Cleaning St Saviours	00041	Admitted Body	31/08/2023
Nourish Catering – Thomas Baxter/John Scarr	00053	Admitted Body	30/04/2023
Nourish Catering – Chisenhale/Old Palace	00054	Admitted Body	31/01/2022
Olive Dining	00043	Admitted Body	31/07/2023
One Housing (Toynbee Island)	00011	Admitted Body	31/03/2023
Phoenix Trust (Closed Scheme)	00051	Admitted Body	31/07/2023
Purgo Supply Cyril Jackson	00039	Admitted Body	14/07/2023
Purgo Supply St Paul's	00042	Admitted Body	15/07/2023
REDBRIDGE CHL (Vibrance)	00004	Admitted Body	31/07/2023
THCH (Closed Scheme)	00003	Admitted Body	31/07/2023
THCH (Open Scheme)	00008	Admitted Body	31/07/2023
Taylor Shaw - Catering	00036	Admitted Body	31/07/2023
Taylor Shaw - Stepney Green	00048	Admitted Body	31/05/2023
Wettons Cleaning Services Ltd	00034	Admitted Body	07/07/2023
Bowden House	00129	Main Scheme	31/08/2023
Cayley Primary School	00130	Main Scheme	30/06/2023
TH EPM MPP	00001	Main Scheme	31/07/2023
Bishop Challinor Catholic Federation of Schools	00131	Scheduled Body	31/08/2023
Canary Wharf College	00021	Scheduled Body	30/04/2023
Clara Grant - Boelyn Trust	00046	Scheduled Body	31/07/2023
Cyril Jackson Academy	00044	Scheduled Body	31/07/2023
East London Arts & Music	00030	Scheduled Body	31/07/2023
Ian Mikardo Academy	00029	Scheduled Body	31/07/2023
LETTA Trust	00028	Scheduled Body	31/07/2023
London Enterprise Academy	00023	Scheduled Body	31/05/2023
Mulberry Academy	00026	Scheduled Body	30/06/2023
Olga Primary School	00128	Scheduled Body	31/07/2023
Paradigm Trust	00033	Scheduled Body	31/05/2023
Sir William Burrough Academy	00018	Scheduled Body	31/07/2023
Stepney Green -Mulberry Trust	00047	Scheduled Body	31/03/2023
St Pauls Way Trust Academy	00019	Scheduled Body	31/07/2023
Wapping High School	00024	Scheduled Body	31/07/2023
Internal			
Tower Hamlets LBC	00001	Main Scheme	31/07/2023
Tower Hamlets Schools	00001	Main Scheme	31/07/2023
Central Foundation	00001	Main Scheme	31/07/2023
East End Homes	00006	Admitted Body	31/07/2023
Tower Hamlets Homes	00013	Scheduled Body	31/07/2023

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank