# Pensions Committee

## Monday, 11 December 2023 at 6.30 p.m.
## Committee Room - Tower Hamlets Town Hall, 160 Whitechapel Road, London E1 1BJ

# Supplemental Agenda

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 Committee.

**5. REPORTS FOR CONSIDERATION**

**5 .1 Audited pension fund accounts and updated pension fund annual report 2018/19 and 2019/20 (Pages 3 - 478)**

**5 .2 LGPS (England and Wales): Next steps on investments consultation response (Pages 479 - 484)**

**5 .3 Review of Communications Strategy (Pages 485 - 506)**

**5 .4 Risk Management Policy and Quarterly Review of Risk Register (Pages 507 - 516)**

**5 .5 Pensions Administration and LGPS Quarterly Update – Sept 2023 (Pages 517 - 530)**

**7. PENSIONS COMMITTEE WORK PLAN**

**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 .2 ESG, Voting, Engagement and Stewardship Update September 23 (Pages 535 - 558)**

**9 .3 Quarterly Investment Performance Review (Pages 559 - 602)**

**9 .4 Considering Alternatives to the LCIV (BG) Diversified Growth Fund (Pages 603 - 622)**

**9 .5 2022 TCFD report and Climate Risk Register (Verbal Update)**

**Contact for further enquiries:**

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

| Non-Executive Report of the:<br><br>**Pensions Committee**<br><br>Monday, 11 December 2023 | TOWER HAMLETS |
|---|---|
| **Report of:** Julie Lorraine Corporate Director, Resources | **Classification:**<br>Open (Unrestricted) |
| **Audited Pension Fund Accounts and Annual Report – 2018/19 and 2019/20** | |

| **Originating Officer(s)** | Miriam Adams |
|---|---|
| **Wards affected** | (All Wards); |


**Executive Summary**

The audited Statement of Accounts and Annual Reports for the London Borough of Tower Hamlets Pension Fund for the years ended 31 March 2019 and 2020 are attached as Appendices 1 and 2, in light of the Council's obligations as the administering authority under the Local Government Pension Scheme (LGPS) Regulations.


**Recommendations:**

The Pensions Committee is recommended to:

1. Note the audited accounts and final pension fund annual report for 2018/19 and 2019/20.

## 1. REASONS FOR THE DECISIONS

1.1 Deloitte audits both the Council and Pension Fund accounts and is required to present separate audit opinions on each.

1.2 The Council as an administering authority under the Local Government Pension Scheme Regulations is required to produce a separate set of accounts for the scheme's financial activities including its assets and liabilities.

1.3 The accounts are based on transactions accounted for within the Fund's financial ledger, information received from Investment Managers and the Fund's Custodian, assumptions and estimations using the professional judgement of Fund professional advisers in order to give a true and fair statements of the Fund's financial position.

1.4 The content and format of the accounts are determined by statutory requirements and mandatory professional standards as established by the Chartered Institute of public Finance & Accountancy (CIPFA) in their Code of Practice (The Code).
The publication of the Accounts is an essential feature of public accountability and stewardship as it provides information on how the Fund has used the members' funds for which it is responsible.

1.5 The Local Government Pension Scheme Regulations 2013, Regulation 53(2) states that 'An administering authority is responsible for managing and administering the Scheme in relation to any persons for which it is the appropriate administering authority under these Regulations'.

1.6 The publication of the Pension Fund Annual Report and Statement of Accounts helps to keep Fund members informed, shows good governance, and helps to demonstrate effective management of Fund assets.

## 2. ALTERNATIVE OPTIONS

2.1 There are no alternative options in so far as the publication of the Statement of Accounts and Annual Reports is concerned because it is a legislative requirement.

## 3. DETAILS OF THE REPORT

3.1 The Pension Fund Accounts are subject to a separate audit by the Council's external auditors, Deloitte. Whilst the Audit Committee formally approve the Council's Statements of Accounts, which incorporates the Pension Fund Accounts, best practice allows Pensions Committee to also review the results.

3.2 The Pension Fund accounts sets out the transactions of the Pension Fund for the year and its financial position. The accounts comprise two main statements with supporting notes.

3.3 The Fund's revenue account which comprises of dealing with Members, Employers and Others. These show the financial transactions relating to the administration of the fund; and

The Net Assets Statement which can be considered as the fund's balance sheet. These are transactions relating its role as an investor.

Scope of the External Audit

3.4 Auditors are required to communicate to elected Members matters of governance that arise from the audit of the financial statements:

- Misstatement fraud or error
- Valuation of complex investments
- Disclosure on 'Going Concern'

- IAS126 Disclosure

3.5 In addition, the auditor requires a “Management Representation Letter” to be signed by management, outlined in their report. The letter includes representation matters material to the statement of accounts, where sufficient evidence cannot reasonably be expected to exist.
The final Audit Results Report is signed by the S151 Officer at completion of audit.

Audit Opinion

3.6 The 2018/19 and 2019/20 Pension Fund accounts and final audit reports was previously presented to Committee in November 2021 for approval with the expectation that final sign off would be achieved in January 2022. The report remains unchanged.

Historic pensioner member data issues arising from the IAS19 audit of the Council’s accounts have since led to a qualification of the Fund accounts.

3.7 On completion of the audit of the accounts, auditors must give their opinion on the financial statements of the Pension Fund, including:

a.) whether they give a true and fair view of the financial position of the Pension Fund and the expenditure and income for the year in question; and

b.) whether they have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority in the United Kingdom 2018/19 and 2019/20.

3.8 The auditor can issue a ‘qualified opinion’ where he has some reservations or concerns, or an ‘unqualified opinion’ where he does not have any such reservations.

3.9 In respect of 2018/19 accounts, the auditor has issued a qualified opinion because of errors were identified in a sample of membership data used to calculate the information provided by the council to the actuary for the purpose of the valuation of the present value of promised retirement benefits at 31 March 2019, some of which were also present at 31 March 2018.

The present value of promised retirement benefits was corrected for some, but not all of these errors. As a result of the volume of member records involved, the auditors were unable to determine whether any further adjustments to these amounts were necessary.

The auditors were unable to determine any adjustment to the comparative disclosure necessary, being the present value of promised retirement benefits at 31 March 2018.

The same qualification applies to 2019/20 pension fund accounts.

Audit Fees

3.10 The basic scale fee for the 2018/19 and 2019/20 audit is £16,000, with additional fees of £27,250 (2018/19) and £33,186 (2019/20) covering areas of risk and specialists.

## 4. EQUALITIES IMPLICATIONS

4.1 This report has no direct equalities implications.

## 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 Statement of accounts provide an effective mechanism to safeguard the Council's assets and assess the risk associated with its activities. There are no direct risk management impact arising from this report.

## 6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 The Council as Administering Authority has the responsibility of ensuring that the Pension Fund is administered effectively and arrangement for financial management are properly scrutinised. The Pension Fund Annual Account sets out the financial position of the Fund. It enables Members to manage and monitor the Scheme effectively.

## 7. COMMENTS OF LEGAL SERVICES

7.1 Part of the Council's duty as administering authority for the Tower Hamlets Pension Fund is to ensure that the annual accounts are properly audited, and the audit plan sets out how and when the audit will be conducted.

7.2 By virtue of section 20 of the Local Audit and Accountability Act 2014 ("the Act"), the auditor must be satisfied that the accounts comply with the requirements of the enactments that apply to them, and that proper practices have been observed in the preparation of the statement of accounts, the statement of accounts presents a true and fair view and that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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**Linked Reports, Appendices and Background Documents**

**Linked Report**
- NONE

**Appendices**
- Pension Fund Accounts and Annual Report 2018/19
- Pension Fund Accounts and Annual Report 2019/20
- Deloitte Audit Report 2018-19
- Deloitte Audit Report 2019-20

**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.
- NONE

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

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TOWER HAMLETS

# London Borough of Tower Hamlets Pension Fund Annual Report and Accounts 2018/19

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**Contents**

# Foreword by Chair, Pensions Committee

It is my privilege as the Chair of the Pensions Committee to introduce the annual report and accounts. I took the Chair in May 2023 from Councillor Muhammad Bellah Uddin whom I thank for his work and diligence in chairing the Committee. The principal role of the Pensions Committee is to steer the main policies of the Pension Fund in order to provide good governance and stewardship of the Local Government Pension Scheme.

The Pensions Committee has the responsibility for all aspects of the Pension Fund including managing the investments, ensuring governance arrangements are appropriate and scheme members and employers are kept informed of key information. The Committee carries a considerable responsibility to ensure that the Pension Fund, which was valued at £1,552m at 31 March 2019 and has just under 21,000 scheme members, is managed in an efficient and effective way.

The Pensions Committee has focused heavily on how it manages the potential impacts of climate change within its investments.

In common with all other Pension Funds the Trustees of the Pension Fund invest in a range of financial investment products with the aim of balancing risk and return and this includes consideration of issues such as assets becoming ‘stranded’ which is a risk associated in this case with the utilisation of finite assets such as coal, oil or gas. The Fund’s exposure to carbon related assets comes largely from our investment in pooled funds which include the holding of assets in a very broad range of companies some of which inevitably include carbon intensive companies but also in companies that emit carbon through their activities such as through the transportation of goods by land, sea or air.

Tower Hamlets Pension Fund is well advanced in both the consideration and implementation of its strategic approach to decarbonising its portfolio and is ahead of many other local authorities. One of the key challenges that we face comes from the fact that the government has mandated Pension Funds to seek to pool their assets to reduce management fees; the pool (London Collective Investment Vehicle (CIV)) that the Tower Hamlets Pension Fund participates in, does not currently offer any low carbon products that we can invest in alongside others; hence we continue to invest a portion of the pension Fund assets independently into relevant products. We recently increased investment in the MSCI (Morgan Stanley Composite Index) Low Carbon Global Equity from 15% to 20% and also allocated 5% of the Fund total assets into renewable energy strategy.

We will continue to seek ways in which the Fund’s strategy can be implemented in a lower carbon investment as our aim is to keep this under close review and ensure that we are able to perform our fiduciary duty for the Fund and its members to the best of our abilities.

At the end of September 2018 the Fund implemented the equity protection strategy. This equity protection strategy is designed, on average, to help protect against Fund losses of c.15% on the Fund global equities exposure. The objective of the strategy is to provide more certainty around the value of the equity assets during the Actuarial Valuation review in 2019 and in effect helps to protect strong gains of recent years. The equity protection expires at the end of March 2020, and will need to be reviewed in Q4 2019 to consider if the current strategy simply finishes or is continued in some way.

The Fund has completed its triennial valuation as at 31 March 2019. There has been an improvement in the reported funding level since 2016 from 83% to 102% and a reduction in the funding deficit from £235m to a surplus of £27m. This favourable change was largely due to asset performance being better than expected.

It is also worth noting that the Fund is a long term investor and has a relatively secure long term income stream. The Fund is therefore able to alter its strategy to ride out periods of market underperformance and should not have to crystallise losses during market downturns.

The Fund's net cash flow position has changed for this accounting year from being cash flow positive to cash flow negative with benefits paid and transfers out outstripping contributions and transfers in by £13m, this is due to an advance deficit contribution of some £28m from the Council around December 2017, hence the £15m contribution from the Council has been prepaid and invested for the Fund. The Pensions Committee monitor this aspect of the Fund closely as they recognise the need for the Fund to be able to pay its liabilities as they fall due and the ongoing austerity programme affecting public services.

Whilst I recognise the issues around the historic pension scheme membership data and the impact on the present value of promised retirement benefits at 31 March 2019, the Council and The Pensions Committee are committed to ensuring that any issues are resolved.

In the face of the storms that have rolled across the landscape of investments, the Fund has seen significant positive movement in the year benefiting from continued recovery in the financial markets, especially equities. The overall value of the Fund assets grew by £72m (5.1%) in 2018/19 from £1,481m to £1,553m. Whatever the short-term fluctuations of the markets the Pension Fund takes a long term view appropriate to its long-term liabilities.

The Pensions Committee continues to benefit from the scrutiny and strengthening of governance from the setting up a Local Pensions Board and you can find a report of their work included in this annual report.

Councillor Ahmodul Kabir

Chair, Pensions Committee

**November 2023**

# Governance of the Pension Scheme

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

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

**MANAGEMENT AND ADVISERS TO THE PENSION FUND as at 31st March 2019**

The Pensions Committee during 2018/19 was made up of seven Councillor Members, an Employer Representative and a Scheme Member representative.

**Pensions Committee:**

| | | |
|---|---|---|
| Councillors: | From May 2023 | Councillor Ahmodul Kabir (Chair) |
| | From May 2022 to April 2023 | Councillor Muhammad Bellal Uddin (Chair) |
| | From May 2019 to April 2022 | Councillor Kyrsten Perry (Chair) |
| | From January 2019 to May 2019 | Councillor Mufeedah Bustin (Chair) |
| | From May 2018 to December 2018 | Councillor Muhammed Harun (Chair) |
| | | Councillor Ehtasham Haque |
| | | Councillor Andrew Wood |
| | | Councillor Leema Qureshi |
| | | Councillor Rachel Blake |
| | | Councillor Sabina Akhtar |
| | | Councillor Shad Chowdhury |

Trade Union Representative (non-voting): Kehinde Akintunde (GMB)

Admitted Bodies Representative (non-voting): Vacant

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

Pensions Committee
London Borough of Tower Hamlets
Tower Hamlets Town Hall,
160 Whitechapel Road
London, E1 1BJ

## Staff, Advisers & Investment Managers

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

## London Borough of Tower Hamlets Responsible Officers:

**Miriam Adams –** Interim Head of Pensions and Treasury

Corporate Director for Resources and S151 officer:
**Julie Lorraine** (from September 2023)
**Caroline Holland** (from January 2023 to August 2023)
**Kevin Bartle** **(**from February 2021 to January 2023)
**Neville Murton** (from November 2018 to January 2021)
**Zena Cooke** **(**until November 2018**)**

### Advisers:

**Consulting Actuary -** Hymans Robertson LLP
One London Wall, London, EC2Y 5EA

**Investment Consultant –** Mercer Limited
1 Tower Place West, Tower Place, London, EC3R 5BU

**Independent Investment Adviser** - Colin Robertson

**Custodial Services and Performance Measurement Services –** Northern Trust Company
50 Bank Street, Canary Wharf, London E14 5NT

**Legal Advisers** - Legal Services
London Borough of Tower Hamlets, Town Hall, 160 Whitechapel Road, London, E1 1BJ

**Auditor -** Deloitte LLP
Lincoln Building, 27-45 Great Victoria Street,
Belfast, BT2 7SL

### Investment Managers:

**Goldman Sachs Asset Management (GSAM)**
River Court, 120 Fleet Street, London, EC4A 2BE

**Insight Investment**
160 Queen Victoria Street, London EC4V 4LA

**Legal & General Investment Management Limited**
One Coleman Street, London, EC2R 5AA

**London LGPS CIV Ltd**
22 Lavington Street London SE1 0NZ

**Schroder Real Estate Capital Partners and Schroder Investment Management Limited**
1 London Wall Place, London EC2Y 5AU

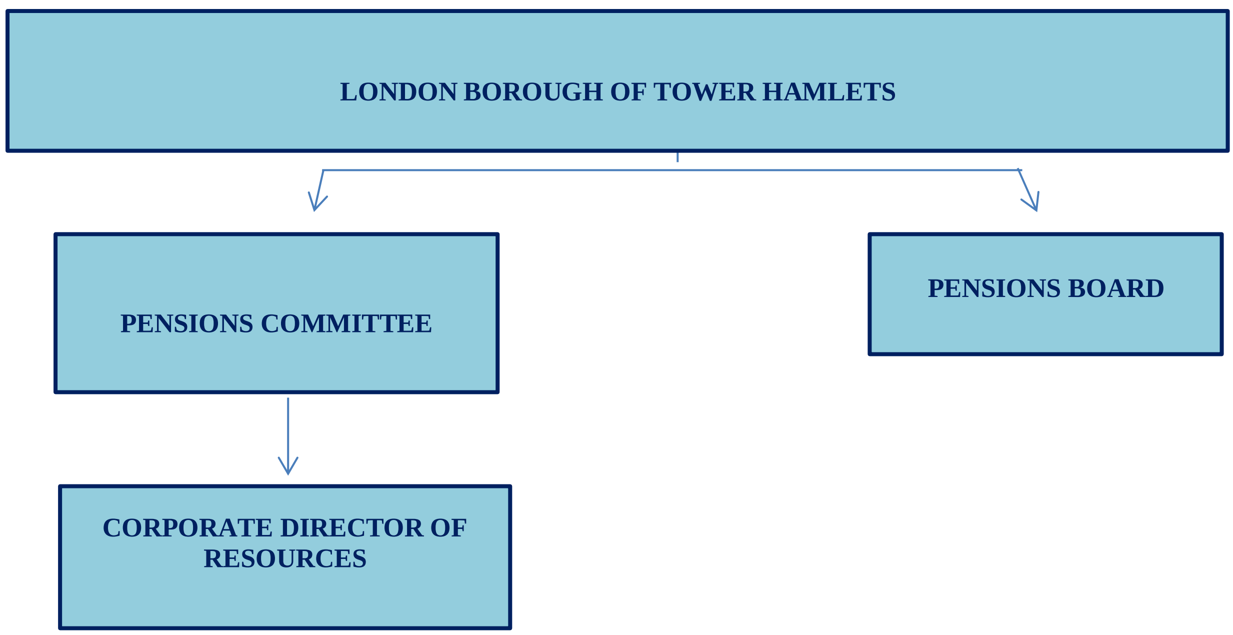
## Governance and Oversight Review

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

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

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

Please see below chart illustrating the new governance arrangements effective from 1 April 2018.




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

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

# Pensions Committee Attendance 2018/19

| Attendee | Voting Rights | 31-Jul | 21-Sep | 29-Nov | 14-Mar |
|---|---|---|---|---|---|
| ***Member*** | | | | | |
| Councillor Mufeedah Bustin (Chair) | √ | N/A | N/A | N/A | Present |
| Councillor Muhammed Harun (Chair) | √ | Present | Present | Present | N/A |
| Councillor Ehtasham Haque (Vice Chair) | √ | Absent | Present | Absent | Present |
| Councillor Andrew Wood | √ | Present | Present | Present | Present |
| Councillor Leema Qureshi | √ | Present | Present | Present | Present |
| Councillor Rachel Blake | √ | Present | Present | Present | Present |
| Councillor Sabina Akhtar | √ | Present | Present | Absent | Present |
| Councillor Shad Chowdhury | √ | Present | Present | Absent | Present |
| ***Substitute*** | | | | | |
| Cllr Shah Ameen | √ | Present | N/A | N/A | N/A |
| ***Non-voting Member*** | | | | | |
| Tony Childs | x | N/A | N/A | N/A | N/A |
| Kehinde Akintunde | x | Present | Absent | Present | Present |
| ***Public*** | | | | | |
| Colin Robertson (Adviser) | x | Present | Present | Present | Present |
| Steve Turner (Investment Consultant) | n/a | | | Present | Present |
| ***Officers*** | | | | | |
| Bola Tobun | x | Present | Present | Present | Present |
| Kevin Miles | x | Present | Present | Present | Absent |
| Neville Murton | x | Present | Present | Present | Present |
| Ngozi Adedeji | x | Present | Present | Present | Present |
| Georgina Willis | x | Present | Present | Absent | Absent |
| Maheen Nusrat | x | Absent | Absent | Present | Present |
| David Knight | x | Absent | Absent | Present | Present |

**Training** was provided to the Committee at the Committee meetings of 24th July, 18th September 2018 and 29th November 2018. The topics covered in the training programme for the Committee in 2018/19 were provided in line with the Knowledge and Skills Framework to help ensure that the Committee are able to achieve high levels of the specialist knowledge required of them.

**Topics covered during the financial year were:**

- Overview of Local Government Pension Scheme (LGPS)
- LGPS 2014 – Benefit Structure
- New LGPS Governance Structure
- The Pensions Regulator (tPR)
- Roles and Responsibilities of Service Providers, Pensions Board & Committee
- Statutory Documents
- An overview of Investment Strategy and Asset Allocation
- Fiduciary Management and Engaging for a low carbon transition

# Knowledge and Skills Policy Statement

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

The adoption of the CIPFA "Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector" (2010) provides the basis for a training and development programme for the Pensions Committee based on the latest national guidance.
London Borough of Tower Hamlets Pension Fund adopts the key recommendations of the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

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

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

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

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

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

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

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

# PENSIONS KNOWLEDGE AND SKILLS FRAMEWORK FOR PENSIONS COMMITTEE MEMBERS

## Core technical areas and areas of knowledge

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

**Accounting and auditing standards**
- Accounts and Audit regulations
- Role of internal and external audit

**Procurement of financial services and relationship management**
- Procurement requirements of UK and EU legislation
- Supplier risk management

**Investment performance and risk management**
- Monitoring of investment performance
- Performance of advisors
- Performance of the Pensions Committee
- Performance of support services

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

**Actuarial methods, standards and practices**
- Valuations, funding strategy and inter-valuation monitoring
- Ill-health and early retirement
- Admitted bodies
- Outsourcing and bulk transfers

# Risk Management

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

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

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

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

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

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

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

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

## Investment Performance Review

The Fund's Investment Strategy Statement (ISS) is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused.

Over the twelve month period to 31 March 2019, the performance of global equities was mixed. Japanese equities were the worst performer, falling in both sterling and local currency terms, whilst the US market provided very strong positive returns.
Gilt yields fell over the period, with UK government bonds delivering strong positive returns.

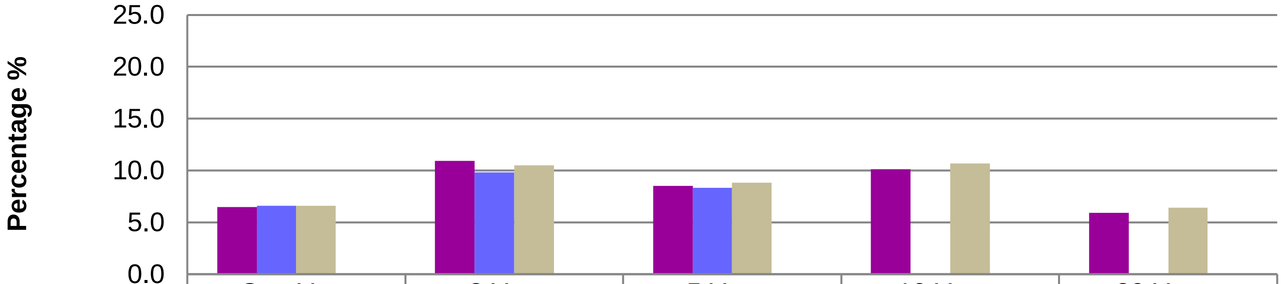
This section comments on the annual performance and long-term results of the Fund to 31 March 2019 based on information from the Pensions Investments Research Consultants Limited (PIRC) which compares the activity of the Fund against the Funds customised benchmark and the PIRC measure of Local Authority average based on some 64 Local Government Pension Scheme Funds. Overall, the Fund's performance placed it in the 45th percentile of Funds over the year to 31st March 2019.

Over the last twelve months the PIRC measure of the local authority (LA) average returned 6.6%. Local Authority funds have performed extremely well over all periods. Over the last 30 years the average fund achieved a return of 8.4% p.a. (a cumulative performance of over 1000% for the period). This return was almost 6% p.a. ahead of inflation for the period.
Tower Hamlets Fund is structured differently from the average - the high exposure to diversified growth being the key factor. As this was the worst performing asset last year this allocation had a marked negative effect on the relative performance.

The Fund performance over the 10 and 20 years has been below average, ranking in the 73rd and 62nd percentile respectively.

In the short term the Fund has performed better, ranking 21st percentile and 51st percentile over the last three and five years respectively. This was largely due to strong selection within the equity assets.

## Fund Performance (One, Three, Five Ten and 20 Years)




| | One Year | 3 Years | 5 Years | 10 Years | 20 Years |
|---|---|---|---|---|---|
| Fund | 6.5 | 10.9 | 8.5 | 10.1 | 5.9 |
| Benchmark | 6.6 | 9.8 | 8.3 | 0.0 | 0.0 |
| LA Average | 6.6 | 10.5 | 8.8 | 10.7 | 6.4 |
| Rank | 45 | 21 | 51 | 73 | 62 |

### Fund Management Activity

The London Borough of Tower Hamlets Pension Fund has been actively managed on a specialist basis by: Global Equities being managed by London Collective Investment Vehicle (CIV), Goldman Sachs Asset Management (GSAM) pooled fund and Insights Investment pooled fund replaced Investec Asset Management (Corporate Bonds), Schroders Property Capital Partners (Property), the DGF mandates are being managed by LCIV and the passive management of UK Equities and UK Gilt & Index Linked are being managed by Legal & General Investment Management (LGIM).

### London Common Investment Vehicle (LCIV)

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

a) **LCIV (Baillie Gifford) global equity fund** had a value of £118.9m at the start of the mandate in July 2007. The performance target for this mandate is 2% to 3% above the benchmark (Morgan Stanley Composite Index All Country (MSCI AC) World Index gross of fees over a rolling 3-5 year period). This mandate was transferred to LCIV on 22 April 2016 at market value of £214.1m and named LCIV (BG) GA. The market value of the assets as of 31 March 2019 was £345.890m. The portfolio underperformed the one year benchmark return by -1.69%. However outperformed the three year benchmark return by 3.73% per annum and the 5 year benchmark return by 2.41% per annum.
The fund has outperformed its performance target over all periods under review, with the exception of the latest 12 month period, where the fund underperformed its target and benchmark.
Over the 12 month period to 31 March 2019 the top contributors to performance were Amazon Corporation, Anthem Inc and Advanced Micro Devices. Over the same period the top detractors to performance were Prudential, Ryanair, Zillow and Microsoft.

b) **LCIV (BG) Diversified Growth Fund** - the original Tower Hamlets mandate was opened in February 2011 with a contract value of £40m. £6.409m was added to this portfolio in June

2015. The performance target for this mandate is to outperform the benchmark (3% p.a. above the 3 month London Interbank Offered Rate (LIBOR) net of fees over rolling 5 years with annual volatility of less than 10%). This mandate was transferred to LCIV on 15 February 2016 at market value of £54.177m and named as LCIV (BG) DGF. A further capital contribution of £70m was paid into this portfolio on 23 August 2017. The market value of assets as at 31 March 2019 was £136.822m. This portfolio underperformed the one year benchmark by -3.78%, but outperformed the three year benchmark return by 1.15% per annum and by 0.61% per annum over 5 years. The portfolio invests in a range of asset classes.

c) **LCIV Ruffer Absolute Return** - Ruffer LLP manages an Absolute Return Fund; the value of this contract on the 28 February 2011 was £40m. £6.474m was added to this portfolio on 2 June 2015. The management of this portfolio was transferred to the LCIV on 20 June 2016 at market value of £54m and the portfolio is named LCIV Ruffer (AR). A capital contribution of £70m was added to this portfolio on 23 August 2017. The performance target for this mandate is to outperform the benchmark (3.5% p.a. above 3 month LIBOR) net of fees over rolling 5 years with annual volatility of less than 10%. The value of assets under management as of 31 March 2019 was £130.574m. The portfolio underperformed the benchmark for one year by posting a return of -0.55% against a benchmark return of 4.06%. However for over 3 years the portfolio outperformed its benchmark by posting a positive return of 3.71% per annum and posting 3.72% per annum, slightly ahead the benchmark by 0.11% per annum for over 5 years period.

d) **LCIV Multi Asset Credit LCIV (MAC) Fund** – LCIV invest in CQS Credit Multi Asset Fund with an objective to return London Interbank Offered Rate (LIBOR) +4-5% per annum over a 4-year rolling period and the expected volatility for this fund is 4-6% over a 4-year rolling period. Multi Asset Credit (MAC) – are strategies that make investments in multiple areas of credit. This involves bonds and loans from non-government issuers. Investments can be held as long or short. A long position is when the portfolio manager hold assets the manager expected to rise in price. The short position is when the manager sell assets in advance as the manager expected a fall in price. The manager also uses this long / short positions to tailor risk exposures of the portfolio.
Tower Hamlets Pension Fund transferred £90m on 29 May 2018 to London CIV to invest in LCIV (CQS) MAC which was launched 31 May 2018. CQS MAC Fund had arguably been the London CIV's most successful fund launch to date. The portfolio had a market value of £91.8m at 31 March 2019. This portfolio delivered a positive return of 2% from inception to year end underperforming its target of 4.2%.

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

Schroder currently manage two investment portfolios for the Fund.

a) **Property Investment** - The value of this mandate on 20 September 2004 was £90m. The performance target for this mandate is to outperform the Investment Property Databank (IPD) UK Pooled Property Fund Indices All Balanced Funds Median benchmark by 0.75% net of fees over a rolling three year period. The market value of assets at 31 March 2019 was £161.655m.

The fund has performed well over all periods under review. The industrial sector continues to be the strongest positive driver of returns over recent periods. They continue to disinvest from weaker performing funds within sectors that are poorly aligned with their house view.

Industrial Property Investment Fund (IPIF) has been the strongest contributor over twelve months, followed by Multi-Let and Metro Property Unit Trust (Metro). Hercules, UK RWF and

Standard Life were amongst the weakest contributors. The manager has been reducing exposure to Standard Life over recent months.

b) **Equity Protection Strategy** – In September 2018 the Fund implemented the equity protection strategy by investing in Schroders Bespoke Pooled Vehicle to manage equity downside risk on the Fund total equity holdings of £718m at the time with an option overlay, also establishing long synthetic equity positions of some £142m.
The equity protection strategy is designed, on average, to help protect against losses of some 15% on a portfolio of the Fund global equities, after suffering an initial 5% loss. The Fund would start experiencing losses again should performance of equities fall by 20% below benchmark. The exact levels of protection vary by equity region but the US is the most important one.

The objective of the strategy is to provide more certainty around the value of the equity assets during the Actuarial Valuation review in 2019 and in effect help protect strong gains in recent years. The equity protection expires at the end of March 2020, will be reviewed in Q4 2019 to consider if the current strategy simply finishes or is continued in some way.

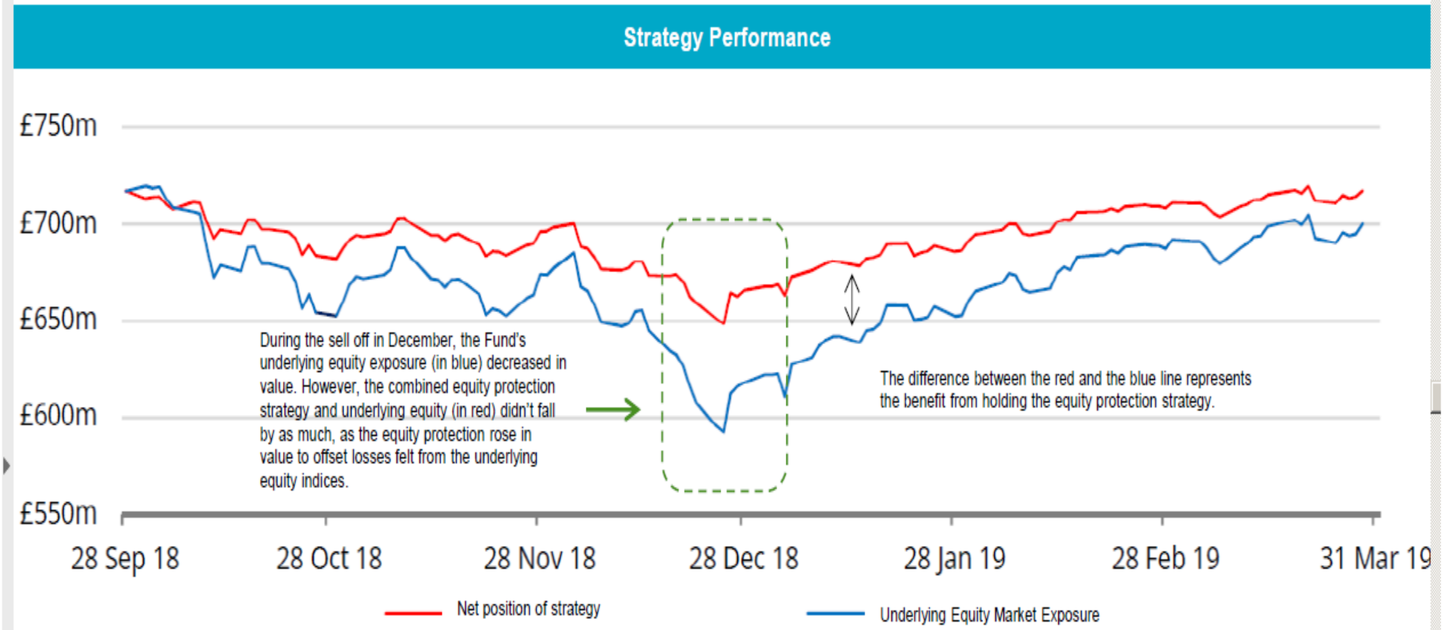
A total value of £214.66m as constituents of £72.26m Gilts portfolio and £142.4m of equities redemption proceeds were transferred from the Tower Hamlets Pension Fund portfolios with LGIM to Schroders Bespoke Pooled Fund.

The protection contracts require daily margin movements to cover gains or losses to or against the Equity Protection Fund. The Fund must have collateral fund not less than 30% of the strategy implemented.

As at 31 March 2019 the value of the strategy was £717.3m compared to starting position of £718m in September 2018 and the net assets value of the Fund was £233.8m compared to £214.66m.

Since inception of the equity protection strategy, underlying equity markets have receded from their inception level as the underlying indices have devalued. The Fund's equity protection strategy has increased in value. The value of the options at 31 March 2019 was £17.2m.

## SCHRODERS – EQUITY PROTECTION
## £17.2m as at 31/03/2019 (£45.3m as at 31/12/2018)




**Goldman Sachs** - On 4 April 2016, the fund invested £75m in Goldman Sachs Strategic Absolute Return Bond II (STAR II). The performance target is to outperform the benchmark (3 Month LIBOR) by 4.0% per annum net of fees over a rolling three year period. £24.5m was disinvested from this portfolio on 25 May 2018 to fund the LCIV (CQS) MAC portfolio. The portfolio had a market value of £52.542m at 31 March 2019.

The portfolio underperformed the benchmark for one year to reporting period considerably by -4.93%. The largest contributor to performance was the interest rate exposure and cross sector asset allocation exposure to corporate credit. The former benefitted from a short US interest rate position, although this was somewhat offset by their long US vs short UK inflation position. The portfolio has performed disappointingly relative to benchmark and target since inception.

**Insight Investment Management** - On 1 July 2016, the fund invested £70m with Insight Investment Management in BNY Mellon Global Funds. £21.7m was disinvested from this portfolio on 25 May 2018 to fund the LCIV (CQS) MAC portfolio. The portfolio had a market value of £46.901m at 31 March 2019. The performance target is to outperform the benchmark (3 Month LIBOR) by 3-4% per annum net of fees over a rolling three year period.

The portfolio underperformed its benchmark for one year to reporting period, significantly by -10.54%. The largest detractor to performance over the period was country allocation. This was driven by their short position on Germany versus Long US and a tactical short on Italy versus a long Spain position. Positions in high yield bonds and currency also hurt performance. The largest contributor to performance was the long position in investment grade credit, which benefitted from a narrowing of credit spreads. Insight performance has been greatly disappointing and has struggled to meet its benchmark return or target since inception.

**Legal & General Investment Management -** On 2nd August 2010 was appointed to manage passively UK Equity and UK Index-Linked Mandates. A decision was made at the September 2017 Committee meeting following the outcome of the Fund investment strategy review to disinvest from passive UK Equity mandate as it is difficult to justify the overweight to the UK market from an investment perspective. The preposition to invest the redemption proceeds of this portfolio along with GMO legacy portfolio in Passive Global Equity and Low Carbon Passive Global Equity Fund was agreed by the Committee and the transition of the assets occurred in December 2017. Hence the revised benchmark for LGIM Equity portfolio is as shown below:

| Fund | Allocation (30% of total LBTH Fund) |
|---|---|
| FTSE All World Equity Index | 16.7% |
| FTSE All World Equity Index GBP Hedged | 33.3% |
| MSCI World Low Carbon Target Index GBP Hedged | 50.0% |

In September 2018, the UK Index Linked Gilts portfolio of £72.26m was transferred to Schroders for EPS collateralisation management and £142.4m was redeemed from the Hedged Passive Global Equity portfolio to support the Equity Protection Strategy (EPS) Collateralisation.

At 31 March 2019, the Unhedged Passive Global Equity portfolio had a market value of £82.853m; the Low Carbon Passive Global Equity portfolio had a market value of £244.708m and the Hedged Passive Global Equity portfolio had a market value of £22.795m. As expected from a tracking manager, all the portfolios matched the benchmark returns. Low carbon equities marginally outperformed normal market cap equities over the quarter.

## Asset Allocation

The asset allocation within the portfolio is in line with or within the agreed tolerance of the benchmark asset allocation as at 14 March 2018 as set out below. The Fund recently has 15% allocation to equity protection strategy.

The Committee has agreed to take corrective action and rebalance asset allocation where bond to equity allocation moves by +/-5%.

### Analysis of Asset Allocation

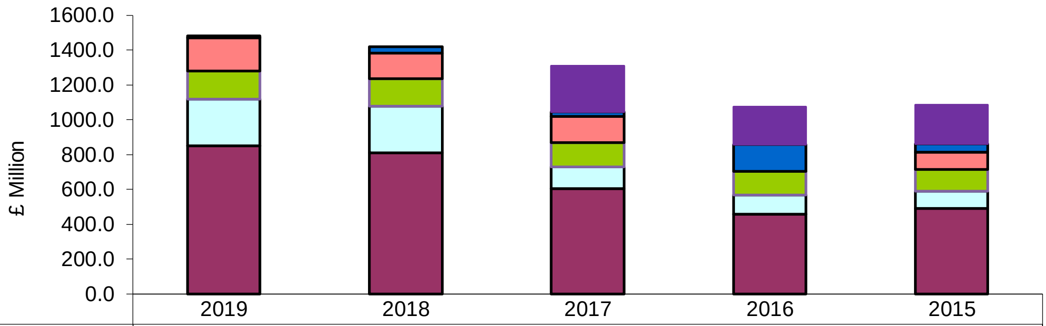
| Asset Class | Benchmark | Fund Position | Variance |
|---|---|---|---|
| Global Equities | 50.0% | 54.6% | 4.6% |
| Index Linked Gilts | 6.0% | 5.0% | -1.0% |
| Absolute Return Bonds | 6.0% | 6.3% | 0.3% |
| Multi Asset Credit* | 6.0% | 5.9% | -0.1% |
| Property | 12.0% | 10.4% | -1.6% |
| Diversified Growth | 20.0% | 17.1% | -2.9% |
| Cash | 0.0% | 0.7% | 0.7% |

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

## Financial Accounts

During the financial year 2018/19 the value of the Fund improves significantly by £72m from £1,481m to £1,553m, an increase of 4.6%. This is mainly attributable to the outperformance of the Fund’s global equity managers.

## ANALYSIS OF ASSET CLASS




| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| UK Equities | 0.0 | 0 | 266.3 | 217.5 | 226.3 |
| Cash | 10.5 | 35.3 | 23.9 | 154.6 | 47.2 |
| Pooled Bonds & Credits | 191.2 | 148.9 | 149.6 | 0 | 99.6 |
| Property Units | 161.7 | 155.6 | 140.3 | 135.4 | 122.2 |
| Diversified Growth | 267.4 | 267.7 | 124 | 110.9 | 101.3 |
| Global Equities | 852.6 | 812.1 | 606.5 | 457.2 | 491.1 |

### Fund Income

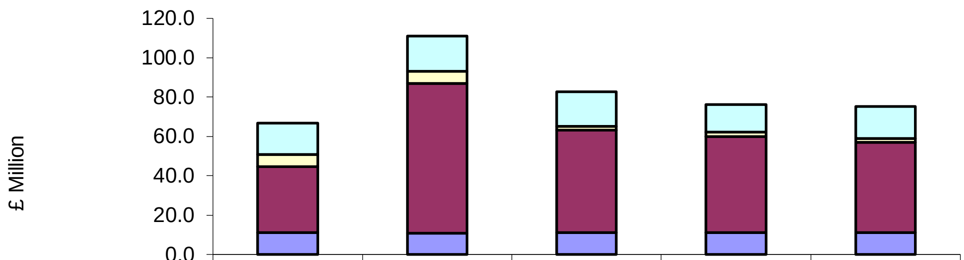
There was an overall reduction of £36m in the amount of income received by the Fund in 2018/19 compared to 2017/18.

### Fund Income Variance Analysis

| Type of Income | 2019 £m | 2018 £m | Variance % |
|---|---|---|---|
| Employees Contributions | 11.0 | 10.8 | 1.7% |
| Council Related Contributions | 33.7 | 76.2 | -55.8% |
| Transfer Values | 6.2 | 6.0 | 2.6% |
| Investment Income | 16.0 | 18.1 | -11.6% |
| **Total Fund Income** | **66.83** | **111.119** | **-39.9%** |

Investment income decreased over the year by £2.1m. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) remained stable. It is not possible to predict the value of transfer value payments as they are dependent on individual's length of service and salary and as such may vary significantly. Employee contributions increased slightly. Employer contributions went down significantly by £42.5m (55.8%) this is due to a two year deficit prepayment by the Council back in December 2017.

## Fund Income Analysis

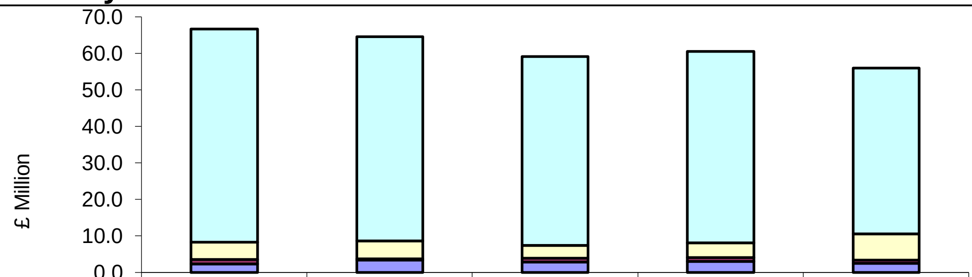



| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Investment Income | 16.0 | 18.1 | 17.4 | 13.9 | 16.3 |
| Transfer Values | 6.2 | 6 | 2.2 | 2.2 | 1.7 |
| Council Related Contributions | 33.7 | 76.2 | 51.8 | 49 | 46.1 |
| Employees Contributions | 11.0 | 10.8 | 11.2 | 11.0 | 11 |

## Fund Expenditure

In 2018/19 the overall Fund expenditure increased by £2.2m (3.4%). The major contributor to this rise was the doubling of administration expense over the year and the rise in benefits paid, rose by £2.4m (4.3%). There was a significant reduction in investment management costs.

## Fund Expenditure Analysis Chart




| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Benefits Payable | 58.3 | 55.9 | 51.8 | 52.3 | 45.3 |
| Transfer Values | 4.8 | 4.8 | 3.5 | 4.1 | 7.3 |
| Administration | 1.2 | 0.5 | 1.0 | 1.0 | 0.8 |
| Investment Management | 2.4 | 3.3 | 2.9 | 3.1 | 2.5 |

## Expenditure Variance Analysis

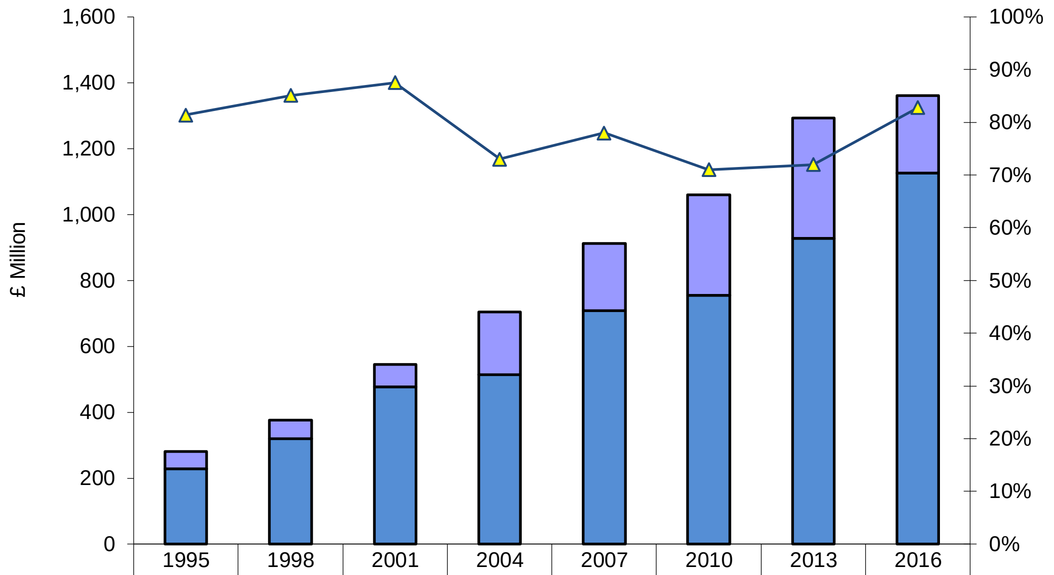
| Type of Expenditure | 2019 | 2018 | Variance £m | Variance % |
|---|---|---|---|---|
| Investment Management | 2.4 | 3.3 | -0.925 | -28.0% |
| Administration | 1.2 | 0.5 | 0.651 | 130.2% |
| Transfer Values | 4.8 | 4.8 | 0.0 | 1.0% |
| Benefits Payable | 58.3 | 55.9 | 2.4 | 4.3% |
| Total Fund Expenditure | 66.7 | 64.5 | 2.2 | 3.4% |

## Funding Level

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

The fund was valued by the scheme actuary Hymans Robertson LLP as at the 31st March 2016. The Actuary calculated that the Pension Fund is 82.8% funded and has a deficit of £235m.

**Movement in Funding Level**




| | 1995 | 1998 | 2001 | 2004 | 2007 | 2010 | 2013 | 2016 |
|---|---|---|---|---|---|---|---|---|
| Deficit | 52.0 | 56.0 | 68.1 | 191.0 | 204.8 | 305.0 | 365.0 | 235.0 |
| Assets | 228.0 | 320.0 | 477.2 | 514.0 | 708.4 | 755.0 | 928.0 | 1,126.0 |
| Funding | 81% | 85% | 88% | 73% | 78% | 71% | 72% | 83% |

The funding level has improved from 71.8% in 2013 to 82.8% in 2016. Additionally, the funding deficit has decreased by £130m. The main reasons for the change in the funding level over the period were better than anticipated investment returns, receipt of deficit repair contributions, and positive membership experience.

The liabilities have also increased due to a reduction in the future expected investment return, although this has been offset by lower than expected pay and benefit growth.

On the recommendation of the Actuary, the Council adopted a strategy to recover the deficit over a 20-year period. This will involve the Council paying a lump sum of £15m per annum from 2017/18 to 2019/20 into the pension fund specifically to recover the deficit.

Although there is a reduction in lump sum payment towards deficit recovery (secondary rate) from £22m for 2016/17 to £15m for 2017/18 but the primary rate contribution has increased from 15.8% of employee pay for 2013 valuation outcome to 19.9% of employee pay for 2016 valuation result.

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force, hence a contribution rate that is directly comparable to the 2016 valuation rates cannot be provided.

The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates (before any pre-payment or capitalisation of future contributions), calculated in accordance with the Regulations and CIPFA guidance. Changes to employer contributions targeted to ensure full funding have been variable across employers.

It should be emphasised that the deficit does not affect employees' pension entitlement. The Council is under a statutory obligation to provide sufficient funds to pay pensions and has adopted a strategy recommended by the Actuary to achieve full funding in twenty years. Councils can take a long-term perspective because of their financial stability and statutory backing. It should be recognised that the position is not unique to the Tower Hamlets Fund. All Pension Funds in both the public and private sectors have been subject to declining investment returns and increasing life expectancy, which has resulted in rising deficits in many cases. The 2016 valuation exercise has shown the fund to be gradually maturing as the proportion of employee members has fallen whilst the deferred and pensioner numbers have risen.

## The Scheme Details

The London Borough of Tower Hamlets Pension Fund is part of the Local Government Pension Scheme (LGPS) and is governed by Statute. The main regulations governing the operation of the Fund during the year were the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 2013. The Local Government Pension Scheme Regulations 2013 introduced the new 2014 LGPS which amongst other things changed the benefits structure from a final salary to career average revalued earning (CARE) scheme. In addition, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 covers the investment aspects of the funds.

The London Borough of Tower Hamlets is the Administering Authority for the Pension Fund and pensions and entitlement to benefits are fully protected in law. Membership of the Fund is open to all employees of the Council including school employees with the exception of teachers (who have their own pension scheme). Other employers are admitted to the Pension Fund and depending on their status; their employees may also be able to participate in the LGPS. Employee contributions are determined by central government and are between 5.5% and 12.5% of pensionable pay. Employer rates are set by the Fund actuary every 3 years following a valuation of the assets and liabilities of the Fund, with the next valuation due to take place as at 31 March 2019.

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

The Pension Scheme as applying during the financial year 2018/19 was a defined benefit career average revalued earnings scheme which aligns LGPS retirement age with an individual's state pension age. The key benefits of the scheme are outlined below:

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

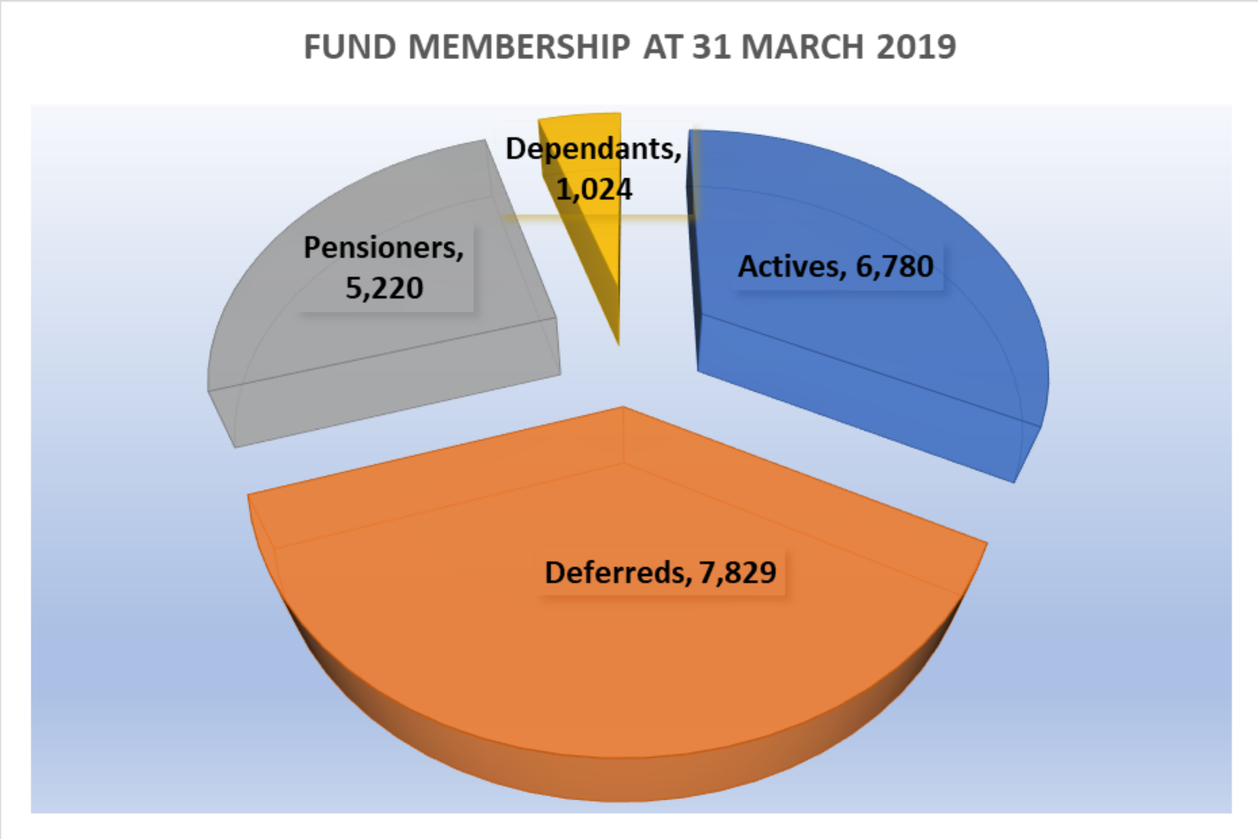
It should be noted that the foregoing is not an exhaustive list and that certain conditions have to be met for an individual to be entitled to the benefits outlined.

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

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

**Scheme Membership**

The Fund currently has a membership of 20,853 comprising the following categories as set out in the below chart. Membership to the Fund is automatic for full and part-time employee unless they opt out.




The total pension fund membership has increased slightly by 0.9% between 2017/18 and 2018/19. The number of actives members (those currently contributing to the fund) has increased by 145 members (2.2%). The deferred membership category (members who have contributed in the past but who have not yet become entitled to their benefits) has reduced by 70 (0.9%) and pensioners has increased by 165 (3.3%). The dependants' category saw a decrease of 46 (4.3%).

**The table below sets out the movement in membership number between the different categories in 2017/18 and 2018/19.**

**Movement in Fund Membership**

| Membership Type | 31-Mar-18 | 31-Mar-19 | Variance | Variance % |
|---|---|---|---|---|
| Actives | 6,635 | 6,780 | 145 | 2.2% |
| Deferreds | 7,899 | 7,829 | -70 | -0.9% |
| Pensioners | 5,055 | 5,220 | 165 | 3.3% |
| Dependants | 1,070 | 1,024 | -46 | -4.3% |
| Total | 20,659 | 20,853 | 194 | 0.9% |

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

| Membership Type | 31-Mar-15 | 31-Mar-16 | 31-Mar-17 | 31-Mar-18 | 31-Mar-19 |
|---|---|---|---|---|---|
| Actives | 6,860 | 7,022 | 7,256 | 6,635 | 6,780 |
| Deferreds | 6,786 | 7,145 | 7,482 | 7,899 | 7,829 |
| Pensioners | 4,352 | 4,599 | 4,811 | 5,055 | 5,220 |
| Dependants | 1,011 | 1,044 | 1,059 | 1,070 | 1,024 |
| Total | 19,009 | 19,810 | 20,608 | 20,659 | 20,853 |

**Fund Employers**

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

### Admitted Bodies

- Agilisys
- City Gateway
- Compass contract
- East End Homes
- Energy Kidz
- Gateway Housing Association
- Greenwich Leisure Ltd
- Medequip
- One Housing Group (fo
- Swan Housing Association
- Tower Hamlets Community Housing
- Vibrance *(formerly Redbridge Community Housing Ltd)*
- Wettons Cleaning Services Limited

### Scheduled Bodies

- Attwood Academy *(Ian Mikardo High School)*
- Canary Wharf College
- East London Academy
- Green Spring Academy
- Letta Trust *(Stebon & Bygrove)*
- London Enterprise Academy
- Mulberry Academy
- Paradigm Trust *(Culloden, Old Ford & Solebay Academy)*
- Sir William Burrough
- St Pauls Way Communuity School
- Tower Hamlets Homes Ltd
- Tower Trust *(Clara Grant & Stepney Green)*
- Wapping High School

**Contributions to the Fund**

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

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

| Contributing Employers | Active Members | Contributions from Members £ | Contributions from Employers £ |
|---|---|---|---|
| London Borough of Tower Hamlets | 5944 | 9,458,876.74 | 27,111,653.48 |
| Agilisys | 3 | 66,424.23 | 154,064.30 |
| Attwood Academy (Ian Mikardo School) | 14 | 26,203.49 | 84,751.90 |
| Letta Trust (Bygrove and Stebon Schools) | 56 | 52,714.88 | 192,629.06 |
| Canary Wharf College | 15 | 32,697.95 | 56,842.15 |
| South Quay (City Gateway) | 14 | 33,499.65 | 90,275.07 |
| Tower Trust (Clara Grant and Stepney Green) | 59 | 74,550.40 | 249,736.97 |
| Compass Contract Services (U.K.) Limited | 12 | - | - |
| East End Homes | 22 | 68,845.92 | 276,860.32 |
| East London Arts and Music | 9 | 15,458.70 | 55,827.04 |
| Energy Kidz | 1 | 49.92 | 308.52 |
| Gateway Housing Association | 1 | 1,430.04 | 34,599.96 |
| Green Spring Academy | 0 | 37,800.87 | 130,746.23 |
| Greenwich Leisure Ltd | 4 | 15,155.45 | 54,546.54 |
| London Enterprise Academy | 21 | 14,193.82 | 42,176.42 |
| Medequip | 1 | - | - |
| Mulberry Academy | 86 | 146,860.04 | 458,953.63 |
| Paradigm Trust | 67 | 54,702.98 | 222,757.85 |
| One Housing | 6 | 11,098.77 | 70,683.64 |
| Sir William Burrough School | 18 | 23,677.06 | 62,945.67 |
| St Paul's Way Trust | 59 | 96,577.30 | 268,766.92 |
| Swan Housing Association | 1 | 1,922.40 | 17,748.60 |
| Tower Hamlets Community Housing | 5 | 12,689.12 | 66,764.38 |
| Tower Hamlets Homes Ltd | 348 | 833,844.50 | 2,184,436.54 |
| Vibrance | 2 | 3,878.45 | 10,561.11 |
| Wapping High School | 4 | 17,516.41 | 24,990.04 |
| Wetton Cleaning Services Ltd | 8 | 1,807.89 | 11,347.88 |
| **Total** | **6,780** | **11,102,476.98** | **31,934,974.22** |

The full accounts are as set out in Appendix 1.

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

Appendix 2 Investment Strategy Statement
Appendix 3 Funding Strategy Statement
Appendix 4 Communications Strategy Statement
Appendix 5 Governance Compliance Statement

The above listed policy documents can also be found by clicking below link:
http://www.towerhamletspensionfund.org/governance-documents

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

## Statement from the Actuary

An actuarial valuation of the London Borough of Tower Hamlets Pension Fund was carried out by Hymans Robertson LLP as at 31 March 2016 to determine the contribution rates that should be paid into the Fund by the employing authorities as from 1 April 2017 to 31 March 2020 in order to maintain the solvency of the Fund.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets represented 82.8% of the Funding Target and the estimated deficit on the Fund at the valuation date was £235m. The Actuary has determined that the deficit can be recovered over a period of 20 years and the agreed monetary contribution to recover the deficit for the term of the revaluation is £15m (2017/18) rising to £15m (2018/19) and £15m (2019/20).

The Common Rate of Contribution payable by each employing authority under Regulation 77 for the period 1 April 2017 to 31 March 2020 is 29.4% of pensionable pay.

Individual Adjustments are required under Regulation 77 for the period 1 April 2017 to 31 March 2020 resulting in a Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

| | | Minimum Contribution for the year ending | | | | |
|---|---|---|---|---|---|---|
| Employer Name as per 31 March 2017 | Year ending 31 March 2018 | Additional Monetary Deficit Payment £ | Year ending 31 March 2019 | Additional Monetary Deficit Payment £ | Year ending 31 March 2020 | Additional Monetary Deficit Payment £ |
| London Borough of Tower Hamlets | 19.9% | 15m | 19.9% | 15m | 19.9% | 15m |
| Tower Hamlets Community Housing Limited | 37.6% | | 37.6% | | 37.6% | |
| Paradigm Trust | 30.9% | | 26.1% | | 21.3% | |
| Redbridge Community Housing Limited | 17.7% | | 17.7% | | 17.7% | |
| East End Homes Limited | 29.4% | | 29.4% | | 29.4% | |
| Greenwich Leisure Limited | 20.0% | 13k | 20.0% | 14k | 20.0% | 14k |
| Swan Housing Association Limited | 30.5% | 11k | 30.5% | 11k | 30.5% | 11k |
| Gateway Housing Association (Bethnal Green & Victoria Park) | 30.0% | 28k | 30.0% | 28k | 30.0% | 28k |
| One Housing Group (Toynbee Island Homes) | 41.4% | | 41.4% | | 41.4% | |
| Tower Hamlets Homes | 18.4% | | 18.4% | | 18.4% | |
| Bethnal Green Academy | 24.5% | | 24.5% | | 24.5% | |
| Sir William Burrough School | 16.4% | | 16.4% | | 16.4% | |
| St Pauls Way Community School | 18.9% | | 18.9% | | 18.9% | |
| Canary Wharf College | 15.9% | | 15.9% | | 15.9% | |
| Agilisys | 16.8% | | 16.8% | | 16.8% | |
| London Enterprise Academy | 17.6% | | 17.6% | | 17.6% | |
| Wapping High School | 16.1% | | 16.1% | | 16.1% | |

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

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

**Sensitivity of valuation results to changes in asumptions**

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

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

Since the end of the 2019 financial year end, the triennial valuation of the Fund has been completed. The contribution rates payable by the individual employers will be revised with effect from 1 April 2020. The total expected contributions to be received by the Fund over the period 1 April 2020 to 31 March 2023 is higher in monetary terms than the expected
contributions over previous 3 years as shown in table below.

| | **Last Valuation 31 March 2016** | | **This Valuation 31 March 2019** | |
|---|---|---|---|---|
| Primary Rate (% of pay) | 19.9% | | 19.9% | |
| Secondary Rate (£) | 2017/18 | 13,974,000 | 2020/21 | 15,019,000 |
| | 2018/19 | 14,603,000 | 2021/22 | 15,137,000 |
| | 2019/20 | 15,256,000 | 2022/23 | 15,103,000 |

## Statement of Responsibilities

The London Borough of Tower Hamlets as Administering authority of the London borough of Tower Hamlets Pension fund is required to:

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

**Responsibilities of the Corporate Director, Resources**

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

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

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

The Corporate Director, Resources has:

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

**Responsible Financial Officer's Certificate**

I certify that the Accounts as set out on pages 30 to 60 have been prepared in accordance with proper practices and that they give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2019, except for, the effects of issues relating to the quality of pension scheme membership data on the present value of promised retirement benefits at 31 March 2019.

Julie Lorraine

**Julie Lorraine**,
Corporate Director for Resources and S151 officer
(from September 2023)
Date: 29th November, 2023

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

We have examined the pension fund financial statements for the year ended 31 March 2019, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 25.

## Respective responsibilities of the Chief Financial Officer and the auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you my opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of London Borough of Tower Hamlets, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

## Opinion

In our opinion, the pension fund financial statements are consistent, in all material respects, with the pension fund financial statements in the full annual statement of accounts of London Borough of Tower Hamlets for the year ended 31 March 2019 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Our opinion on the pension fund financial statements in the full financial statements of the London Borough of Tower Hamlets for the year ended 31 March 2019 was qualified because errors were identified in a sample of membership data used to calculate the information provided by the council to the actuary for the purpose of the valuation of the present value of promised retirement benefits at 31 March 2019 of £2,102 million, some of which were also present at 31 March 2018. The present value of promised retirement benefits was corrected for some, but not all of these errors. As a result of the volume of member records involved, we were unable to determine whether any further adjustments to these amounts were necessary. Similarly, we were unable to determine whether any adjustment to the comparative disclosure was necessary, being the present value of promised retirement benefits at 31 March 2018 of £2,007 million. In addition, where the results and financial position of the Authority in respect of

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (contd.)

these matters are discussed in the other information, we concluded that the other information is materially misstated for the same reasons.

### Use of our report

This report is made solely to the members of London Borough of Tower Hamlets, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the London Borough of Tower Hamlets, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Jonathan Gooding (Appointed auditor)
For and on behalf of Deloitte LLP
St Albans, United Kingdom

30 November 2023

# The London Borough of Tower Hamlets Pension Fund

## Appendix 1

## Statement of Accounts 2018/19

# PENSION FUND ACCOUNTS

| PENSION FUND ACCOUNT | Note | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|---|
| **DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED** | | | |
| **Contributions** | | | |
| From employers | | | |
| Normal | 7 | (30,311) | (31,885) |
| Augmentation | 7 | (2,462) | (1,796) |
| Deficit funding | 7 | (43,338) | (53) |
| From members | 7 | (10,819) | (11,102) |
| **Transfers in** | | | |
| Transfers in from other pension funds | 8 | (5,966) | (6,157) |
| **Benefits** | | | |
| Pensions | 9 | 42,711 | 45,194 |
| Lump sum benefits | 9 | 13,192 | 13,580 |
| **Payments to and on account of leavers** | | | |
| Refunds of contributions | 10 | 274 | 224 |
| Transfers out to other pension funds | 10 | 4,761 | 4,848 |
| **Administrative expenses** | 11 | 509 | 1,151 |
| **NET ADDITIONS/(DEDUCTIONS) FROM DEALINGS WITH MEMBERS** | | **(31,449)** | **14,004** |

| RETURN ON INVESTMENTS | | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|---|
| Investment income | 12 | (18,281) | (16,473) |
| Taxes on Income | | 167 | 73 |
| Change in market value of investments | 14a | (66,617) | (72,628) |
| Investment management expenses | 11 | 3,251 | 2,774 |
| **NET RETURN ON INVESTMENTS** | | **(81,480)** | **(86,254)** |
| Net increase in the Fund during the year | | (112,979) | (72,250) |
| Add: Opening net assets of the scheme | | (1,367,677) | (1,480,656) |
| **CLOSING NET ASSETS OF THE SCHEME** | | **(1,480,656)** | **(1,552,906)** |

| NET ASSETS STATEMENT AS AT 31ST MARCH | | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|---|
| **Investments Assets** | | | |
| Pooled Investment Vehicles | | | |
| Unit Trusts | 14 | 1,302,839 | 1,390,480 |
| Property | 14 | 142,803 | 157,351 |
| Legacy | 14 | 0 | 4 |
| Other | 14 | 0 | (38) |
| | | 1,445,642 | 1,547,797 |
| Cash Balances (held directly by the Fund) | 14 | 26,484 | 6,512 |
| Cash Balances (held by the Fund's external managers) | 14 | 8,733 | 2,710 |
| Other investment balances | 14 | 832 | 980 |
| **Current Assets** | 21 | 1,179 | 1,187 |
| **Current Liabilities** | 22 | (2,214) | (6,280) |
| **TOTAL NET ASSETS** | | **1,480,656** | **1,552,906** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 1 : DESCRIPTION OF THE FUND

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

**a) General**

The LGPS is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

The Fund is a contributory defined benefit pension scheme administered by London Borough of Tower Hamlets to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies.

Teachers, police officers and firefighters are not included as they come within other national pension schemes.  The Fund is overseen by the London Borough of Tower Hamlets Pension Committee which is a Committee of the London Borough of Tower Hamlets Pension Fund

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 1 : DESCRIPTION OF THE FUND

### b) Membership of the Fund

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the London Borough of Tower Hamlets Pension Fund include the following:

- Scheduled bodies, which are automatically entitled to be members of the Fund.
- Admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table sets out the membership of the London Borough of Tower Hamlets Pension Fund as at 31st March 2019.

| | 31st March 2018 | 31st March 2019 |
|---|---|---|
| **Number of employees in the scheme** | | |
| LBTH | 6,116 | 5,944 |
| Other employers | 693 | 836 |
| | **6,809** | **6,780** |
| **Number of pensioners** | | |
| LBTH | 5,975 | 5,847 |
| Other employers | 358 | 397 |
| | **6,333** | **6,244** |
| **Number of deferred pensioners** | | |
| LBTH | 7,369 | 7,340 |
| Other employers | 448 | 489 |
| | **7,817** | **7,829** |
| **Total number of members in pension scheme** | **20,959** | **20,853** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 1 : DESCRIPTION OF THE FUND

**c) Funding**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employers' contributions are set based on triennial actuarial funding valuations; contributions for the financial year 2018/19 were based on the triennial valuation performed on data as at 31 March 2016, and employer contribution rates ranged from 15.8% to 41.4% of pensionable pay.

**d) Benefits**

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the LGPS became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices. A range of other benefits are also provided including early retirement, disability pensions and death benefits are explained on the LGPS website.

## NOTE 2: BASIS OF PREPARATION

The statement of accounts summarises the Fund's transactions for the 2018/19 financial year and its financial position at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The pension fund has opted to disclose this information in Appendix A.

The Pension Fund accounts have been prepared on a going concern basis.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Fund account – revenue recognition**

**a) Contribution income**

Normal contributions from both the members and the employer are accounted for on an accruals basis as follows:

Employee contribution rates are set in accordance with LGPS regulations using common percentage rates for all schemes which rise according to pensionable pay. They are set at the percentage rate recommended by the Fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the Fund's actuary in the Rates and Adjustment Certificate issued to the relevant employing body.

Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

Augmentations such as additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset.

**b) Transfers to and from other schemes**

Transfers in and out relate to members who have either joined or left the fund.
Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 8).
Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

**c) Investment income**

Investment income arising from the underlying investments in pooled funds is either reinvested or taken as a cash dividend to support the Fund's cash requirements.
Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as other investment balances.
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a other investment balances.

Changes in the value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Fund account – expense items**

**d) Benefits payable**

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, providing that payment has been approved.

**e) Taxation**

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**f) Management expenses**

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the Fund on an accruals basis.

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Investment management expenses include transaction costs and custody fees.

Where an investment manager's fee has not been received by the year end date an estimate is used based upon the market value of the fund.
Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

**Administrative expenses**

All staff costs of the pensions administration team are recharged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

**Oversight and governance**

All staff costs associated with governance and oversight are recharged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

**Investment management expenses**

The investment management fees are charged directly to the Fund.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Net assets statement**

**g) Financial assets**

Investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16).

**h) Freehold and leasehold properties**

The Fund has no direct investment in property

**i) Derivatives**

The Fund uses derivative financial instruments as part of its equity protection portfolio managed by Schroders Investment Management to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

**j) Cash and cash equivalents**

Cash comprises cash in hand and internally managed cash and includes amounts held by the Fund's external managers.
Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

**k) Loans and receivables**

Financial assets classed as amortised cost are carried in the net asset statement at amortised cost, i.e the outstanding principal receivable as at the year-end date plus accrued interest.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**l) Financial liabilities**

A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the Fund account as part of the Change in Value of Investments. Other financial liabilities classed as amortised cost are carried at amortised cost ie the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

**m) Actuarial present value of promised retirement benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS26) and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of an appendix to the net assets statement (Appendix A).

The amount disclosed for the present value of promised retirement benefits relies on information about scheme members, such as their age and current salary or annual pension. Errors were identified in the information provided by the council to the actuary for the purpose of the valuation of the present value of promised retirement benefits at 31 March 2019, some of which were also present at 31 March 2018. It has not been practicable to check and correct all errors in view of the volume of records involved.

**n) Additional voluntary contributions**

The London Borough of Tower Hamlets Pension Fund provides an additional voluntary contribution AVC scheme for its members, the assets of which are invested separately from those of the pension fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed for information in Note 23.

**o) Contingent assets and contingent liabilities**

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.
A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.
Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

**p) Recharges from the General Fund**

The LGPS (Management and Investment of Funds) Regulations 2016 permit the Council to charge administration costs to the Fund. A proportion of the relevant costs have been charged to the Fund on the basis of time spent on pension fund activity. Costs incurred are shown in Note 25.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

**Pension fund liability**

The net pension fund liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted actuarial guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19. Actuarial re-valuations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

In response to the government's guidance and criteria on pooling investments issued in 2015, the London Borough of Tower Hamlets Pension Fund is a founding member of the London Collective Investment Vehicle (LCIV) established as a Collective Investment Vehicle for LGPS Funds. At the end of 31 March 2019, the Fund has £705.0m (45.4%) under LCIV management. A further £350.9m (22.0%) is invested in Legal and General Passive Pool.

## NOTE 5: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

Preparing financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made. The items in the net The items in the net asset statements for which there is a significant risk of material adjustment the following year are as follows:

**Actuarial present value of promised retirement benefits**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied

For example:
a 0.5% decrease in the discount rate used would result in a decrease in the pension liability of £198m.
a 0.5% increase in salary increase rate would increase the earnings inflation value of the liabilities by approximately £20m.

## NOTE 6: EVENTS AFTER THE REPORTING DATE

Since 31 March 2019 and the account signing date, the following market events have impacted on the Fund's investments: COVID-19 (February 2020); Brexit (January 2020). Global financial markets have since recovered from their lows in early 2020 although the Fund was protected from significant falls by its equity protection strategy.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 7: CONTRIBUTIONS RECEIVABLE

| | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|
| **Employees** | | |
| Council Employees Normal Contributions | (9,367) | (9,458) |
| Admitted Bodies Employees Normal Contributions | (128) | (115) |
| Scheduled Bodies Employees Normal Contributions | (1,324) | (1,529) |
| **Total** | **(10,819)** | **(11,102)** |
| | | |
| **Employers** | | |
| Council Employer's Normal Contributions | (26,099) | (27,059) |
| Admitted Bodies Employers' Normal Contributions | (598) | (602) |
| Scheduled Bodies Employers' Normal Contributions | (3,614) | (4,224) |
| **Total** | **(30,311)** | **(31,885)** |
| | | |
| Council Employer's Special Contributions | (2,462) | (1,796) |
| Deficit Funding | (43,338) | (53) |
| **Total** | **(45,800)** | **(1,849)** |

## NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

| | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|
| **Transfer Values** | | |
| Transfer Values Received - Individual | (5,966) | (6,157) |
| **Total** | **(5,966)** | **(6,157)** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 9: BENEFITS PAYABLE

| | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|
| Pensions | 42,711 | 45,194 |
| Lump Sums Retirement Benefits | 11,522 | 11,899 |
| Lump Sums Death Benefits | 1,670 | 1,681 |
| **Total** | **55,903** | **58,774** |
| | | |
| By type of employer | | |
| Administering authority | 53,740 | 56,399 |
| Scheduled bodies | 1,402 | 1,525 |
| Admitted bodies | 761 | 850 |
| **Total** | **55,903** | **58,774** |

## NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|
| Transfer values paid | 4,761 | 4,848 |
| Refunds to members leaving service | 274 | 224 |
| **Total** | **5,035** | **5,072** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 11: MANAGEMENT EXPENSES

| | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|
| Administration | 398 | 976 |
| Investment management expenses | 3251 | 2,774 |
| Oversight & Governance | 111 | 175 |
| **Total** | **3,760** | **3,925** |

## NOTE 11A: MANAGEMENT EXPENSES

| | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|
| Management Fees | 3191 | 2,605 |
| Custody Fees | 22 | 51 |
| Transaction Costs | 38 | 118 |
| | **3,251** | **2,774** |

## NOTE 12: INVESTMENT INCOME

| | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|
| Fixed interest securities | 0 | (9) |
| Equity dividends | (363) | (49) |
| Pooled property Investments | (6,395) | (5,885) |
| Pooled Investments -unit trusts and other managed funds | (11,471) | (10,475) |
| Interest on cash deposits | (52) | (55) |
| | **(18,281)** | **(16,473)** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 13: EXTERNAL AUDIT COSTS

| | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|
| Audit Fees Payable in respect of external audit* | 21 | 21 |
| **Total** | **21** | **21** |

*2018/19 Revised audit fee £43k. These figures will be updated after the auditors, Public Sector Audit Appointments, and the Council agree additional fees based on the standard scale rate and the additional time spent.

## NOTE 14: INVESTMENTS

| | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|
| Equities | 13 | 4 |
| Pooled Investments | 1,302,826 | 1,390,480 |
| Pooled Property Investments | 142,803 | 157,351 |
| Other | 0 | (38) |
| Total | **1,445,642** | **1,547,797** |
| | | |
| Other Investment Balances | | |
| Cash Balances (held by the Fund's external mana | 8,733 | 2,710 |
| Cash Balances (held directly by the Fund) | 26,484 | 6,512 |
| Amounts Receivable for Sales of Investments | 0 | 99 |
| Investment Income Due | 832 | 881 |
| Total | **36,049** | **10,202** |
| | | |
| Total Investment Assets | **1,481,691** | **1,557,999** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

| | Market Value 31 Mar 2018 £'000 | Purchases during the year and derivative payments £'000 | Sales during the year and derivative receipts £'000 | Change in Market Value during the year £'000 | Market Value 31 Mar 2019 £'000 |
|---|---|---|---|---|---|
| Fixed Interest Securities* | 0 | 0 | (71,904) | 71,904 | 0 |
| Equities | 13 | 0 | 0 | (9) | 4 |
| Pooled Investments | 1,302,826 | 312,512 | (222,767) | (2,091) | 1,390,480 |
| Pooled Property Investments | 142,803 | 16,996 | (5,178) | 2,730 | 157,351 |
| Other | 0 | (38) | 0 | 0 | (38) |
| | **1,445,642** | **329,470** | **(299,849)** | **72,534** | **1,547,797** |
| **Other Investment Balances** | | | | | |
| Cash Deposits held by Managers | 8,733 | | | 1 | 2,710 |
| Cash Deposits held Internally | 26,484 | | | | 6,512 |
| Amounts Receivable for Sales of Investments | 0 | | | 93 | 99 |
| Investment Income Due | 832 | | | | 881 |
| **Net Investment Assets** | **1,481,691** | | | **72,628** | **1,557,999** |

* transactions reflect the implementation of the equity protection strategy where bonds were transferred as collateral.

| | Market Value 31 Mar 2017 £'000 | Purchases during the year and derivative payments £'000 | Sales during the year and derivative receipts £'000 | Change in Market Value during the year £'000 | Market Value 31 Mar 2018 £'000 |
|---|---|---|---|---|---|
| Equities | 324,294 | 46,649 | (314,634) | (56,296) | 13 |
| Pooled Investments | 894,752 | 145,185 | 149,079 | 113,810 | 1,302,826 |
| Pooled Property Investments | 133,609 | 13,943 | (9,215) | 4,466 | 142,803 |
| | **1,352,656** | **205,777** | **(174,770)** | **61,980** | **1,445,642** |
| **Other Investment Balances** | | | | | |
| Cash Deposits | 4,096 | | | 4,637 | 35,217 |
| Investment Income Due | 1,673 | | | 0 | 832 |
| Amounts Payable for Purchases | (45) | | | 0 | 0 |
| **Net Investment Assets** | **1,358,380** | | | **66,617** | **1,481,691** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 14B: ANALYSIS OF INVESTMENTS

| | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|
| **Equities** | | |
| **UK** | | |
| Quoted | 13 | 4 |
| | **13** | **4** |
| **Pooled Funds - additional analysis** | | |
| **UK** | | |
| Fixed income unit trust - quoted | 81,152 | 91,800 |
| Equity unit trust - quoted | 1,221,674 | 130,574 |
| **Overseas** | | |
| Fixed income unit trust - quoted | 0 | 334,399 |
| Equity unit trust - quoted | 0 | 696,885 |
| **UK & Overseas** | | |
| Diversified Growth | 0 | 136,822 |
| | **1,302,826** | **1,390,480** |
| UK Pooled property investments | 142,803 | 157,351 |
| | **142,803** | **157,351** |
| Other | 0 | (38) |
| **Investment Assets** | | |
| Cash Deposits held by Managers | 8,733 | 2,710 |
| Cash Deposits held Internally | 26,484 | 6,512 |
| Investment Income Due | 832 | 881 |
| Amounts Receivable from Sales | 0 | 99 |
| | **36,049** | **10,202** |
| **Net Investment Assets** | **1,481,691** | **1,557,999** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

| | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|
| **Investments managed by regional asset pool** | | |
| London LGPS CIV | 585,774 | 705,087 |
| | **585,774** | **705,087** |
| **Investments managed outside of regional asset pool** | | |
| Schroder | 142,802 | 392,406 |
| Legal & General | 568,210 | 350,994 |
| Goldman Sachs | 77,077 | 52,542 |
| Insight Investment | 71,779 | 46,901 |
| Legacy | 832 | 847 |
| Internally managed cash | 26,484 | 6,512 |
| Fund manager cash | 8,733 | 2,710 |
| | **895,917** | **852,912** |
| | **1,481,691** | **1,557,999** |

The following investments represent over 5% of the net assets of the Fund. All of these companies are registered in the UK Security Market.

| Security | Market value as at 31st March 2018 £'000 | % total of fund | Market value as at 31st March 2019 £'000 | % total of fund |
|---|---|---|---|---|
| LCIV (BG) GE | 318,033 | 21% | 345,890 | 22% |
| LGIM MSCI WORLD TRGTINDX FND H | 247,536 | 17% | 244,453 | 16% |
| SCHRODER - EQUITY PROTECTION S | 0 | 0% | 234,956 | 15% |
| LCIV (BG) DGF | 136,444 | 9% | 136,822 | 9% |
| LCIV (RF) ARF | 131,297 | 9% | 130,574 | 8% |
| LCIV (CQS) MAC | 0 | 0% | 91,800 | 6% |
| LGIM FTSE ALL WORLD TARGET IND | 81,152 | 5% | 83,774 | 5% |
| GSAM STAR II | 77,077 | 5% | | |
| LGIM OVER 5Y INDEX- LINKED GILTS | 74,546 | 5% | | |
| LGIM FTSE ALL WORLD TARGT INDX | 164,962 | 11% | | |
| | **1,231,047** | **82%** | **1,268,269** | **81%** |

## NOTE 14D: STOCK LENDING

The Fund does not participate in stock lending.

## NOTE 14E: PROPERTY HOLDINGS

The Fund's investment in property portfolio does not comprise directly owned properties.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 15: ANALYSIS OF DERIVATIVES

**Objectives and policies for holding derivatives**

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreements in place between the Fund and the various investment managers.

## NOTE 16: FAIR VALUE – BASIS OF VALUATION

**Fair Value Hierarchy**

| | Market Value as at 31 Mar 2019 £'000 | Quoted market price Level 1 £'000 | Using observable inputs Level 2 £'000 | With significant observable inputs Level 3 £'000 | Total £'000 |
|---|---|---|---|---|---|
| Financial assets at fair value | 1,547,835 | 4 | 1,390,480 | 157,351 | 1,547,835 |
| Loans and receivables | 9,222 | 9,222 | 0 | 0 | 9,222 |
| Amounts receivable from Sales | 99 | 99 | 0 | 0 | 99 |
| Investment Income Due | 881 | 881 | 0 | 0 | 881 |
| Other | (38) | (38) | 0 | 0 | (38) |
| | **1,557,999** | **10,168** | **1,390,480** | **157,351** | **1,557,999** |

| | Market Value as at 31 Mar 2018 £'000 | Quoted market price Level 1 £'000 | Using observable inputs Level 2 £'000 | With significant observable inputs Level 3 £'000 | Total £'000 |
|---|---|---|---|---|---|
| Financial assets at fair value | 1,445,642 | 13 | 1,302,826 | 142,803 | 1,445,642 |
| Loans and receivables | 35,217 | 35,217 | 0 | 0 | 35,217 |
| Investment Income Due | 832 | 832 | | | 832 |
| | **1,481,691** | **36,062** | **1,302,826** | **142,803** | **1,481,691** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 16 : TRANSFERS BETWEEN LEVELS 1 AND 2

There were no transfers between levels 1 and 2 during the year.

## NOTE 16: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

| | Market Value 1 Apr 2018 £'000 | Transfers in/out of level 3 | Purchases £'000 | Sales £'000 | Unrealised gains (losses) £'000 | Realised gains (losses) | Market Value 31 Mar 2019 £'000 |
|---|---|---|---|---|---|---|---|
| UK Property Funds | 142,803 | 0 | 16,995 | (5,178) | 1,054 | 1,676 | 157,351 |
| **Total** | **142,803** | **0** | **16,995** | **(5,178)** | **1,054** | **1,676** | **157,351** |

| | Assessed valuation range (+/-) % | Value 31 Mar 2019 £'000 | Value on Increase £'000 | Value on Decrease £'000 |
|---|---|---|---|---|
| UK Property Funds | 10% | 157,351 | 173,086 | 141,616 |
| Total | | 157,351 | 173,086 | 141,616 |

| | Market Value 1 Apr 2017 £'000 | Transfers in/out of level 3 | Purchases £'000 | Sales £'000 | Unrealised gains (losses) £'000 | Realised gains (losses) | Market Value 31 Mar 2018 £'000 |
|---|---|---|---|---|---|---|---|
| UK Property Funds | 133,609 | 0 | 13,943 | (9,215) | 4,466 | 0 | 142,803 |
| Total | 133,609 | 0 | 13,943 | (9,215) | 4,466 | 0 | 142,803 |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

| Market Value as at 31 Mar 2018 | | | | | | Market Value as at 31 Mar 2019 |
|---|---|---|---|---|---|---|
| Designated as fair value through profit and loss £ | Loans and receivables £'000 | Financial liabilities at amortised cost £'000 | | Designated as fair value through profit and loss £'000 | Loans and receivables £'000 | Financial liabilities at amortised cost £'000 |
| | | | **Financial assets** | | | |
| 0 | 0 | 0 | Equities | 4 | 0 | 0 |
| 1,302,839 | 0 | 0 | Pooled investments | 1,390,480 | 0 | 0 |
| 142,803 | 0 | 0 | Pooled property Investments | 157,351 | 0 | 0 |
| 0 | 8,733 | 0 | Cash held with External Managers | 0 | 2,710 | 0 |
| 0 | 26,484 | 0 | Cash held Internally | 0 | 6,512 | 0 |
| 0 | 832 | 0 | Other investment balances | 0 | 980 | 0 |
| 0 | 1,179 | 0 | Debtors | 0 | 1,187 | 0 |
| **1,445,642** | **37,228** | **0** | | **1,547,835** | **11,389** | **0** |
| | | | **Financial liabilities** | | | |
| 0 | 0 | 0 | Other Investment balances | 0 | (38) | 0 |
| 0 | 0 | (2,214) | Creditors | 0 | 0 | (6,280) |
| **0** | **0** | **(2,214)** | | **0** | **(38)** | **(6,280)** |
| **1,445,642** | **37,228** | **(2,214)** | **Total** | **1,547,835** | **11,351** | **(6,280)** |
| | **1,480,656** | | **Grand Total** | | **1,552,906** | |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

| Financial Assets | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|
| Fair value through profit or loss | (57,514) | (72,534) |
| Loans and receivables | (4,637) | (94) |
| Financial assets at amortised cost | (4,466) | 0 |
| **Total Financial Assets** | **(66,617)** | **(72,628)** |

All realised gains and losses arise from the sale or disposal of financial assets which have been derecognised in the financial statements.
The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

## NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

**Risk and Risk Management**

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities. (i.e. promised benefits payable to members)

The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market and credit risk to an acceptable level. in addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for the Fund's risk-management strategy rests with the Pensions Committee. Risk management policies are established that aim to identify and analyse the investment risks faced by the Fund and these are regularly reviewed by the Pensions Committee and Pensions Board in the light of changing market and other conditions.

**Credit risk**

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

Deposits are made with banks and financial institutions that are rated independently and meet the Council's credit criteria.

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

**Liquidity risk**

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

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

Should the Fund have insufficient money available to meet its commitments it may, under Regulation 5.2 borrow cash for up to 90 days. If there was a longer term shortfall then the Fund’s assets could be sold to provide additional cash. A significant proportion of the Fund is made up of readily realisable assets. As at 31 March 2019, liquid assets were £1,396m representing 90.0% of total assets of the Fund assets (£1,338m as at 31 March 2018). The majority of these investments can be in fact liquidated within a matter of days.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont.)

**Currency risk**

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than Sterling. The Fund aims to mitigate this risk through the use of hedging. The Pensions Committee recognises that a strengthening /weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits. Overseas equities, fixed interest securities and equity protection swaps and some elements of the pooled investment vehicles are exposed to currency risk. The currency risk table demonstrates the change in value of these assets had there been a 10% change strengthening/weakening of the pound against foreign currencies.

**Market risk**

This is the risk of loss emanating from general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of asset class, geographical and industry sectors and individual securities. To mitigate market risk, the Committee and its investment advisors undertake regular monitoring of market conditions.

**Price risk**

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual instrument or its issuer factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities regardless of being in a pool represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments with the exception of derivatives.

The Fund manages price risk of its portfolio by diversifying its investments across different asset classes and fund managers as required by regulations. Further, the Fund has a long-term investment horizon and can accept the price risk in its portfolio. The Fund can mitigate the price risk by regular reviews of its investment strategy in consultation with its investment advisors.

The price risk table below demonstrates the change in the net assets available to pay benefits if the market price has increased or decreased by 10%. The analysis excludes cash, debtors, creditors, other investment balances and forward exchange as these financial instruments are not subject to price risk.

**Interest rate risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Pensions Committee and its advisors regularly monitor the Fund's interest rate risk exposure during the year. Fixed interest securities, cash and cash equivalents are exposed to interest rate risk. The Fund holds a percentage of its portfolio in fixed interest securities to mitigate this risk should interest rates fall. Cash deposits held in the Pension Fund bank account are invested in accordance with the Council's approved Treasury Management Strategy.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont.)

**Other price risk - sensitivity analysis**

| Asset type | Market Value as at 31/03/2019 £'000 | Percentage change % | Value on increase £'000 | Value on decrease £'000 |
|---|---|---|---|---|
| **Cash and cash equivalents** | 9,222 | 0.2% | 9,240 | 9,204 |
| **Investment portfolio assets:** | | | | |
| UK equities | 4 | 9.0% | 4 | 4 |
| UK fixed Income unit trusts | 91,800 | 4.3% | 95,747 | 87,853 |
| Overseas fixed Income unit trusts | 334,399 | 4.3% | 348,778 | 320,020 |
| UK equity unit trusts | 130,574 | 9.0% | 142,326 | 118,823 |
| Overseas equity unit trusts | 696,885 | 9.0% | 759,605 | 634,165 |
| Pooled property Investments | 157,351 | 1.7% | 160,026 | 154,676 |
| Other PIV | 136,784 | 4.1% | 142,392 | 131,176 |
| Investment income due | 980 | 0.0% | 980 | 980 |
| **Total assets available to pay benefits** | **1,557,999** | | **1,659,098** | **1,456,901** |

| Asset type | Market Value as at 31/03/2018 £'000 | Percentage change % | Value on increase £'000 | Value on decrease £'000 |
|---|---|---|---|---|
| **Cash and cash equivalents** | 35,217 | 0.4% | 35,358 | 35,076 |
| **Investment portfolio assets:** | | | | |
| UK fixed Income unit trusts | 74,546 | 8.2% | 80,659 | 68,433 |
| Overseas fixed Income unit trusts | 148,856 | 8.2% | 161,062 | 136,650 |
| UK equity unit trusts | 131,310 | 9.7% | 144,047 | 118,573 |
| Overseas equity unit trusts | 811,683 | 9.7% | 890,416 | 732,950 |
| Pooled property Investments | 142,803 | 1.8% | 145,373 | 140,233 |
| Other PIV | 136,444 | 4.1% | 142,038 | 130,850 |
| Investment income due | 832 | 0.0% | 832 | 832 |
| **Total assets available to pay benefits** | **1,481,691** | | **1,599,785** | **1,363,597** |

**Currency Exposure - asset type**

| Asset type | Market Value as at 31/03/2019 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | £'000 | +8.2% | -8.2% |
| **Overseas Equities** | | | |
| Overseas Fixed Inome Funds | 334,399 | 361,820 | 306,978 |
| Overseas Equity Funds | 696,885 | 754,030 | 639,740 |
| **Total change in assets available** | **1,031,284** | **1,115,850** | **946,718** |

| Asset type | Market Value as at 31/03/2018 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | £'000 | +9.0% | -9.0% |
| **Overseas Equities** | | | |
| Overseas Fixed Inome Funds | 148,856 | 162,253 | 135,459 |
| Overseas Equity Funds | 811,683 | 884,734 | 738,632 |
| **Total change in assets available** | **960,539** | **1,046,987** | **874,091** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont.)

### INTEREST RATE RISK

| Asset type | Market Value as at 31/03/2019 | Market Value as at 31/03/2018 |
|---|---|---|
| | £'000 | £'000 |
| **Cash and cash equivalents** | | |
| **Cash** | 9,222 | 35,217 |
| **Total** | **9,222** | **35,217** |

**Interest rate risk sensitivity analysis**

| Asset type | Market Value as at 31/03/2019 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +100 bps | -100 bps |
| | £'000 | £'000 | £'000 |
| **Cash and cash equivalents** | | | |
| **Cash** | 9,222 | 92 | -92 |
| **Total change in assets available** | **9,222** | **92** | **-92** |

| Asset type | Market Value as at 31/03/2018 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +100 bps | -100 bps |
| | £'000 | £'000 | £'000 |
| **Cash and cash equivalents** | | | |
| **Cash** | 35,217 | 352 | -352 |
| **Total change in assets available** | **35,217** | **352** | **-352** |

### CREDIT RISK

| Summary | Rating | Market Value as at 31/03/2019 | Market Value as at 31/03/2018 |
|---|---|---|---|
| | | **£'000** | **£'000** |
| **Money Market Fund** | AAA | 6,000 | 24,000 |
| **Bank current accounts** | | | |
| Custody cash account | AA | 2,710 | 8,733 |
| National Westminster Bank Plc | AA | 512 | 2,484 |
| **Total** | | **9,222** | **35,217** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 19: FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and the next valuation is due to take place as at 31 March 2019.

The key elements of the funding policy are:

1) to ensure the long-term solvency of the fund, ie that sufficient funds are available to meet all pension liabilities as they fall due for payment

2) to ensure that employer contribution rates are as stable as possible

3) to minimise the long-term cost of the LGPS by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return

4) to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so and

5) to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time.

Normally this is three years but in some cases a maximum period of 12 years can be granted. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable. When an employer's funding level is less than 10% of the 100% funding target, then a deficit recovery plan will be put in place requiring additional employer contributions.

The 2016 statutory triennial revaluation of the Pension Fund estimated the deficit on the Fund to be £235M.and the funding level to be 82.8%.This compares to a deficit at the previous revaluation in 2013 of £365M and a corresponding funding level of 71.8%.

The contribution rates are made of two values, the Primary and Secondary rate.
The Primary rate is the payroll weigthted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer Secondary rates (before applyin any pre-payment or capitalisation of future contributions).
Full details of the contribution rates payable can be found in the 2016 actuarial valuation report and the funding strategy statement on the fund's website.
The table below summarises the whole Fund Primary and Secondary Contribution rates at the 2016 triennial valuation:

| Primary Rate (% of pay) | | 2017/18 £'000 | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|---|---|
| | 19.90% | 13,974 | 14,603 | 15,256 |
| | | **13,974** | **14,603** | **15,256** |

50:50 option
It is assumed that 1% of members opt into the 50:50 option in the LGPS 2014 scheme.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 20: CURRENT ASSETS

| | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|
| Short term debtors | | |
| Contributions due - employees | 27 | 35 |
| Contributions due - employers | 88 | 124 |
| Payroll | 73 | 403 |
| Sundry debtors | 991 | 536 |
| Other | 0 | 89 |
| **Total** | **1,179** | **1,187** |

## NOTE 21: CURRENT LIABILITIES

| | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|
| Sundry creditors | (1,899) | (1,279) |
| Transfer values payable (leavers) | (218) | (1,548) |
| Benefits payable | (97) | (3,415) |
| Other investment | 0 | (38) |
| **Total** | **(2,214)** | **(6,280)** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 22: ADDITIONAL VOLUNTARY CONTRIBUTIONS

| | 2017/18 £'000 | 2018/19 £'000 |
|---|---|---|
| Aviva | 12 | 19 |
| Equitable Life | 5 | 2 |
| | **17** | **21** |

Additional voluntary contributions (AVC's) were paid to Aviva and Equitable Life during the year.

## NOTE 23: AGENCY SERVICES

The Fund is fully reimbursed of all agency services costs paid on behalf of the administering authority.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 24: RELATED PARTY TRANSACTIONS

The LBTH Pension Fund is administered by the LBTH

The Council incurred costs of £669k (£814k 2017/18) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. All monies owing to and from the fund were paid in the year.

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

The Pension Fund cash held by London Borough of Tower Hamlets is invested on the money markets by the treasury management operations of the Council. During the year to 31 March 2019, the Fund held an average investment of £11.5m (£11.4m 31 March 2018), earning interest of £55k, (£90k 2017/18) . As at 31 March 2019 the Fund had £6.0m invested with LBTH in money market funds.

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £3.0m (£2.8m 2017/18) from this company.

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

| **Fund Administration Expenses** | **2017/18 £'000** | **2018/19 £'000** |
|---|---|---|
| Payroll/HR Support | 494 | 494 |
| Central Finance | 320 | 175 |
| | **814** | **669** |

## NOTE 24A: KEY MANAGEMENT PERSONNEL

Employees holding key positions in the financial management of the Fund as at 31st March 2019 include:

Corporate Director Resources
Service Head - Finance & Procurement
Chief Accountant
Investment & Treasury Manager

The value of their relationship with the Fund, in accordance with IAS24 is as set out below:

| | **2017/18 £'000** | **2018/19 £'000** |
|---|---|---|
| Short term benefits | 37 | 34 |
| Long term/post retirement benefits | 22 | 22 |

## NOTE 25: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

There were no contingent liabilities as at 31st March 2019.

# APPENDIX A

## PENSION FUND ACCOUNTS REPORTING REQUIREMENT

**Introduction**
CIPFA's Code of Practice on Local Authority Accounting 2018/19 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Tower Hamlets Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- Showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

**Present value of promised retirement benefits**

| Year ended | 31 Mar 2018 | 31 Mar 2019 |
|---|---|---|
| | £m | £m |
| Active members | 792 | 670 |
| Deferred members | 509 | 523 |
| Pensioners | 706 | 909 |
| Total | 2,007 | 2,102 |

The promised retirement benefits at 31 March 2019 have been projected using a full funding valuation on the Fund's membership as at 31 March 2019.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

**Assumptions**
The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2019 and 31 March 2018. I estimate that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £119m. The impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £58m.

**Financial assumptions**

| Year ended | 31 Mar 2018 | 31 Mar 2019 |
|---|---|---|
| Pension Increase Rate | 2.4% | 2.5% |
| Salary Increase Rate | 2.2% | 2.7% |
| Discount Rate | 2.6% | 2.4% |

**Longevity assumptions**
Life expectancy is based on the Fund's VitaCurves with improvement in line with the CMI 2018 model, assuming the current current rate of improvements has reached a peak and will converge to a long-term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

| | Males | Females |
|---|---|---|
| Current pensioners | 21.5 years | 23.5 years |
| Future pensioners (assumed to be 45 at the latest formal valuation) | 22.6 years | 25.0 years |

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

**Commutation assumptions**
An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

**Sensitivity Analysis**
CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

| Sensitivity to the assumptions for the year ended 31 March 2019 | Approximate increase to liabilities (%) | Approximate monetary amount (£m) |
|---|---|---|
| 0.5%p.a. increase in the Pension Increase Rate | 9% | 197 |
| 0.5%p.a. increase in the Salary Increase Rate | 1% | 20 |
| 0.5%p.a. increase in the Real Discount Rate | 10% | 218 |

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

**Professional notes**
This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2019 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Barry Dodds FFA

31 October 2023

For and on behalf of Hymans Robertson LLP

# The London Borough of Tower Hamlets Pension Fund

## Appendix 2

## Investment Strategy Statement

**Revised March 2018**

# Investment Strategy Statement (March 2018)

## 1. Introduction and background

1.1 This is the Investment Strategy Statement ("ISS") of the Tower Hamlets Pension Fund ("the Fund"), which is administered by Tower Hamlets Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

1.2 The Administering Authority has delegated all its functions as administering authority to the Pensions Committee ("the Committee"). The ISS, which was approved by the Committee on 29th November 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate – for example, pensions board, independent adviser, local authority employers such as admitted bodies and scheduled bodies.

1.3 The Committee will invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund.

1.4 The Pensions Committee is charged with the responsibility for the governance and stewardship of the Fund. The Fund has adopted a prudent, risk aware investment strategy, which is kept continually under review. Asset allocation decisions are taken in the best long term interest of Fund employers and member beneficiaries.

1.5 The ISS should be read in conjunction with the Fund's Funding Strategy Statement, which sets out how solvency risks will be managed with regard to the underlying pension liabilities.

## 2.0 Long-term view of investments

2.1 The Fund's primary investment objective is to ensure that over the long term the Fund will have sufficient assets to meet all pension liabilities as they fall due. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

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

2.3 The strength of the respective employers' covenant and the present cash flow positive nature of the Fund allow a long-term deficit recovery period and enable the Fund to take a long-term view of investment strategy.

2.4 The most important aspect of risk is not the volatility of returns, but the risk of absolute loss, and of not meeting the objective of facilitating low, stable contribution rates for employers. Illiquidity and volatility are risks which offer potential sources of additional compensation to the long term investor. Although, it is more important to avoid being a forced seller in short term market setbacks.

2.5 Participation in economic growth is a major source of long term equity return. Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash. Well governed companies that manage their business in a responsible manner will likely produce higher returns over the long term.

2.6 The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. (See section 5.6) This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

2.7 The Fund carried out an Asset Outperformance Assumption modelling exercise in conjunction with the 2016 actuarial valuation. The Committee set a target range of 66%-75% chance of achieving their long term funding target – returning to a fully funded position within the next 20 years. (The probability required for each employer to reach its funding target within its time horizon. In general, higher probabilities of success are achieved by paying higher contributions and relying less on volatile investment returns. The probability required for each employer is largely based on each employer's assessed covenant. For instance, a lower probability of success (e.g. 66%) may be required for a secure body as they may be considered to be able to pay higher contributions (or current rates for longer) should they not reach their funding target over their time horizon.

2.8 This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

2.9 In line with the above overall objective the Fund will invest money in a wide variety of investments, having assessed the suitability of particular investments; the investment objectives, the impact of different economic scenarios on achieving required total Fund returns, and the resulting diversity across the whole Fund. Prior to any such decisions being made the Fund will take appropriate external independent advice.

2.10 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. The Fund will invest in accordance with its investment strategy, any Fund money that is not needed immediately to make payments from the Fund. Any deviations within guidelines from the agreed strategy will be reported to the Pensions Committee, the Pensions Board and the Section 151 Officer so that appropriate corrective actions can be undertaken.

## 3.0 The investment objectives of the Fund

a) The long-term objective is for the Fund to achieve a funding level of 100% over a maximum fund recovery period of 20 years from April 2016. This target will be reviewed following each triennial actuarial valuation and consultation with Fund employers.

b) The outcome of the last valuation carried out as at 31st March 2016:

- The funding level has improved from 71.8% to 82.8%.

- In monetary terms the deficit has reduced by £130m from £365m (at March 2013) to £235m (March 2016). This was based on the Fund having assets of £1,126m and liabilities of £1,361m.

c) The actuarial valuation, at 31 March 2016, was prepared on the basis of an expected real return on assets of 2% over the long term, a nominal return of 4.2% assuming inflation (CPI) to be 2.2%.

d) The Fund's objective is to perform in line with this target over 10 years, by investing in a diversified portfolio of return-generating assets.

e) In order to monitor the investment objective, the Pensions Committee requires the provision of detailed performance measurement of the Fund's investments. This is provided by the Fund's custodian, State Street, on a quarterly basis. In addition, the Pensions Committee conducts a formal annual performance review of each of its investment managers.

f) The actuarial funding target is reviewed after periodic actuarial valuations and consultation with Fund employers and may undergo a partial or full review at other times should circumstances warrant it.

## 4. Strategy Review and Strategic Benchmark

4.1 A full Strategic Investment Review will be undertaken by the Fund every three to six years by specialist professional advisors. The investment strategy (including the core investment objectives and asset allocations) will be sufficiently flexible to meet longer term prevailing market conditions and address any short term cash flow requirements. Interim reviews may be undertaken to ensure that the Strategy remains appropriate.

4.2 The Fund will operate a fund-specific benchmark for the investment portfolio, with long-term allocations to the various investment asset classes, which reflect the circumstances of the Fund.

4.3 As is appropriate all asset classes and products will be kept under continual review. In addition to considering the benefits of individual products and asset classes for introduction into the strategy, consideration will be given to how the inclusion affects the overall risk/return characteristics of the total portfolio. Before any investment decisions are made by the Pensions Committee, professional advice will be sought. If there are any instances where advice received is not to be acted upon reporting to both the Committee and the Pensions Board will ensue.

*Asset classes*

4.4 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property, infrastructure and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

4.5 The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

4.6 The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

4.7 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation, s151 officer and her officers have the delegated authority to rebalance the Fund to its strategic asset allocation.

| Asset class | Targeted Strategic Asset Allocation % | Investments Range (%) |
|---|---|---|
| Active Global Equities | 20% | (15% - 25%) |
| Passive Global Equities | 30% | (25% - 35%) |
| **Total Global Equities** | **50%** | **(45% - 55%)** |
| Property | 12% | (10% - 15%) |
| Diversified Growth Funds | 20% | (15% - 25%) |
| Absolute Return Bonds | 12% | (10% - 15%) |
| Index Linked Gilts | 6% | (3% - 9%) |
| **Total** | **100%** | **100%** |

## *5. Restrictions on investment*

5.1 The Regulations do not permit more than 5% of the Fund's value to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e). The investment policy of the Fund does not permit any employer-related investment, other than is necessary to meet the regulatory requirements with regards to pooling.

5.2 The Pensions Committee believes that the Fund's portfolio is adequately diversified, and has taken professional advice to this effect from their investment consultant and independent advisor.

5.3 The strategic asset allocation includes ranges for each asset class within which the asset allocation can vary. In the event that any asset class range is breached, the Pensions Committee will be informed and the Fund's officers will endeavour to bring the asset allocation back within the range within an appropriate period of time.

5.4 The Pensions Committee reviews the suitability of the asset allocation of the Fund on a yearly basis, following advice from the officers, investment consultant and independent advisor.

5.5 It is intended that the Fund's investment strategy will be reviewed at least every three years, following the latest actuarial valuation of the Fund. The investment strategy takes due account of the maturity profile of the Fund and the current funding position.

5.6 The Pensions Committee has set the following benchmark against which performance of the Fund will be measured:

| Asset class | Benchmark |
|---|---|
| **Equities** | |
| Passive Global Equity | FTSE All World Equity Index |
| Passive Global Equity Hedged | FTSE All World Equity Index GBP Hedged |
| Passive Global Equity Low Carbon Hedged | MSCI World Low Carbon Target Index GBP Hedged |
| Active Global Equity | MSCI AC World Index |
| **Bonds and Cash** | |
| UK Index Linked Gilts Over 5 Years | FTSE UK Gilts Index-Linked Over 5 Years Index |
| Absolute Return Bonds (Insight) | 3 Months LIBOR plus 3% |
| Absolute Return Bonds (GSAM) | 3 Months LIBOR plus 4% |
| Cash | LIBID 7 Day |
| **Alternatives** | |
| Property Unit Trusts | UK IPD Monthly Index Property |
| Diversified Growth Funds | 3 Months LIBOR plus 3% |

## 6.0 Managers

6.1 The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

6.2 The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund.

6.3 The Fund's investment managers will hold a mix of investments which reflect their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles.

6.4 The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects their respective benchmark indices as set out in section 5.6.

6.5 The Fund's current structure and performance targets are set out in the table below.

| Current Managers and Mandates | | | | |
|---|---|---|---|---|
| **Manager** | **Mandate** | **Benchmark Allocation** | **Investment Ranges** | **Performance Target** |
| Legal & General | UK Index Linked (Passive) | 6% | 3%-9% | FTSE A Gov Index Linked >5yrs |
| | Global Equities (Passive) | 15% | 12%-18% | 33% FTSE All World Equity Index, 67% FTSE All World Equity Index GBP Hedged |
| | Global Equities (Passive Low Carbon) | 15% | 12%-18% | MSCI World Low Carbon Target Index GBP Hedged |
| LCIV (Baillie Gifford) | Global Equities (Active & Growth) | 20% | 15%-25% | Outperform benchmark by 2-3% over a rolling 3 year period |
| | Diversified Growth | 10% | 7.5%-12.5% | 3 Months LIBOR +3% per annum |
| LCIV (Ruffer) | Diversified Growth | 10% | 7.5%-12.5% | 3 Months LIBOR +3% per annum |
| Goldman Sachs | Pooled Bonds (Absolute Return) | 3% | 2%-4% | 3 Months LIBOR +4% per annum |
| Insight | Pooled Bonds (Absolute Return) | 3% | 2%-4% | 3 Months LIBOR +3% per annum |
| LCIV MAC (CQS) | Multi Asset Credit | 6% | 4%-8% | 3 Months LIBOR +4% per annum |
| Schroders | Property | 12% | 10%-15% | Outperform benchmark by 0.75% over a rolling 3 year period |

### 7.0 The approach to risk

7.1 The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has a programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

7.2 The principal risks affecting the Fund and the Fund's approach to managing these risks and the contingency plans that are in place are set below:

*Funding risks*

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities. (The impacts is reducing the value of investments/assets and requiring increased employer's contributions).

7.3 The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk.

7.4 The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

7.5 The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

7.6 The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

*7.7 Asset risks*

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).

- Environmental, social and governance (“ESG”) – The risk that ESG related factors reduce the Fund’s ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

7.8 The Committee measure and manage asset risks as follows:

a) The Fund’s strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has delegated rebalancing arrangements to s151 officer and her officers to ensure the Fund’s “actual allocation” does not deviate from its maximum limits. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund’s asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property; the Committee has recognised the need for access to liquidity in the short term.

b) The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; in addition, the Committee has agreed to hedge 50% of the overseas currency exposure relating to the global equity allocation. This is achieved by investing in pooled currency hedged funds managed by LGIM. Detail of the Fund’s approach to managing ESG risks is set out later in this document.

c) The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a proportion of the Scheme’s assets managed on a passive basis. The Committee assess the Fund’s managers’ performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

*7.9 Other provider risk*

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

7.10 The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

7.11 A more comprehensive breakdown of the risks to which the Fund is exposed and the approach to managing these risks is set out in the Fund’s risk register and policy documents.

## 8. Pooling of investments

8.1 The Fund is a participating scheme in the London Collective Investment Vehicle (LCIV) Pool. The proposed structure and basis on which the LCIV Pool will operate was set out in the July 2016 submission to Government.

8.2 The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

8.3 The Fund has already transitioned assets into the London CIV with current allocation of 46% of total assets, and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

8.4 The Fund has a target allocation of 36% in life funds and these are outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being.

8.5 The Fund is monitoring developments and the opening of investment strategy funds on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds to meet the Fund's investment strategy/ asset allocation requirements.

8.6 Any assets not currently invested in the Pool will be reviewed at least annually to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

**Structure and governance of the LCIV Pool**

8.7 The July 2016 submission to Government of the LCIV Pool provided a statement addressing the structure and governance of the Pool, the mechanisms by which the Fund can hold the Pool to account and the services that will be shared or jointly procured.

8.8 The below diagrams sets out the governance structure for the London CIV. The governance structure of the CIV has been designed to ensure that there are both formal and informal routes to engage with all the Authorities as both shareholders and investors. This is achieved through a combination of the London Councils' Sectoral Joint Committee, comprising nominated Member representatives from the London Local Authorities (in most cases the Pensions Committee Chair), and the Investment Advisory Committee ("IAC") formed from nominated borough officers, which includes both London Local Authority Treasurers and Pension Officers from a number of Authorities.

8.9 As an AIFM, London CIV must comply with the Alternative Investment Manager Directive ("AIFMD") and falls under the regulatory scrutiny and reporting regime of the Financial Conduct Authority ("FCA"). This includes the requirement for robust systems and processes and for these to be documented appropriately in policies and manuals. Risk management is a particular focus for the FCA and London CIV has developed a risk framework and risk register covering all areas of its operations, including fund management.

8.10 The Pensions Sectoral Joint Committee ("PSJC") has been established under the governing arrangements of London Councils. The PSJC effectively fulfils two roles, one is as a mechanism for convening elected Member representation from each borough (generally the borough's Pension Committee Chair), and the other is as the route to convening the Authorities as shareholders in London CIV. This Committee will provide scrutiny and oversight of the CIV for the Authorities, with each Borough represented on the Committee with voting rights.

8.11 Borough Pension Committees – In most instances the Chair of the Pensions Committee at a Borough level will be the delegated representative on the PSJC and will be able to provide an overview back to the individual Committee on the work of the London CIV and its effectiveness from attending the PSJC. In addition the London CIV will provide regular updates to Authorities through its written reports and will also attend Committee meetings as and when required and in this way will help to ensure that the individual Pensions Committee are able to provide scrutiny of the London CIV.

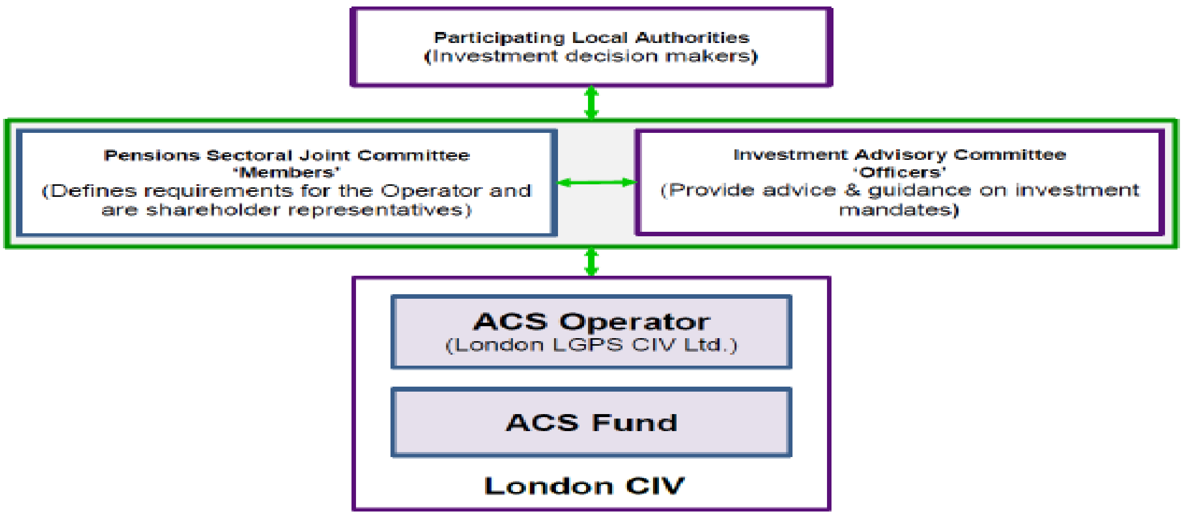
8.12 The Investment Advisory Committee (IAC) was formed in September 2015 with the remit to:

- To support the Joint Committee in the investment decision making process
- To liaise with the Fund Operator of the CIV in defining Shareholders' investment needs.

8.13 Membership of the IAC was renewed in July 2016 with London Treasurers being asked to nominate themselves and or their officers, 24 nominations were received. Whilst this was greater than allowed for under the Terms of Reference, after consideration, it was agreed that the full complement of nominations should be included in the Committee.

8.14 This was to ensure at a time of rapid development for the London CIV, as many Pension Funds could be engaged fully in the process and that this would also enable a wide range of pension managers to work closely alongside officers of the CIV. The new Committee comprised 9 London Treasurers and 15 Pension Managers.

LONDON CIV GOVERNANCE STRUCTURE

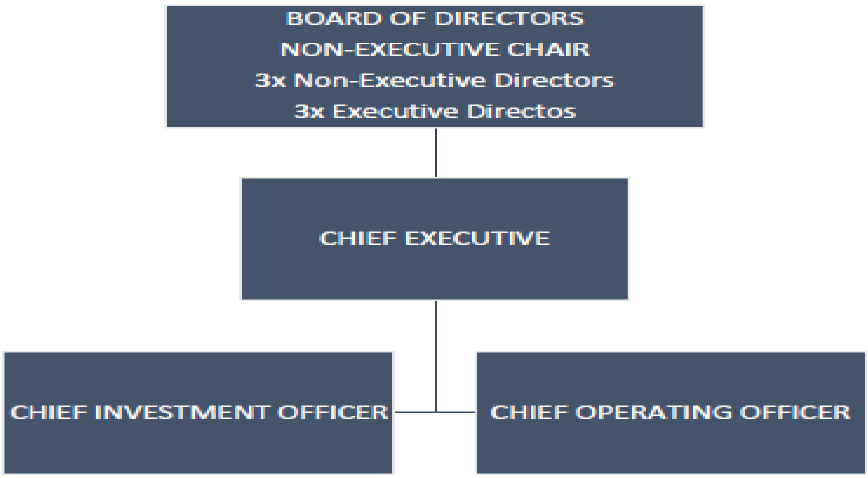



8.15 At the company level for London CIV, it is the Board of Directors that is responsible for decision making within the company, which will include the decisions to appoint and remove investment managers. The Board of the CIV has ultimate responsibility for all aspects of management of the Company. The board will at all times retain and exercise overall control. As a result the board composition seeks to achieve a balance of skills, competencies and expertise to govern on behalf of the shareholders.

8.16 The board will challenge the business, has a strong focus on oversight of both the organisation and third parties, and understands its duties as a regulated Company. The board have a mix of relevant investment, operational and financial experience having held senior roles at regulated entities combined with a strong understanding of local government and the requirements of its shareholders. The governance practices will be commensurate with the business and nature of the investment funds it manages.

8.17 The board is comprised of seven members both executive and non-executive with a range of skills. The non-executive directors are independent third parties with experience gained from either local government or careers in financial services and each have in-depth understanding of their respective fields. The executive team are responsible for the day-to-day operations of the business and setting the strategic direction of the Company. The non-executive directors will provide independent judgment and challenge to the board based on their respective experience.

LONDON CIV BOARD - COMPANY STRUCTURE




**Performance measurement**

8.18 Fund performance is measured at a number of different levels. The objective of the Fund is to outperform the actuarial discount rate. The policy portfolio is selected by the Committee, with advice from the Fund Investment Advisers and Officers, and investment managers including LCIV, is expected to generate returns above the discount rate.

8.19 The performance of the pooling arrangements is monitored via regular reporting and through periodic meetings. Performance for LCIV is measured against the policy portfolio. LCIV seeks to outperform the policy portfolio on a risk adjusted basis, via active sub-funds creation/selection and or selecting the best managers for each of the sub-funds and by implementing investments in a low cost manner. Performance for the investment sub-funds is measured against widely used and transparent benchmarks.

8.20 Where performance falls short of expectations the Committee, Officers and the Investment Advisers for the Fund will identify the cause of this underperformance and will respond appropriately either to alter its policy portfolio (where asset allocation is the underlying cause) or to require changes to the management of the sub fund vehicles (where management skill within LCIV is the underlying cause).

## 9. Social, Environmental and Corporate Governance

9.1 It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

- *Sustainable investment / ESG factors* – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- *Stewardship and governance* – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

**Sustainable investment / ESG**

9.2 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pensions Committee undertakes training on a regular basis and this will include training on and information sessions on matters of social, environmental and corporate governance.

9.3 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

9.4 The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

9.5 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes. The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

9.6 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors where these present financial risks to the delivery of portfolio objectives and therefore impact on the sustainability of the Fund's returns.

9.7 Where appropriate, the Committee considers how it wishes to approach specific ESG factors in the context of its role in asset allocation and investment strategy setting. The Committee considers exposure to carbon risk in the context of its role in asset allocation and investment strategy setting The exposure that the Fund has to fossil fuels is largely through investments in equity portfolios which aim to outperform, or track the performance of, broad market indices which themselves include allocations to companies that are responsible for carbon emissions.

9.8 Taking into account the ratification in October 2016 of the Paris Agreement, the Committee considers that significant exposure to fossil fuel reserves within the Fund's portfolio could pose a material financial risk. In spring 2017, a Carbon Risk Audit for the Fund was carried out, quantifying the Fund's exposure through its equity portfolio to fossil fuel reserves and power generation and where the greatest risks lie.

9.9 When a full review of the investment strategy was undertaken, as a result of this strategic review, the following changes to the equity portfolio was agreed, and implemented:

- A reduction in the total equity exposure from 60% to 50% of total assets. With the proceeds invested into multi-asset funds with much lower equity holdings (and hence lower exposure to carbon-intensive assets).
- Of the remaining 50% of the equity portfolio, 15% has been invested into a Low Carbon index-tracking strategy which aims to reduce the carbon exposure of the portfolio by around 70%, relative to the broad market index, whilst still expecting to perform broadly in line with the wider market over the long term

9.10 This will be periodically reviewed to ensure that it remains consistent with the risks associated with investment in carbon assets and with the Committee's fiduciary duties.

9.11 Where necessary, the Fund will also engage with its Investment Managers and or the London CIV to address specific areas of carbon risk. The Fund expects its investment managers to integrate financially material ESG factors into their investment analysis and decision making and may engage with managers and the London CIV to ensure that the strategies it invests in remain appropriate for its needs. However, the Fund does not at this time operate a blanket exclusion policy in respect of specific sectors or companies.

9.12 At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee reviews its approach to nonfinancial factors periodically, taking into account relevant legislation and the Law Commission's guidance on when such factors may be considered. Additionally, the Committee monitors legislative and other developments with regards to this subject and will review its approach in the event of material changes.

9.13 The Fund does not exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

9.14 The Fund does not at the time of preparing this statement hold any assets which it deems to be social investments; however, this ISS places no specific restrictions on the Fund in respect of such investments beyond those of suitability within the Investment Strategy as a whole and compatibility with the Committee's fiduciary duties. In considering any such investment in the future, the Committee will have regard to the Guidance issued by the Secretary of State and to the Law Commission's guidance on financial and non-financial factors.

9.15 The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

**Voting rights**

9.16 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries.

9.17 The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

9.18 The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The managers are strongly encouraged to vote in line with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee has elected to monitor the voting decisions made by all its investment managers on a regular basis.

9.19 The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

9.20 The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council / Pension Fund website.

**Stewardship**

9.21 The Fund complies with the UK Stewardship Code ('the Code') and is preparing a formal statement of commitment with the Code for assessment. The current draft is set out in Appendix A.

9.22 The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.

9.23 In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

9.24 The Committee recognises that taking a collaborative approach with other investors can help to achieve wider and more effective outcomes.
The Fund:

(a) is a member of the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners;

(b) is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners;

(c) gives support to shareholder resolutions where these reflect concerns which are shared and represent the Fund interest; and

(d) joins wider lobbying activities where appropriate opportunities arise.

***Myners principles for investment decision making***

9.25 The old regulation requiring administering authorities to state the extent to which they comply with Myners principles for investment decision making no longer applies. However, they should still have regard to the guidance. This section has been kept in this document as Appendix B for Tower Hamlets Funds, with some small amendments to keep the responses current.

**Full compliance**

The Fund's annual report includes all of the Fund's policies including the governance policy statement, governance policy compliance statement, communications policy statement, responsible investment and stewardship policy, funding strategy statement and statement of investment principles. The annual report can be found on the council's website.

Quarterly reports to the Pensions Committee and Pensions Board on the management of the Fund's investments are publicly available on the council's website. http://democracy.towerhamlets.gov.uk/mgCommitteeDetails.aspx?ID=392

Prepared by: - Miriam Adams (Pensions & Investments)
(For and on behalf of LBTH Pensions Committee)

**Appendices**

Appendix A – Draft Statement of Commitment with the UK Stewardship code
Appendix B – Myners Investment Principles – Compliance Statement

**Appendix A - *Draft Statement of Commitment with the UK Stewardship Code***

**Principle 1**: ***Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.***

The Fund takes its responsibilities as a shareholder seriously and has made a commitment to the informed exercise of its ownership rights as detailed in the Fund's Investment Strategy Statement.

The Fund invests via pooled funds and therefore expects its underlying investment managers to exercise voting and engagement rights on its behalf. The Fund encourages its underlying investment managers to comply with the UK Stewardship Code.

The Fund is subject to the ESG and voting policies of its underlying investment managers. The Pensions Committee ('the Committee') considers these policies when appointing a new manager and when monitoring investment managers, the Fund's Officers consider whether each manager's actions and engagement activities have been appropriate and in keeping with the Fund's policy.

In considering its stewardship activities, the Fund monitors the activities of its investment managers with regard to the following:

- The exercise of voting rights
- The integration and management of Environmental, Social and Corporate Governance (ESG) issues
- Engagement activities and progress

The Fund is a long-term investor and is committed to being an active owner. It wishes to promote a policy of dialogue on responsible investment issues, through its investment managers, with company management.

The Committee has identified the following ESG issues as a focus for engagement:

- Environmental issues: including conserving energy, promoting alternative energy sources, recycling, avoiding pollution and using environmentally friendly and sustainable resources
- Human rights: including child labour issues in foreign subsidiaries of UK companies or operations in countries with oppressive regimes
- Employment standards: including equal opportunities, health and safety, trade union recognition and employee participation

The Fund recognises that taking a collaborative approach with other investors can help to achieve wider and more effective outcomes and is a member of the Local Authority Pension Fund Forum (LAPFF), which aims to promote best practice on corporate governance and RI issues through co-operative action with other local authority funds.

The Fund regularly reviews its approach to responsible investment and the exercise of its stewardship activities.

**Principle 2**: ***Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.***

The Fund expects its investment managers to have effective policies addressing potential conflicts of interest related to stewardship.

In respect of potential conflicts of interest within the Fund, the Committee members are required to make declarations of interest prior to panel meetings.

All declarations are captured in the minutes of the meeting, which are publicly available, potential conflicts, based on declarations, are managed accordingly by the Chair of the Committee.

**Principle 3**: ***Institutional investors should monitor their investee companies.***

While the day-to-day responsibility for managing the Fund's equity holdings is delegated to the Fund's appointed investment managers, the Fund recognises that it cannot delegate its stewardship obligations. The Fund's Committee and Officers monitor the Fund's investment managers on a regular and ongoing basis, including with respect to stewardship activities.

As such the Fund expects its investment managers to monitor investee companies, intervene where necessary, and report back regularly on activity undertaken. This may be via written reports, phone calls, or meetings with the Officers and the Committee.

In addition, the Committee receives an annual report from the Fund's investment consultant on the ESG credentials, including active ownership, of its investment managers.

**Principle 4**: ***Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.***

Responsibility for day-to-day interaction with companies is delegated to the Fund's investment managers, including the escalation of engagement when necessary.

The Fund's Officers and Committee monitor the escalation activities undertaken by the Fund's investment managers through the regular reporting provided by the Fund's managers.
On occasion, the Fund may itself choose to escalate activity; this will typically be through its membership of LAPFF or via one of the underlying investment managers.

Escalation activities undertaken by LAPFF may include writing a letter to the board or additional meetings with company management.

**Principle 5**: ***Institutional investors should be willing to act collectively with other investors where appropriate.***

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies.

The Fund undertakes collective engagement activities through its membership of LAPFF as well as through initiatives proposed by the Fund's investment managers or advisors.

In addition, the fund has formally agreed to join the London Collective Investment Vehicle (CIV) and regularly collaborates with other members of the CIV with respect to ESG and stewardship issues.

**Principle 6**: ***Institutional investors should have a clear policy on voting and disclosure of voting activity.***

The Fund invests via pooled funds and is therefore subject to the underlying investment managers' policies. The Fund expects its investment managers to exercise all votes associated with the Fund's equity holdings where practicable. The Fund encourages its investment managers to publicly disclose their voting records.

Generally, the Fund expects its investment managers to support resolutions that are consistent with the UK Corporate Governance Code and represent best practice. In overseas markets, the Committee expects the managers to take account of local best practice principles.

Where resolutions or issues fall short of the expected standards, the Committee expects managers will either abstain or vote against, depending on the individual circumstances of the company and the issues presented. The Committee expects the investment managers to report on their voting activities on a regular basis and the Fund's Officers consider whether each manager's actions and engagement activities have been appropriate and in keeping with the Fund's policy.
The policy is reviewed at least annually in order to take account of regulatory developments and timely or controversial issues may be discussed at Committee meetings.

**Principle 7**: ***Institutional investors should report periodically on their stewardship and voting activities.***

The Fund expects its underlying investment managers to report regularly to both the Officers and the Committee with respect to voting and engagement activities, including examples of company engagement, progress on engagement over time and collaborative activities. The Fund encourages its investment managers to publicly report on their stewardship activities.

The Fund will report on its stewardship activity to the Committee on an annual basis. In addition, quarterly reports of voting actions are posted as part of the funds reporting to Committee and are available on the Council's website:
http://democracy.towerhamlets.gov.uk/ieListMeetings.aspx?CommitteeId=392
The Committee will provide an annual report on how the Fund satisfies its UK Stewardship Code obligations requirements, which will be made available publicly.

This statement has been approved by the Committee on 16 March 2017.

**Compliance and monitoring**

The investment managers are required to adhere to the principles set out in this Investment Strategy Statement. The Pensions Committee will require an annual written statement from the investment managers that they have adhered to the principles set out in this statement.

If you have any questions on this statement or the Fund's approach to stewardship, please contact Miriam Adam, Pensions & Investment Manager by e-mail at the following address Miriam.adams@towerhamlets.gov.uk

## Appendix B - Myners Investment Principles – Compliance Statement

### Principle 1: Effective Decision-making

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

**Full compliance**

The Pensions Committee and Pensions Board are supported in their decision making/assisting roles by the Corporate Director, Resources, Divisional Director Finance Procurement & Audit and the Pensions & Investments Manager.

Members of the both Committee and Board participate in regular training delivered through a formal programme. Training is provided at every quarterly meeting.

### Principle 2: Clear Objectives

An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

**Full compliance**

The Fund's overall objectives are defined in the Funding Strategy Statement and are directly linked to the triennial actuarial valuation. The investment objectives are clearly stated in the Statement of Investment Principles/Investment Strategy Statement.

The content of the Funding Strategy Statement reflects discussions held with individual scheme employers during the actuarial valuation process. Employers understand that contribution rates are set, having given consideration to the key tenets of affordability, sustainability and stability but also with the understanding that any decisions made must be prudent. To this end, the strength of the employer covenant is considered when setting contribution rates.

### Principle 3: Risk and liabilities

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

**Full compliance**

The Fund's actuary reviews the funding position of each employer every three years and this valuation includes an assessment of the gap between the employer's share of the

Fund assets and the liabilities specific to each employer. The strength of the employer covenant is considered when setting contribution rates.

The Fund's investment strategy is reviewed following each triennial valuation to ensure that the investment strategy will achieve the expected returns assumed during the valuation process.

As a member of Club Vita, a bespoke set of assumptions are specifically tailored to fit the membership profile of the Tower Hamlets Fund. The assumptions selected are intended to make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund.

**Principle 4: Performance assessment**

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

**Full compliance**

Each manager's performance is measured quarterly against benchmark targets, which are specified in the contract between the Fund and the manager. The Fund's global custodian produces performance data for each manager and for the Fund as a whole. The target outperformance for the Fund as a whole is specified within the Statement of Investment Principles/Investment Strategy Statement. The Fund performance is also assessed with reference to the local authority peer group.

Performance data is reported to the Committee on a quarterly basis. Fund managers present to the officers or the Committee on at least an annual basis and officers hold four additional meetings with managers per quarter to discuss the portfolio composition, strategy and performance.

Consideration has been given to quantitative measures to assess the performance of the Committee, although options other than measuring meeting attendance and the success of the Committee's implemented strategies are limited.

**Principle 5: Responsible ownership**

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Stewardship Code.
- Include a statement of their policy on responsible ownership in the statement of investment principles.
- Report periodically to scheme members on the discharge of such responsibilities.

**Full compliance**

All new investment mandates will be expected to include a statement of a manager's adoption of the Stewardship Code.

The Council wishes to have an active influence on issues of environmental or ethical concern with companies in which the Pension Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern.

The Council requires the Fund Managers to take into account the implications of substantial “extra financial” considerations, e.g., environmental, social or reputational issues that could bring a particular investment decision into the public arena.

The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. In addition, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

All of the Fund’s managers are signed up to the Stewardship Code, which provides a framework for investors to consider environmental, social and corporate governance issues when making investment decisions.

**Principle 6: Transparency and reporting**

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives
- Provide regular communication to scheme members in the form they consider most appropriate

TOWER HAMLETS

# The London Borough of Tower Hamlets Pension Fund

## Appendix 3

## Funding Strategy Statement

# 1 Introduction

## 1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2017.

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

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

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

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

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

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

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

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

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

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

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

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- all Fund's policies which can be found on the Fund's website https://www.towerhamlets.gov.uk/lgnl/jobs_and_careers/Pension_fund/Pension_fund.aspx
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Section 4)

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

This depends on who you are:

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

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

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

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

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

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

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

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

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

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

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

B. who is responsible for what,

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

D. some more details about the actuarial calculations required,

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

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

If you have any other queries please contact the Pensions & Investments Manager email: pensionsLBTH@towerhamlets.gov.uk or call telephone number 020 7364 4248.

## 2 Basic Funding issues

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

### 2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

- Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

### 2.2 What is each employer's contribution rate?

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

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

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

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

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

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

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

The LGPS Regulations define various types of employer as follows:

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

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

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

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

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

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

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

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

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

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

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

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

**2.5 How is a deficit (or surplus) calculated?**

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

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

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

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

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

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

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

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

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

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

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

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

## 3 Calculating contributions for individual Employers

### 3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

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

### 3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

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

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

Section 3.4 onwards deals with various other funding issues which apply to all employers.

### 3.3 The different approaches used for different employers

| Type of employer | Scheduled Bodies | | | Community Admission Bodies and Designating Employers | | Transferee Admission Bodies |
|---|---|---|---|---|---|---|
| **Sub-type** | **Council** | **Colleges** | **Academies** | **Open to new entrants** | **Closed to new entrants** | **(all)** |
| **Funding Target Basis used** | Ongoing, assumes long-term Fund participation (see Appendix E) | | | Ongoing, but may move to "gilts basis" - see Note (a) | | Ongoing, assumes fixed contract term in the Fund (see Appendix E) |
| **Primary rate approach** | (see Appendix D – D.2) | | | | | |
| **Stabilised contribution rate?** | Yes - see Note (b) | No | No | No | No | No |
| **Maximum time horizon – Note (c)** | 20 years | 20 years | 20 years | Future working lifetime | Future working lifetime | Outstanding contract term |
| **Secondary rate – Note (d)** | % of payroll or monetary amount | Monetary amount | % of payroll | % of payroll or monetary amount | % of payroll or monetary amount | % of payroll or monetary amount |
| **Treatment of surplus** | Covered by stabilisation arrangement | Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority | | | | Preferred approach: contributions kept at future service rate. However, contractors may be permitted to reduce contributions by spreading the surplus over the remaining contract term |
| **Probability of achieving target – Note (e)** | 66% | 70% | 70% | 66% if guaranteed, 75% otherwise | 66% if guaranteed, 75% otherwise | 66% if guaranteed, 75% otherwise |
| **Phasing of contribution changes** | Covered by stabilisation arrangement | At the discretion of the Administering Authority | | None | None | None |
| **Review of rates – Note (f)** | Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations | | | | | Particularly reviewed in last 3 years of contract |
| **New employer** | n/a | n/a | Note (g) | Note (h) | | Notes (h) & (i) |
| **Cessation of participation: cessation debt payable** | Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j). | | | Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j). | | Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising. |

*Note (a) (Basis for CABs and Designating Employers closed to new entrants)*

In the circumstances where:

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

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

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

*Note (b) (Stabilisation)*

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

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

The current stabilisation mechanism applies to London Borough of Tower Hamlets Council as a tax raising body:

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), total contributions have been set to ensure that stabilised employers have at least a 66% chance of being fully funded in 20 years under the 2016 formal valuation assumptions.

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

*Note (c) (Maximum time horizon)*

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

*Note (d) (Secondary rate)*

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

*Note (e) (Probability of achieving funding target)*

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

*Note (f) (Regular Reviews)*

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

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

*Note (g) (New Academy conversions)*

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

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and membership data, all as at the day prior to conversion;

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

*Note (h) (New Admission Bodies)*

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

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

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

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

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

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

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

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

i) Pooling

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

ii) Letting employer retains pre-contract risks

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

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

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

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

*Note (j) (Admission Bodies Ceasing)*

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

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

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

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a “gilts cessation basis”, which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee. The approach to calculating the cessation payment will be as per the Admission Body's Admission Agreement.

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

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

### 3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. Currently the pools in place within the Fund are as follows:

- Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

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

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

### 3.5 Additional flexibility in return for added security

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

Such flexibility includes a reduced probability of achieving funding target, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

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

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

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

### 3.6 Non ill health early retirement costs

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

The payment will be paid immediately, unless otherwise agreed with the Administering Authority.

### 3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

**3.8 External Ill health insurance**

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

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

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

**3.9 Employers with no remaining active members**

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

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

# 4 Funding strategy and links to investment strategy

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

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

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

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

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

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

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

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

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

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

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

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

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

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

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

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

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, annually. It reports this to the regular Pensions Committee meetings.

# 5 Statutory reporting and comparison to other LGPS Funds

## 5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Ministry of Housing Communities & Local Government (MHCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

## 5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

## 5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under "relative considerations" above compares to the estimated future return being targeted by the Fund's current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

## Appendix A – Regulatory framework

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

The Ministry of Housing Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

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

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

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

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

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

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

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

a) A draft version of the FSS was issued to all participating employers 13th February 2017 for comment;

b) Comments were requested within 21 days;

c) Following the end of the consultation period the FSS was updated where required and then published, on 31st March 2017.

### A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at April 2017;
- A copy sent by /e-mail to each participating employer in the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

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

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

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

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

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

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

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

These documents can be found on the web at www.towerhamletspensionfund.org.

## Appendix B – Responsibilities of key parties

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

### B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- prepare and maintain a FSS and a SIP/ISS, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

### B2 The Individual Employer should:-

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

**B3 The Fund Actuary should:-**

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

**B4 Other parties:-**

- investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
- the Ministry of Housing Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

## Appendix C – Key risks and controls

### C1 Types of risk

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

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

### C2 Financial risks

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

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

**C3 Demographic risks**

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

| Risk | Summary of Control Mechanisms |
|---|---|
| Deteriorating patterns of early retirements | Employers are charged the extra cost of non ill-health retirements following each individual decision.<br><br>Employer ill health retirement experience is monitored, and insurance is an option. |
| Reductions in payroll causing insufficient deficit recovery payments | In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:<br><br>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).<br><br>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts. |

### C4 Regulatory risks

| Risk | Summary of Control Mechanisms |
|---|---|
| Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform. | The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.<br><br>The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions. |
| Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5). | Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis. |

| | |
|---|---|
| Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies. | The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.<br><br>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate. |

**C5 Governance risks**

| **Risk** | **Summary of Control Mechanisms** |
|---|---|
| Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants. | The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.<br><br>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations<br><br>Deficit contributions may be expressed as monetary amounts. |
| Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way | The Administering Authority maintains close contact with its specialist advisers.<br><br>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.<br><br>Actuarial advice is subject to professional requirements such as peer review. |
| Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body. | The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.<br><br>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken. |
| An employer ceasing to exist with insufficient funding or adequacy of a bond. | The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.<br><br>The risk is mitigated by: |

| Risk | Summary of Control Mechanisms |
|---|---|
| | Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).<br><br>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.<br><br>Vetting prospective employers before admission.<br><br>Where permitted under the regulations requiring a bond to protect the Fund from various risks.<br><br>Requiring new Community Admission Bodies to have a guarantor.<br><br>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).<br><br>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3). |

# Appendix D – The calculation of Employer contributions

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

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

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

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

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

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

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

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

### D2 How is the Primary contribution rate calculated?

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

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

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

**D3 How is the Secondary contribution rate calculated?**

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

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

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

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
- within the determined time horizon (see 3.3 Note (c) for further details)
- with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

The Administering Authority, after taking advice from the Fund's actuary, may choose to calculate Primary and Secondary contribution rates differently if particular circumstances apply to an employer.

**D4 What affects a given employer's valuation results?**
The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

**D5 How is each employer's asset share calculated?**
The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

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

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

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

- the actual timing of employer contributions within any financial year;

- the effect of the premature payment of any deferred pensions on grounds of incapacity.

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

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

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

# Appendix E – Actuarial assumptions

**E1 What are the actuarial assumptions?**

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

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

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

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

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

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

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

**a) Investment return / discount rate**

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

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

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 2.0% per annum greater than gilt yields at the time of the valuation (this is higher than that used at the 2013 valuation, which therefore gives a lower funding target, all other things being equal). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

**b) Salary growth**
Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. 0.7% p.a. below the retail prices index (RPI) p.a. thereafter.

This gives a single “blended” assumption of Consumer Price Index (CPI) less 0.1% (equivalent to RPI less 1.2%) per annum. This is a change from the previous valuation, which assumed a flat assumption of RPI plus 0.5% per annum. The change has led to a reduction in the funding target (all other things being equal).

**c) Pension increases**
Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we have used a reduction of 1.0% per annum. This is a larger reduction than at 2013 (which was 0.8%), which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

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

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

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is to reduce life expectancy by around 0.4 years on average, which reduces the funding target all other things being equal. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

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

# Appendix F – Glossary

| | |
|---|---|
| **Actuarial assumptions/ Basis** | The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value. |
| **Administering Authority** | The council with statutory responsibility for running the Fund, in effect the Fund's "trustees". |
| **Admission Bodies** | Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3). |
| **Covenant** | The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term. |
| **Designating Employer** | Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund. |
| **Discount rate** | The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**. |
| **Employer** | An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**. |
| **Funding target** | The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**. |
| **Gilt** | A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency. |

| | |
|---|---|
| **Guarantee / guarantor** | A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's. |
| **Letting employer** | An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy. |
| **LGPS** | The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers. |
| **Maturity** | A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy. |
| **Members** | The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees). |
| **Primary contribution rate** | The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details. |
| **Profile** | The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also. |
| **Rates and Adjustments Certificate** | A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed. |

| | |
|---|---|
| **Scheduled Bodies** | Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers). |
| **Secondary contribution rate** | The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details. |
| **Stabilisation** | Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these. |
| **Valuation** | An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also. |

# The London Borough of Tower Hamlets Pension Fund

## Appendix 4

## Communications  Strategy Statement

CONTENTS

**Introduction**

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

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

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

London Borough of Tower Hamlets
Town Hall
Resources
Pensions & Investments Services
160 Whitechapel Road
London E1 1BJ

Telephone: 020 7364 4251
Facsimile: 020 7364 4593

Email: pensions@towerhamlets.gov.uk

**Regulatory Framework**

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

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

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

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

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

As a provider of an occupational pension scheme, we are already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act 2004. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more generalised disclosure requirements are to be introduced, supported by a Code of Practice. The type of information that pension schemes are required to disclose will remains very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a *"reasonable period"*. The draft Code of Practice[1] issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Management section of this document, alongside those proposed by the Pension Regulator in the draft Code of Practice.

**Responsibilities and Resources**

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

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

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

**Communication with key audience groups**

Our audience

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

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

In addition there are a number of other stakeholders with whom we communicate on a regular basis, such as Her Majesty's Revenue and Customs, the Ministry of Housing Communities and Local Government, solicitors, the Pensions Advisory Service, and other pension providers. We also consider as part of this policy how we communicate with these interested parties.

**How we communicate**

General communication

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

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

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

**Branding**

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

**Accessibility**

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

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

Our objectives with regard to communication with members are:

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

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

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

**Explanation of communications**

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

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

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

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

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

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

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

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

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

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

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

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

Our objectives with regard to communication with prospective members are:

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

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

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

**Explanation of communications**

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

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

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

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

**Policy on communication with Employing Authorities**

Our objectives with regard to communication with employers are:

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

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

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

**Explanation of communications**

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

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

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

Pensions Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.
Adviser meeting – Gives employers the opportunity to discuss their involvement in the Scheme with advisers.

**Policy on communication with senior managers**

Our objectives with regard to communication with senior managers are:

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

Our objectives will be met by providing the following communications:

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

**Explanation of communications**

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

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

**Policy on communication with union representatives**

Our objectives with regard to communication with union representatives are:

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

Our objectives will be met by providing the following communications:

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

**Explanation of communications**

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

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

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

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

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

Our objectives will be met by providing the following communications:

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

**Explanation of communications**
Training sessions – to provide a broad overview of the main provisions of the LGPS to elected members and their responsibilities within it.

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

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

**Policy on communication with pension section staff**
Our objectives with regard to communication with Pension Section's staff are:

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

Our objectives will be met by providing the following communications:

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

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

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

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

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

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

**Policy on communication with tax payers**

Our objectives with regard to communication with tax payers are:

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

Our objectives will be met by providing the following communications:

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

**Explanation of communications**

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

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

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

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

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

Our objectives will be met by providing the following communications:

| Method of Communication | Media | Frequency of Issue | Method of Distribution | Audience Group |
|---|---|---|---|---|
| Pension Fund valuation reports<br>• Rates and Adjustments (R&A) certificates<br>• Revised R&A certificates<br>• Cessation valuations | Electronic | Every three years | Via email | Government Departments)/ Her Majesty's Revenue and Customs HMRC)/all Scheme employers |
| Details of new employers entered into the Fund | Hard copy | As new employers are entered into the Fund | Post | Government Departments /HMRC |
| Formal resolution of pension disputes | Hard copy or electronic | As and when a dispute requires resolution | Via email or post | Scheme member or their representative s, the Pensions Advisory Service/the Pensions Ombudsman |
| Completion of questionnaires | Electronic or hard copy | As and when required | Via email or post | Government Departments /HMRC/the Pensions Regulator |

**Explanation of communications**

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

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

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

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

**Performance Measurement**

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

**Timeliness**

We will measure against the following target delivery timescales:

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

**Quality**

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

**Results**

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

**Review Process**

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

# The London Borough of Tower Hamlets Pension Fund

## Appendix 5
## Governance Compliance Statement

# Governance and Compliance Statement

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

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

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

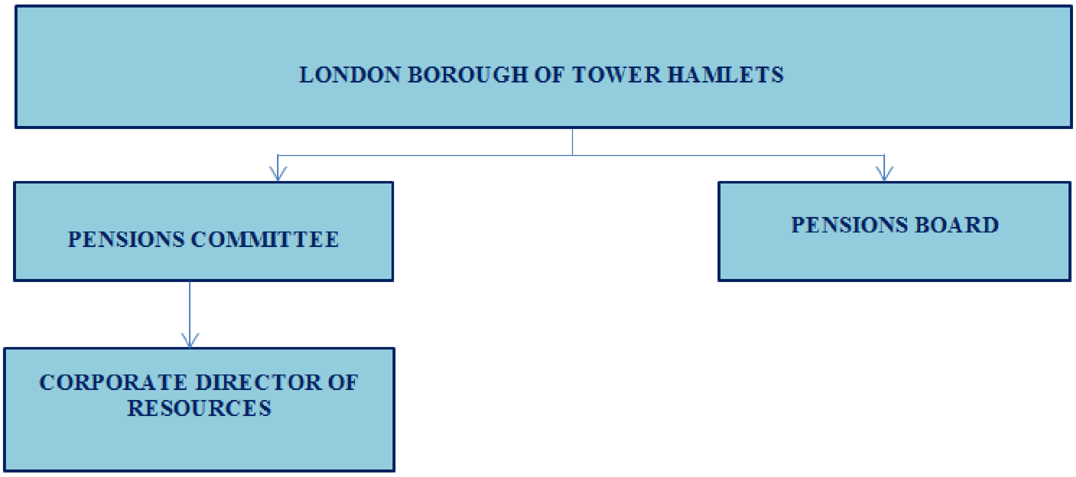
- around 20,000 current and former members of the Fund, and their dependants
- over 20 employers within the Tower Hamlets Council area or with close links to Tower Hamlets Council
- the local taxpayers within the London Borough of Tower Hamlets.

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

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

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

The Council delegates its responsibility for administering the Fund to the Pensions Committee. The terms of this delegation are as set out in the Council Constitution and provide that the Committee is responsible for consideration of all pension matters and discharging the obligations and duties of the Council under the Superannuation Act 1972 and various statutory matters relating to investment issues.
The Constitution sets out the framework under which the Pension Fund is to be administered as depicted in the diagram below.




**Terms of Reference for the Pensions Committee**

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

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

1) To act as Trustees of the Council's Pension Fund, consider pension matters and meet the obligations and duties of the Council under the Superannuation Act 1972, the Public Service Pensions Act 2013, and the various pensions' legislation.
2) To make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, actuaries, advisers, investment managers and custodians and periodically to review those arrangements.
3) To formulate and publish an Investment Strategy Statement.
4) To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and to develop a medium term plan to deliver the objectives.
5) To determine the strategic asset allocation policy, the mandates to be given to the investment managers and the performance measures to be set for them.
6) To make arrangements for the triennial actuarial valuation, to monitor liabilities and to undertake any asset/liability and other relevant studies as required.
7) To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles.
8) To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
9) To receive and approve an Annual Report on the activities of the Fund prior to publication.
10) To make arrangements to keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis.
11) To keep the terms of reference under review.
12) To determine all matters relating to admission body issues.

13) To focus on strategic and investment related matters at two Pensions Committee meetings.

14) To review the Pension Fund's policy and strategy documents on a regular basis and review performance against the Fund's objectives within the business plan

15) To maintain an overview of pensions training for Members.

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

## Membership of the Pensions Committee

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

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

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

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

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

### Meetings

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

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

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

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

The Council will make available copies of the minutes of the meeting and records of decisions taken for six years after a meeting. Minutes of meetings and records of decisions are available for inspection on the Council's website:
http://moderngov.towerhamlets.gov.uk/ieListMeetings.aspx?CommitteeId=392

## Other Delegations of Powers

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

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

## Pension Board

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

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

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

**Role of the Pension Board**

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

**Membership of the Pension Board**

The Pension Board consists of 7 members as follows:

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

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

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

The members of the Board are appointed by an Appointments Panel which consists of:

- the Cabinet Member for Resources
- the Corporate Director, Resources
- the Divisional Director Finance, Procurement and Audit
- the Corporate Director, Governance

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

**Meetings**

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

**Policy Documents**

In addition to the foregoing, there are a number of other documents which are relevant to the Governance and management of the Pension Fund. Brief details of these are listed below and the full copies of all documents can be found on the Pension Fund Website: http://www.towerhamletspensionfund.org/

***Funding Strategy Statement***

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

***Investment Strategy Statement***

The Investment Strategy Statement (ISS) replaced the Statement of Investment Principles from 1st April 2016. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

This ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused.

This document will be reviewed following the completion of the Fund investment strategy review and updated revised version will be tabled at the November Pensions Committee meeting for approval.

***Governance Policy Compliance Statement***

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

***Training Policy***

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

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

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

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

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

***Annual Report and Accounts***

As part of the financial standing orders it is the duty of the Chief Financial Officer to ensure that record keeping and accounts are maintained by the Pension Fund. The Pension Fund accounts are produced in accordance with the accounting recommendations of the Financial Reports of Pension Schemes - Statement of Recommended Practice. The financial statements summarise the transactions of the Scheme and deal with the net assets of the Scheme. The statement of accounts is reviewed by both the Pensions Committee and the Audit Committee and incorporated in the Statement of Accounts for the Council. Full copies of the Report and Accounts are distributed to employers in the Fund and other interested parties and a copy placed on the websites:
http://www.towerhamletspensionfund.org/
http://moderngov.towerhamlets.gov.uk/ieListMeetings.aspx?CommitteeId=392

***Communication Policy***

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

***Discretions Policies***

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

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

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

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

**Approval, Review and Consultation**

This Governance Policy and Statement was approved at the London Borough of Tower Hamlets Pensions Committee meeting on 23 July 2015 following consultation with all the participating employers in the Fund and other interested parties. It will be formally reviewed and updated at least every year or sooner if the governance arrangements or other matters included within it merit reconsideration. In August 2017, this document has been reviewed and updated for Pensions Committee consideration and approval at its meeting of 21st September 2017.

Contact Information

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

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

Email: pensions@towerhamlets.gov.uk
Website: http://www.towerhamletspensionfund.org/

**Appendix A**

**Delegation of Functions to Officers by Tower Hamlets Pensions Committee**

**Key:**
PC – Pensions Committee OAP-Officers & Advisers Panel PIM – Pensions & Investments Manager
CDR – Corporate Director, Resources & Officers DDoFPA -Divisional Director Finance, Procurement & Audit
IC – Investment Consultant FA – Fund Actuary IA – Independent Adviser

| Function delegated to PC | Delegation to Officer(s) | Delegated Officer(s) | Communication and Monitoring of Use of Delegation |
|---|---|---|---|
| Investment strategy - approving the Fund's investment strategy, Investment Strategy Statement and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite.<br><br>Monitoring the implementation of these policies and strategies on an ongoing basis. | Rebalancing and cash management<br><br>Implementation of strategic allocation including use of ranges<br>To formally review the Scheme's asset allocation at least every three year's taking account of any changes in the profile of Scheme liabilities and will assess any guidance regarding tolerance of risk. It will recommend changes in asset allocation to the Pensions Committee | CDR, DDoFPA & PIM (having regard to ongoing advice of the IC, IA, FA and OAP) | High level monitoring at PC with more detailed monitoring by OAP and or PIM |

| **Function delegated to PC** | **Delegation to Officer(s)** | **Delegated Officer(s)** | **Communication and Monitoring of Use of Delegation** |
|---|---|---|---|
| | New mandates / emerging opportunities<br>To consider the Scheme's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism and recommend revisions to the Pensions Committee. | CDR, DDoFPA and PIM (having regard to ongoing advice of the IC & IA) | High level monitoring at PC with more detailed monitoring by OAP & PIM |
| Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers. | Ongoing monitoring of Fund Managers | CDR, DDoFPA and PIM (having regard to ongoing advice of the IA & IC) and subject to ratification by PC | High level monitoring at PC with more detailed monitoring by OAP & PIM |
| | Selection, appointment, addition, replacement and dismissal of Fund Managers<br>To evaluate the credentials of potential managers and make recommendations to the Pensions Committee<br>To review the Scheme's AVC arrangements annually. If it considers a change is appropriate, it will make recommendations to the Pensions Committee. | OAP, CDR and PIM (having regard to ongoing advice of the IA & IC) and subject to ratification by PC | Notified to PC via ratification process. |

| Function delegated to PC | Delegation to Officer(s) | Delegated Officer(s) | Communication and Monitoring of Use of Delegation |
|---|---|---|---|
| Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders. | Agreeing the Administering Authority responses where the consultation timescale does not provide sufficient time for a draft response to be approved by PC. | CDR, DDoFPA and PIM, subject to agreement with Chairman and Vice Chairman (or either, if only one available in timescale) | PC advised of consultation via e-mail (if not already raised previously at PC) to provide opportunity for other views to be fed in. Copy of consultation response provided at following PC for noting. |
| Agreeing the Fund's Knowledge and Skills Policy for all Pensions Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy. | Implementation of the requirements of the CIPFA Code of Practice[2] | CDR & DDoFPA | Regular reports provided to PC and included in Annual Report and Accounts. |
| The Committee may delegate a limited range of its functions to one or more officers of the Authority. The Pensions Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pensions Committee. | Other urgent matters as they arise | CDR, DDoFPA and PIM subject to agreement with Chairman and Vice Chairman (or either, if only one is available in timescale) | PC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PC. |
| | Other non-urgent matters as they arise | Decided on a case by case basis | As agreed at PC and subject to monitoring agreed at that time. |

[2] **CIPFA Code of Practice recommends each administering authority delegates responsibility for implementation to a senior officer.**

## Appendix B

| PRINCIPLE | REQUIREMENT | COMPLIANCE | C |
|---|---|---|---|
| STRUCTURE | The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council | Compliant | Th<br>Pe<br>th |
| | That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. | Compliant | Tr<br>re<br>th |
| | That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. | Compliant | A<br>pr<br>Co<br>th<br>th |
| | That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel. | Compliant | Al<br>ar<br>Co |
| REPRESENTATION | That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :-<br>• employing authorities (including non-scheme employers, e.g. admitted bodies),<br>• scheme members (including deferred and pensioner scheme members),<br>• independent professional observers,<br>• expert advisors (on an ad-hoc basis). | Compliant | Tr<br>re |
| | That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights. | Compliant | Pa<br>Co<br>m<br>ar<br>m<br>co |
| SELECTION & ROLE OF LAY MEMBERS | That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. | Compliant | M<br>Pe<br>te<br>aw<br>as |
| VOTING | The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each | Compliant | M<br>Pe<br>co |

| PRINCIPLE | REQUIREMENT | COMPLIANCE | C |
|---|---|---|---|
| | body or group represented on main LGPS committees. | | lin<br>lo |
| TRAINING/FACILITY TIME/EXPENSES | That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. | Compliant | Re<br>of<br>m<br>ex<br>su<br>Fu |
| | That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. | Compliant | Th<br>ec<br>Pe |
| MEETINGS (FREQUENCY/ QUORUM) | That an administering authority's main committee or committees meet at least quarterly. | Compliant | M<br>ar |
| | That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. | Compliant | M<br>ar |
| | That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. | Compliant | Ur<br>Co<br>st<br>m<br>G |
| ACCESS | Subject to any rules in the Council's Constitution, all members of the main and secondary committees or panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee. | Compliant | Pa<br>th<br>Pe<br>Co |
| SCOPE | That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. | Compliant | Pe<br>of<br>ha<br>is<br>ar |
| PUBLICITY | That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements. | Compliant | Th<br>is<br>ar<br>re |

# London Borough of Tower Hamlets Pension Fund Appendix 6 Training & Development Policy

## Introduction

This is the Training & Development Policy of the London Borough of Tower Hamlets Pension Fund in relation to the Local Government Pension Scheme (LGPS), which is managed and administered by Tower Hamlets Council. The Policy details the training strategy for members of the Pensions Committee and Pension Board, and senior officers responsible for the management of the Fund.

This Training & Development Policy is established to assist Pensions Committee and Pensions Board members and senior officers in developing their knowledge and capabilities in their individual roles, with the ultimate aim of ensuring that the London Borough of Tower Hamlets Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills.
Tower Hamlets Council has delegated responsibility for the implementation of this Training & Development Policy to the Corporate Director, Resources.

## Aims and Objectives

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

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

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

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

This Policy has been put in place to assist the Fund in achieving these objectives and all Pensions Committee Members, Pension Board members and senior officers to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and to ensuring that these objectives are met.

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

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

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

This Training & Development Policy applies to all Members of the Pensions Committee, Pensions Board, including scheme member and employer representatives. It also applies to all managers in the Tower Hamlets Council Pension Fund Management Team and the Chief Finance Officer (Section 151 Officer) (from here on in collectively referred to as the senior officers of the Fund).

Other officers involved in the daily management of the Pension Fund will also be required to have appropriate knowledge and skills relating to their roles, which will be determined and managed by the Pensions & Investment Manager and his/her team.
The advisers to the Fund that provides the day to day and strategic advice to the London Borough of Tower Hamlets Pension Fund are also expected to be able to meet the objectives of this Policy, as are all other officers of employers participating in the London Borough of Tower Hamlets Pension Fund who are responsible for pension matters are also encouraged to maintain a high level of knowledge and understanding in relation to LGPS matters, and Tower Hamlets Council will provide appropriate training for them.
This is considered separately in the London Borough of Tower Hamlets Pension Fund Administration Strategy.

## CIPFA and TPR Knowledge and Skills Requirements - *(CIPFA Knowledge and Skills Framework and Code of Practice)*

In January 2010 CIPFA launched technical guidance for Representatives on Pensions Committees and non-executives in the public sector within a knowledge and skills framework. The Framework details the knowledge and skills required by those responsible for pension scheme financial management and decision making.

In July 2015 CIPFA launched technical guidance for Local Pension Board members by extending the existing knowledge and skills frameworks in place. This Framework details the knowledge and skills required by Pension Board members to enable them to properly exercise their functions under Section 248a of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013.

The Framework covers eight areas of knowledge and skills identified as the core requirements (which include all those covered in the existing Committee and nonexecutives' framework):

i) Pensions legislation
ii) Public sector pensions governance
iii) Pension accounting and auditing standards
iv) Pensions administration
v) Financial services procurement and relationship management
vi) Investment performance and risk management
vii) Financial markets and products knowledge
viii) Actuarial methods, standards and practice

CIPFA's Code of Practice recommends (amongst other things) that Local Government Pension Scheme administering authorities -

- formally adopt the CIPFA Knowledge and Skills Frameworks (or an alternative training programme)

- ensure that the appropriate policies and procedures are put in place to meet the requirements of the Frameworks (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

### The Pensions Act 2004 and the Pension Regulator's Code of Practice

Section 248a of the Pensions Act 2004, as amended by The Public Service Pensions Act 2013 (PSPA13) requires Pension Board members to:

- be conversant with the rules of the scheme and any document recording policy about the administration of the scheme, and
- have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Pension Board.
These requirements are incorporated and expanded on within the TPR Code of Practice which came into force on 1 April 2015. It is expected that guidance will also be issued by the Local Government Pension Scheme Advisory Board which will explain further how these requirements will relate to LGPS administering authorities.

### Application to the London Borough of Tower Hamlets Pension Fund

Tower Hamlets Council recognises that effective financial administration, scheme governance and decision-making can only be achieved where those involved have the requisite knowledge and skills. Accordingly it fully supports the use of the CIPFA Knowledge and Skills Frameworks, and TPR's Code of Practice. Tower Hamlets Council adopts the principles contained in these publications in relation to the London Borough of Tower Hamlets Pension Fund, and this Training and Development Policy highlights how the Council will strive to achieve those principles through use of a Training Plan together with regular monitoring and reporting.

## The London Borough of Tower Hamlets Pension Fund Training and Development Plan

Tower Hamlets Council recognises that attaining, and then maintaining, relevant knowledge and skills is a continual process for Pensions Committee members, Pension Board members and senior officers, and that training is a key element of this process. Tower Hamlets Council will develop a rolling Training Plan based on the following key elements:

1) **Individual Training Needs**: A training needs analysis will be developed for the main roles of Pensions Committee members, Pension Board members and senior officers customised appropriately to the key areas in which they should be proficient. Training will be required in relation to each of these areas as part of any induction and on an ongoing refresher basis.

2) **Hot Topic Training**: The Training Plan will be developed to ensure appropriately timed training is provided in relation to hot topic areas, such as a high risk area or a specific area where decisions need to be made. This training may be targeted at specific roles.

3) **General Awareness**: Pensions Committee members, Pension Board members and senior officers are expected to maintain a reasonable knowledge of ongoing developments and current issues, which will allow them to have a good level of general awareness of pension related matters appropriate for their roles and which may not be specific to the London Borough of Tower Hamlets Pension Fund.

Each of these training requirements will be focussed on the role of the individual i.e. a Pensions Committee member, a Pension Board member or the specific role of the officer. The Pensions Committee agrees a training plan on an annual basis at the first meeting of the Municipal Year. The training plan is developed taking into consideration the needs of the Committee, the Board and officers to both enhance existing knowledge and skills and to develop new areas of understanding. This ensures that training is accessible to all Committee and Board members and key officers involved in the management of the Pension Fund.

Training will be delivered through a variety of methods including:

- In-house training days provided by officers and/or external providers
- Training as part of meetings (e.g. Pensions Committee) provided by officers and/or external advisers
- External training events
- Circulation of reading material
- Attendance at seminars and conferences offered by industry-wide bodies
- Attendance at meetings and events with the London Borough of Tower Hamlets Pension Fund's investment managers and advisors
- Links to on-line training
- Access to the London Borough of Tower Hamlets Pension Fund website where useful London Borough of Tower Hamlets Pension Fund specific material is available.

In addition London Borough of Tower Hamlets Pension Fund officers and advisers are available to answer any queries on an ongoing basis including providing access to materials from previous training events.

## Initial Information and Induction Process

On joining the Pensions Committee, the Pension Board or the London Borough of Tower Hamlets Pension Fund Management Team, a new member or officer will be provided with the following documentation to assist in providing them with a basic understanding of London Borough of Tower Hamlets Pension Fund:

i) The members' guide to the Local Government Pension Scheme (LGPS)
ii) The latest Actuarial Valuation report
iii) The Annual Report and Accounts, which incorporate:
    a. The Funding Strategy Statement
    b. The Governance Policy and Compliance Statement
    c. The Statement of Investment Principles including the London Borough of Tower Hamlets Pension Fund's statement of compliance with the LGPS Myners Principles
    d. The Communications Policy
    e. The Administration Strategy
iv) The administering authority's Discretionary Policies

v) The Training Policy

In addition, an individual training plan will be developed to assist each Pensions Committee member, Pension Board member or officer to achieve, within six months, their identified individual training requirements.

## Monitoring Knowledge and Skills

To identify if Pensions Committee members, Pension Board members and senior officers are meeting the objectives of this policy we will:

1) Compare and report on attendance at training based on the following:

i. Individual Training Needs – ensuring refresher training on the key elements takes place for each individual at least once every three years.
ii. Hot Topic Training – attendance by at least 80% of the required Pensions Committee members, Pension Board members and senior officers at planned hot topic training sessions. This target may be focussed at a particular group of Pensions Committee members, Pension Board members or senior officers depending on the subject matter.
iii. General Awareness – each Pensions Committee member, Pension Board member or officer attending at least one day each year of general awareness training or events.
iv. Induction training – ensuring areas of identified individual training are completed within six months.

2) Consider whether the objectives have been met as part of the annual self-assessment carried out each year which is completed by all Pensions Committee members, Pension Board members and senior officers.

The key risks to the delivery of this Policy are outlined below:

i. Changes in Pensions Committee and/or Pension Board membership and/or senior officers' potentially diminishing knowledge and understanding.
ii. Poor attendance and/or a lack of engagement at training and/or formal meetings by Pensions Committee Members, Pension Board Members and/or other senior officers resulting in a poor standard of decision making and/or monitoring.
iii. Insufficient resources being available to deliver or arrange the required training.
iv. The quality of advice or training provided not being to an acceptable standard.

The Pensions Committee members, with the assistance of London Borough of Tower Hamlets senior officers and Pension Board members will monitor these and other key risks and consider how to respond to them.

## Reporting

A report will be presented to the Pensions Committee on an annual basis setting out:

i. The training provided / attended in the previous year at an individual level
ii. Attendance at Pensions Committee and Pension Board meetings
iii. The results of the measurements identified above.

This information will also be included in the London Borough of Tower Hamlets Pension Fund's Annual Report and Accounts.

At each Pensions Committee and Pensions Board meeting, members will be provided with details of forthcoming seminars, conferences and other relevant training events as well as a summary of the events attended since the previous meeting.

## Costs

All training costs related to this Training and Development Policy are met directly by the London Borough of Tower Hamlets Pension Fund.

## Approval, Review and Consultation

This Training and Development Policy was originally approved at the London Borough of Tower Hamlets Pensions Committee meeting of September 2015 and amendments to incorporate the requirements of the CIPFA Local Pension Boards Framework would be approved on 9th March 2016. This Training and Development Policy was also adopted by the London Borough of Tower Hamlets Pension Board at its first meeting. It will be formally reviewed and updated at least every year or sooner if the training arrangements or other matters included within it worth re-evaluation.

## Further Information

If you require further information about anything in or related to this Training and Development Policy, please contact:
Miriam Adams
Pensions & Investments Manager
London Borough of Tower Hamlets Pension Fund
London Borough of Tower Hamlets
160 Whitechapel Road
London
E1 1BJ
E-mail miriam.adams@towerhamlets.gov.uk
Telephone 020 7364 4248

# LONDON BOROUGH OF TOWER HAMLETS

## Administering Authority for
## Tower Hamlets Pension Fund

## Appendix 7

## Procedure for Recording
## and Reporting Breaches of the Law

# 1. Introduction

1.1 This document sets out the procedures to be followed by certain persons involved with the Tower Hamlets Pension Fund, the Local Government Pension Scheme managed and administered by Tower Hamlets Council, in relation to reporting breaches of the law to the Pensions Regulator.

1.2 Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions.

1.3 This Procedure document applies, in the main, to:

- all members of the Tower Hamlets Pensions Committee and Board;
- all officers involved in the management of the Pension Fund ;
- personnel of the shared service pensions administrator providing day to day administration services to the Fund, and any professional advisers including auditors, actuaries, legal advisers and fund managers; and
- officers of employers participating in the Tower Hamlets Pension Fund who are responsible for pension matters.

# 2. Requirements

2.1 This section clarifies the full extent of the legal requirements and to whom they apply.

2.2 ***Pensions Act 2004***
Section 70 of the Pensions Act 2004 (the Act) imposes a requirement on the following persons:

- a trustee or manager of an occupational or personal pension scheme;
- a member of the pension board of a public service pension scheme;
- a person who is otherwise involved in the administration of such a scheme an occupational or personal pension scheme;
- the employer in relation to an occupational pension scheme;
- a professional adviser in relation to such a scheme; and
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme, to report a matter to The Pensions Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that:
  (a) a legal duty relating to the administration of the scheme has not been or is not being complied with, and
  (b) the failure to comply is likely to be of material significance to The Pensions Regulator.

The Act states that a person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse. The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

2.3 ***The Pension Regulator's Code of Practice***
Practical guidance in relation to this legal requirement is included in The Pension Regulator's Code of Practice including in the following areas:

- implementing adequate procedures.
- judging whether a breach must be reported.
- submitting a report to The Pensions Regulator.
- whistleblowing protection and confidentiality.

2.4 ***Application to the Tower Hamlets Pension Fund***
This procedure has been developed to reflect the guidance contained in The Pension Regulator's Code of Practice in relation to the Tower Hamlets Pension Fund and this document sets out how the Board will strive to achieve best practice through use of a formal reporting breaches procedure.

## 3 The Tower Hamlets Pension Fund Reporting Breaches Procedure

The following procedure details how individuals responsible for reporting and whistleblowing can identify, assess and report (or record if not reported) a breach of law relating to the Tower Hamlets Pension Fund. It aims to ensure individuals responsible are able to meet their legal obligations, avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk.

3.1 ***Clarification of the law***
Individuals may need to refer to regulations and guidance when considering whether or not to report a possible breach. Some of the key provisions are shown below:

- Section 70(1) and 70(2) of the Pensions Act 2004:
  www.legislation.gov.uk/ukpga/2004/35/contents
- Employment Rights Act 1996:
  www.legislation.gov.uk/ukpga/1996/18/contents
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations):
  www.legislation.gov.uk/uksi/2013/2734/contents/made
- Public Service Pension Schemes Act 2013:
  www.legislation.gov.uk/ukpga/2013/25/contents
- Local Government Pension Scheme Regulations (various):
  http://www.lgpsregs.org/timelineregs/Default.html (pre 2014 schemes)
  http://www.lgpsregs.org/index.php/regs-legislation (2014 scheme)
- The Pensions Regulator's Code of Practice:
  http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-publicservice-pension-schemes.aspx

In particular, individuals should refer to the section on ‘Reporting breaches of the law’, and for information about reporting late payments of employee or employer contributions, the section of the code on ‘Maintaining contributions’.

Further guidance and assistance can be provided by the Council Monitoring Officer and the Corporate Director, Resources, provided that requesting this assistance will not result in alerting those responsible for any serious offence (where the breach is in relation to such an offence).

3.2 ***Clarification when a breach is suspected***

Individuals need to have reasonable cause to believe that a breach has occurred, not just a suspicion. Where a breach is suspected the individual should carry out further checks to confirm the breach has occurred. Where the individual does not know the facts or events, it will usually be appropriate to check with the Council Monitoring Officer and the Corporate Director, Resources, a member of the Pensions Committee or Pension Board or others who are able to explain what has happened. However there are some instances where it would not be appropriate to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases The Pensions Regulator should be contacted without delay.

3.3 ***Determining whether the breach is likely to be of material significance***

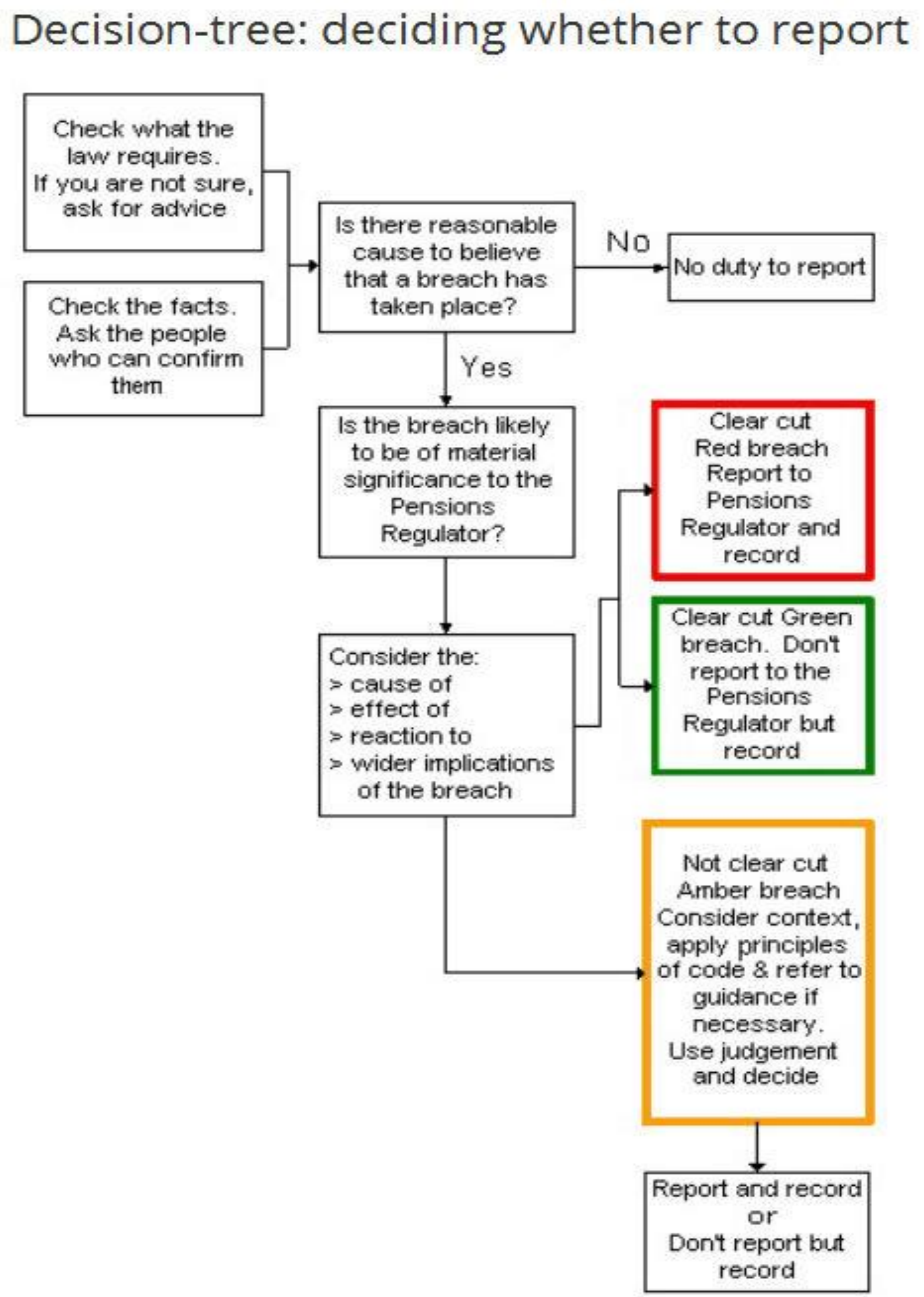
To decide whether a breach is likely to be of material significance an individual should consider the following, both separately and collectively:

- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

Further details on the above four considerations are provided in Appendix A to this procedure.

The individual should use the traffic light framework described in Appendix B to help assess the material significance of each breach and to formally support and document their decision.

3.4 A decision tree is provided below to show the process for deciding whether or not a breach has taken place and whether it is materially significant and therefore requires to be reported.




3.5 ***Referral to a level of seniority for a decision to be made on whether to report***

Tower Hamlets Council has a designated Monitoring Officer to ensure the Council acts and operates within the law. They are considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred, to check the law and facts of the case, to maintain records of all breaches and to assist in any reporting to The Pensions Regulator, where appropriate. If breaches relate to late or incorrect payment of contributions or pension benefits, the matter should be highlighted to the Council Service Head of Finance & Procurement and the Corporate Director, Resources, at the earliest opportunity to ensure the matter is resolved as a matter of urgency. Individuals must bear in mind, however, that the involvement of the Monitoring Officer is to help clarify the potential reporter's thought process and to ensure this procedure is followed. The reporter remains responsible for the final decision as to whether a matter should be reported to The Pensions Regulator.

The matter should not be referred to any of these officers if doing so will alert any person responsible for a possible serious offence to the investigation (as highlighted in section 2). If that is the case, the individual should report the matter to The Pensions Regulator setting out the reasons for reporting, including any uncertainty – a telephone call to the Regulator before the submission may be appropriate, particularly in more serious breaches.

### 3.6 *Dealing with complex cases*

The Council Service Head of Finance & Procurement and the Corporate Director, Resources, may be able to provide guidance on particularly complex cases. Information may also be available from national resources such as the Scheme Advisory Board or the LGPC Secretariat (part of the LG Group - http://www.lgpsregs.org/). If timescales allow, legal advice or other professional advice can be sought and the case can be discussed at the next Board meeting.

### 3.7. *Timescales for reporting*

The Pensions Act and Pension Regulators Code require that if an individual decides to report a breach, the report must be made in writing as soon as reasonably practicable. Individuals should not rely on waiting for others to report and nor is it necessary for a reporter to gather all the evidence which The Pensions Regulator may require before taking action. A delay in reporting may exacerbate or increase the risk of the breach. The time taken to reach the judgements on “reasonable cause to believe” and on “material significance” should be consistent with the speed implied by ‘as soon as reasonably practicable’. In particular, the time taken should reflect the seriousness of the suspected breach.

### 3.8 *Early identification of very serious breaches*

In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, The Pensions Regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert The Pensions Regulator to the breach.

3.9 ***Recording all breaches even if they are not reported***

The record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). Tower Hamlets Council will maintain a record of all breaches identified by individuals and reporters should therefore provide copies of reports to the Council Monitoring Officer and the Corporate Director, Resources. Records of unreported breaches should also be provided as soon as reasonably practicable and certainly no later than within 20 working days of the decision made not to report. These will be recorded alongside all reported breaches. The record of all breaches (reported or otherwise) will be included in the quarterly Monitoring Report at each Pension Committee, and this will also be shared with the Pension Board.

3.10 ***Reporting a breach***

Reports must be submitted in writing via The Pensions Regulator's online system at www.tpr.gov.uk/exchange, or by post, email or fax, and should be marked urgent if appropriate. If necessary, a written report can be preceded by a telephone call. Reporters should ensure they receive an acknowledgement for any report they send to The Pensions Regulator. The Pensions Regulator will acknowledge receipt of all reports within five working days and may contact reporters to request further information. Reporters will not usually be informed of any actions taken by The Pensions Regulator due to restrictions on the disclosure of information.

As a minimum, individuals reporting should provide:

- full scheme name (Tower Hamlets Pension Fund);
- description of breach(es);
- any relevant dates;
- name, position and contact details;
- role in connection to the scheme; and
- employer name or name of scheme manager (the latter is Tower Hamlets Council).

If possible, reporters should also indicate:

- the reason why the breach is thought to be of material significance to The Pensions Regulator;
- scheme address (provided at the end of this procedures document);
- scheme manager contact details (provided at the end of this procedures document);
- pension scheme registry number (PSR – 00330180RT); and
- whether the breach has been reported before.

The reporter should provide further information or reports of further breaches if this may help The Pensions Regulator in the exercise of its functions. The Pensions Regulator may make contact to request further information.

3.11 ***Confidentiality***

If requested, The Pensions Regulator will do its best to protect a reporter's identity and will not disclose information except where it is lawfully required to do so. If an individual's employer decides not to report and the individual employed by them disagrees with this and decides to report a breach themselves, they may have protection under the Employment Rights Act 1996 if they make an individual report in good faith.

3.12 ***Reporting to Pensions Committee and Pensions Board***

A report will be presented to the Pensions Committee and the Pensions Board on a quarterly basis setting out:

- all breaches, including those reported to The Pensions Regulator and those unreported, with the associated dates;
- in relation to each breach, details of what action was taken and the result of any action (where not confidential);
- any future actions for the prevention of the breach in question being repeated; and
- highlighting new breaches which have arisen in the last year/since the previous meeting.

This information will also be provided upon request by any other individual or organisation (excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings). An example of the information to be included in the quarterly reports is provided in Appendix C to this procedure.

3.13 ***Review***

This Reporting Breaches Procedure was originally developed in June 2016. It will be kept under review and updated as considered appropriate by the Corporate Director, Resources. It may be changed as a result of legal or regulatory changes, evolving best practice and ongoing review of the effectiveness of the procedure.

## ***Further Information***

If you require further information about reporting breaches or this procedure, please contact:

Miriam Adams – Pensions & Investments Manager
Email: Miriam.adams@towerhamlets.gov.uk
Telephone: 020 7364 4248
Tower Hamlets Pension Fund
London Borough of Tower Hamlets, London E14 2BG

**Designated officer contact details:**

1) Divisional Director Finance and Procurement – Kevin Bartle
Email: kevin.bartle@towerhamlets.gov.uk

2) Corporate Director, Resources – Neville Murton
Email: Neville.Murton@towerhamlets.gov.uk

3) Monitoring Officer/Corporate Director, Governance – Asmat Hussain
Email: Asmat.Hussain@towerhamlets.gov.uk

# Appendix A

## Determining whether a breach is likely to be of material significance

To decide whether a breach is likely to be of material significance individuals should consider the following elements, both separately and collectively:

- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

### The cause of the breach

Examples of causes which are likely to be of concern to The Pensions Regulator are provided below:

- acting, or failing to act, in deliberate contravention of the law;
- dishonesty;
- incomplete or inaccurate advice;
- poor administration, i.e. failure to implement adequate administration procedures;
- poor governance; or
- slow or inappropriate decision-making practices.

When deciding whether a cause is likely to be of material significance individuals should also consider:

- whether the breach has been caused by an isolated incident such as a power outage, fire, flood or a genuine one-off mistake.
- whether there have been any other breaches (reported to The Pensions Regulator or not) which when taken together may become materially significant.

### The effect of the breach

Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to The Pensions Regulator in the context of the LGPS are given below:

- Committee/Board members not having enough knowledge and understanding, resulting in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements.
- Conflicts of interest of Committee or Board members, resulting in them being prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements.
- Poor internal controls, leading to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the scheme at the right time.

- Inaccurate or incomplete information about benefits and scheme information provided to members, resulting in members not being able to effectively plan or make decisions about their retirement.
- Poor member records held, resulting in member benefits being calculated incorrectly and/or not being paid to the right person at the right time.
- Misappropriation of assets, resulting in scheme assets not being safeguarded.
- Other breaches which result in the scheme being poorly governed, managed or administered.

### The reaction to the breach

A breach is likely to be of concern and material significance to The Pensions Regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence;
- are not pursuing corrective action to a proper conclusion; or
- fail to notify affected scheme members where it would have been appropriate to do so.

### The wider implications of the breach

Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to The Pensions Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

# Appendix B

## Traffic light framework for deciding whether or not to report

It is recommended that those responsible for reporting use the traffic light framework when deciding whether to report to The Pensions Regulator. This is illustrated below:

RED

This where the cause, effect, reaction and wider implications of a breach, when considered together, are likely to be of material significance.

These must be reported to The Pensions Regulator.
Example: Several members' benefits have been calculated incorrectly. The errors have not been recognised and no action has been taken to identify and tackle the cause or to correct the errors.

AMBER

This where the cause, effect, reaction and wider implications of a breach, when considered together, may be of material significance. They might consist of several failures of administration that, although not significant in themselves, have a cumulative significance because steps have not been taken to put things right. You will need to exercise your own judgement to determine whether the breach is likely to be of material significance and should be reported.

Example: Several members' benefits have been calculated incorrectly. The errors have been corrected, with no financial detriment to the members. However the breach was caused by a system error which may have wider implications for other public service schemes using the same system.

GREEN

This where the cause, effect, reaction and wider implications of a breach, when considered together, are not likely to be of material significance. These should be recorded but do not need to be reported.

Example: A member's benefits have been calculated incorrectly. This was an isolated incident, which has been promptly identified and corrected, with no financial detriment to the member. Procedures have been put in place to mitigate against this happening again.

**All breaches should be recorded even if the decision is not to report.**

When using the traffic light framework individuals should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together. Some useful examples of this is framework is provided by The Pensions Regulator at the following link:http://www.thepensionsregulator.gov.uk/codes/code-related-report-reaches.aspx

**Appendix C**

# Example Record of Breaches

| Date | Category (e.g. administration, contributions, funding, investment, criminal activity) | Description and cause of breach | Possible effect of breach and wider implications | Reaction of relevant parties to breach | Reported reported (with justificatio not report and dates |
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*New breaches since the previous meeting should be highlighted

# LONDON BOROUGH OF TOWER HAMLETS

## Administering Authority for
## Tower Hamlets Pension Fund

## Appendix 8
## CONFLICTS OF INTEREST POLICY

**June 2016**

# CONFLICTS OF INTEREST POLICY

## Introduction

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy, such as this, how any such conflicts or potential conflicts are to be managed.

This is the Conflicts of Interest Policy of the Tower Hamlets Pension Fund, which is managed by London Borough of Tower Hamlets. The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Tower Hamlets Pension Fund whether directly or in an advisory capacity.

This Conflicts of Interest Policy is established to guide the Pensions Committee members, Pension Board members, officers and advisers. Along with other constitutional documents, including the various Codes of Conduct, it aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

**In relation to the governance of the Fund, the Administering Authority's objectives are to:**

- Act in the best interests of the Fund's members and employers
- Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
- Act with integrity and be accountable to stakeholders for all decisions, ensuring they are robust and well based
- Understand and monitor risk
- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Clearly articulate its objectives and how it intends to achieve those objectives through business planning, and continually measure and monitor success

The identification and management of potential and actual conflicts of interest is integral to the Administering Authority achieving its governance objectives.

## To whom this Policy Applies

This Conflicts of Interest Policy applies to all members of the Pensions Committee and the Pension Board, including scheme member and employer representatives, whether voting members or not. It applies to all managers in the management of London Borough of Tower Hamlets Pension Fund, the Chief Finance Officer (Section 151 Officer), Corporate Directors, and the Service Heads (from here on in collectively referred to as the senior officers of the Fund).

The Pensions & Investments Manager will monitor potential conflicts for less senior officers involved in the daily management of the Pension Fund and highlight this Policy to them as he/she considers appropriate.

This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role, whether this is a management, advisory or assisting role.

The Policy also applies to all advisers and suppliers to the Fund, whether advising the Pension Board, Pensions Committee or Fund officers.

In this Policy, reference to advisers includes all advisers, suppliers and other parties providing advice and services to the Administering Authority in relation to pension fund matters. This includes but is not limited to actuaries, investment consultants, independent advisers, benefits consultants, third party administrators, fund managers, lawyers, custodians and AVC providers. Where an advisory appointment is with a firm rather than an individual, reference to "advisers" is to the lead adviser(s) responsible for the delivery of advice and services to the Administering Authority rather than the firm as a whole.

In accepting any role covered by this Policy, those individuals agree that they must:

- acknowledge any potential conflict of interest they may have;
- be open with the Administering Authority on any conflicts of interest they may have;
- adopt practical solutions to managing those conflicts; and
- plan ahead and agree with the Administering Authority how they will manage any conflicts of interest which arise in future.

The procedures outlined later in this Policy provide a framework for each individual to meet these requirements.

## Legislative and related context

The overriding requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance. These are considered further below.

*The Public Service Pensions Act 2013*

Section 5 of this Act requires that the scheme manager (in the case of the LGPS, this is the administering authority) must be satisfied that a Pension Board member does not have a conflict of interest at the point of appointment and from time to time thereafter. It also requires Pension Board members (or nominated members) to provide reasonable information to the scheme manager for this purpose.

The Act defines a conflict of interest as "a financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme)."

Further, the Act requires that scheme managers must have regard to any such guidance that the national scheme advisory board issue (see below).

*The Local Government Pension Scheme Regulations 2013*

Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act (as outlined above) to the LGPS, placing a duty on each Administering Authority to satisfy itself that Pension Board members do not have conflicts of interest on appointment or whilst they are members of the board. It also requires those pension board members to provide reasonable information to the administering authority in this regard.

Regulation 109 states that each Administering Authority must have regard to guidance issued by the Secretary of State in relation to Pension Boards. Further, regulation 110 provides that the national scheme advisory board has a function of providing advice to Administering Authorities and Pension Boards. At the point of writing this Policy, the shadow LGPS national scheme advisory board has issued guidance relating to the creation of Pension Boards including a section on conflicts of interest. It is expected that this guidance will be adopted by the scheme advisory board when it is created by statute and possibly also by the Secretary of State. This Conflicts of Interest Policy has been developed having regard to that guidance.

*The Pensions Act 2004*

The Public Service Pensions Act 2013 also added a number of provisions to the Pensions Act 2004 related to the governance of public service pension schemes and, in particular, conflicts of interest.

Section 90A requires the Pensions Regulator to issue a code of practice relating to conflicts of interest for pension board members. The Pensions Regulator has issued such a code and this Conflicts of Interest Policy has been developed having regard to that code.

Further, under section 13, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for Pension Board members are not being adhered to.

*Local Government Act 2000*

All members and co-opted members of the Tower Hamlets Pensions Committee are required by the Local Government Act 2000 to abide by Flintshire's Members' Code of Conduct. Part 3 of that Code contains provisions relating to personal interests, personal and prejudicial interests, their disclosure and limitations on members' participation where they have any such interest.

*The Public Services Ombudsman for Wales' Ten Guiding Principles*

The Local Government Act 2000 empowered the National Assembly to issue principles to which local authority elected members must have regard in undertaking their role as a member. These principles draw on the 7 Principles of Public Life which were set out in the Nolan Report "Standards of Conduct in Local Government in England, Scotland and Wales". Three more were added to these; a duty to uphold the law, proper stewardship of the Council's resources and equality and respect for others.

The current principles were set out in a statutory instrument and are detailed below. Many of the principles are integral to the successful implementation of this Policy.

**CODE OF CONDUCT & CONFLICT OF INTEREST POLICY**

1. **Code of conduct**

1.1 As members of a publicly funded body with a responsibility to discharge public business, members of the Tower Hamlets Pension Board should have the highest standards of conduct.

1.2 Pension Board members should have regard to the Seven Principles of Public life:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

1.3 All Tower Hamlets Pension Board members must:

- Act solely in the public interest and should never improperly confer an advantage or disadvantage on any person or act to gain financial or other material benefits for yourself, your family, a friend or close associate.

- Not place yourself under a financial or other obligation to outside individuals or organisations that might seek to influence you in the performance of your official duties.

- Make all choices on merit and must be impartial and seen to be impartial, when carrying out your public duties.

- Co-operate fully with whatever scrutiny is appropriate to your role.

- Not, without proper authority, reveal any confidential and sensitive information that is provided to you, such as personal information about someone, or commercially sensitive information which, if disclosed, might harm the commercial interests of the Council or another person or organisation.

- Ensure when using or authorising the use by others of the resources of the authority that such resources are not used improperly for political purposes (including party political purposes) and you must have regard to any applicable Local Authority Code of Publicity made under the Local Government Act 1986.

- Promote and support high standards of conduct when serving in your public post, in particular as characterised by the above requirements, by leadership and example.

- Sign the Conflict of Interest Declaration and declare any further potential conflicts of interest that may arise once appointed as a member.

- Comply with the Tower Hamlets Pension Fund Code in addition to all other existing Codes of Conduct or Protocols (e.g. The Member Code of Conduct).

## 2. Conflict of interest

2.1 The Public Service Pensions Act 2013, Section 5(4) requires that any member of a Pension Board must not have a “conflict of interest”, which is defined in Section 5(5) as a “financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board, but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme.”

2.2 A conflict of interest exists where a decision on a matter might reasonably be regarded as affecting (to a greater extent than other persons who may be affected by the decision) the well-being or financial position of the Councillor, a relative or a friend or

- the employment or business carried out by those persons, or in which they might be investors (above a certain level),
- any of the bodies with which the decision maker is associated, and which decision maker will have registered in the appropriate register of interests.

It does not need to be shown that a conflict of interest actually exists. It is sufficient if it appears to a fair and informed observer that there was a real possibility of conflict.

2.3 Examples of potential conflicts of interest, not only for the Board but also for all those involved in managing the Pension Fund, are listed at appendix 1.

2.4 All prospective Pension Board members are required to complete the Tower Hamlets Pension Fund Conflict of interest declaration before they are appointed to the Pension Board, attached at appendix 2.

2.5 All appointments to the Pension Board should be kept under review by the Corporate Director, Resources.

2.5 It is the duty of any appointed Pension Board member to declare any potential conflict of interest. This declaration should be made to the Chair of the Pension Board in the first instance or to the Scheme Manager, and recorded in a register of interests.

2.7 The Pension Board shall identify and monitor any potential conflict of interests in a register of interests (attached at appendix 3). The register of interests should be circulated to the Tower Hamlets Pension Board and Scheme Manager for review and publication.

2.8 If the Pension Board suspects any conflict of interest it should report its concerns to the Scheme Manager.

2.9 When seeking to prevent a potential conflict of interest becoming detrimental to the conduct and decisions of the Pension Board, the Tower Hamlets Pension Board must consider obtaining legal advice when assessing its course of action and response. The Tower Hamlets Pension Board should consult the Monitoring Officer or the Service Head, Legal Services in the first instance.

2.10 Education on identifying and dealing with conflicts of interest will be included as part of the training requirement in the Knowledge and Understanding policy.

## 3. Operational procedure for officers, Pensions Committee members and Pension Board members

3.1 The following procedures must be followed by all individuals to whom this policy applies.

| What is required | How this will be done |
|---|---|
| *Step 1 - Initial identification of interests which do or could give rise to a conflict* | On appointment to their role or on the commencement of this Policy if later, all individuals will be provided with a copy of this Policy and be required to complete a Declaration of Interest the same or similar to that included in Appendix 2. This is in addition to the requirement to register disclosable pecuniary interests and other registerable interests.<br><br>The information contained in these declarations will be collated into the Pension Fund Register of conflicts of interest in a format the same or similar to that included in Appendix 3. |
| *Step 2 - Ongoing notification and management of potential or actual conflicts of interest* | At the commencement of any Pensions Committee, Pension Board or other formal meeting where pension fund matters are to be discussed, the Chairman will ask all those present who are covered by this Policy to declare any new potential conflicts. These will be recorded in the Fund's Register of conflicts of interest. In addition, the latest version of the Register will be made available by the Governance Officer to the Chairman of every meeting prior to that meeting.<br><br>At Tower Hamlets Pensions Committee meetings there will also, at the start of the meeting, be an agenda item for Members to declare any interests under the Members' Code in relation to any items on that agenda.<br><br>Any individual, who considers that they or another individual has a potential or actual conflict of interest, as defined by this Policy, which relates to an item of business at a meeting, must advise the Chairman and the Governance Officer prior to the meeting, where possible, or state this clearly at the meeting at the earliest possible opportunity. The Chairman, in consultation with the Officers, should then decide whether the conflicted or potentially conflicted individual needs to leave the meeting during the discussion on the relevant matter or to withdraw from voting on the matter.<br><br>If such a conflict is identified outside of a meeting the notification must be made to the Governance Officer and where it relates to the business of any meeting, also to the Chairman of that meeting. The Officers, in consultation with the Chairman where relevant, will consider any necessary action to manage the potential or actual conflict.<br><br>Where information relating to any potential or actual conflict has been provided, the Pensions & Investment Manager may seek such professional advice as he or she thinks fit (such as legal advice from the Monitoring Officer) on to how to address any identified conflicts.<br><br>Any such potential or actual conflicts of interest and the action taken must be recorded on the Fund's Register of conflicts of interest. |
| *Step 3 - Periodic review of potential and actual conflicts* | At least once every 12 months, the Officers will provide to all individuals to whom this Policy applies a copy of the Fund's Register of conflicts of interest. All individuals will complete a new Declaration of Interest (see Appendix 2) confirming that their information contained in the Register is correct or highlighting any changes that need to be made to the declaration. Following this exercise, the updated Register will then be circulated by the Officers to all individuals to whom it relates. |

## 4. Operational procedure for advisers

4.1 All of the key advisers are expected to have their own policies on how conflicts of interest will be managed in their relationships with their clients, and these should have been shared with London Borough of Tower Hamlets.

4.2 Although this Policy applies to all advisers, the operational procedures outlined in steps 1 and 3 above relating to completing ongoing declarations are not expected to apply to advisers. Instead all advisers must:

- be provided with a copy of this Policy on appointment and whenever it is updated
- adhere to the principles of this Policy
- provide, on request, information to the Pensions & Investments Manager in relation to how they will manage and monitor actual or potential conflicts of interests relating to the provision of advice or services to London Borough of Tower Hamlets
- notify the Pensions & investments Manager immediately should a potential or actual conflict of interest arise.

4.3 All potential or actual conflicts notified by advisers will be recorded in the Fund's Register of conflicts of interest.

4.4 London Borough of Tower Hamlets will encourage a culture of openness and transparency and will encourage individuals to be vigilant, have a clear understanding of their role and the circumstances in which they may have a conflict of interest, and of how potential conflicts should be managed.

4.5 London Borough of Tower Hamlets will evaluate the nature of any dual interests or responsibilities that are highlighted and assess the impact on pension fund operations and good governance were an actual conflict of interest to materialise.

4.6 Ways in which conflicts of interest may be managed include:

- the individual concerned abstaining from discussion, decision-making or providing advice relating to the relevant issue
- the individual being excluded from the meeting(s) and any related correspondence or material in connection with the relevant issue (for example, a report for a Pensions Committee meeting)
- a working group or sub-committee being established, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference permit this to happen)

4.7 Provided that the Administering Authority, (having taken any professional advice deemed to be required) is satisfied that the method of management is satisfactory, London Borough of Tower Hamlets shall endeavour to avoid the need for an individual to have to resign due to a conflict of interest. However, where the conflict is considered to be so fundamental that it cannot be effectively managed, or where a Pension Board member has an actual conflict of interest as defined in the Public Service Pensions Act 2013, the individual will be required to resign from the Committee, Board or appointment.

4.8 *Minor Gifts*
For the purposes of this Policy, gifts such as t-shirts, pens, trade show bags and other promotional items (subject to a notional maximum value of £10 per item and an overall maximum value of £20 from an individual company per event) obtained at events such as conferences, training events, seminars, and trade shows, that are offered equally to all members of the public attending the event do not need to be declared. Pensions Committee members should, however, be aware that they may be subject to lower limits and a separate notification procedure in the London Borough of Tower Hamlets Members' Code of Conduct.

## 5. Monitoring and Reporting

5.1 The Fund's Register of conflicts of interest may be viewed by any interested party at any point in time. It will be made available on request by the Governance Officer for the Fund. In addition, it will be published in the annual report and accounts

5.2 In order to identify whether the objectives of this Policy are being met the Administering Authority will:

- Review the Register of conflicts of interest on an annual basis and consider whether there have been any potential or actual conflicts of interest that were not declared at the earliest opportunity
- Provide its findings to the Administering Authority's Independent Adviser and ask him or her to include comment on the management of conflicts of interest in his or her annual report on the governance of the Fund each year.

## 6. Key Risks

6.1 The key risks to the delivery of this Policy are outlined below. All of these could result in an actual conflict of interest arising and not being properly managed. The Pensions & Investments Manager will monitor these and other key risks and consider how to respond to them.

- Insufficient training or poor understanding in relation to individuals' roles on pension fund matters
- Insufficient training or failure to communicate the requirements of this Policy
- Absence of the individual nominated to manage the operational aspects of this Policy and no one deputising, or failure of that individual to carry out the operational aspects in accordance with this Policy
- Failure by a chairperson to take appropriate action when a conflict is highlighted at a meeting.

## 7. Costs

7.1 All costs related to the operation and implementation of this Policy will be met directly by Tower Hamlets Pension Fund. However, no payments will be made to any individuals in relation to any time spent or expenses incurred in the disclosure or management of any potential or actual conflicts of interest under this Policy.

## 8. Approval, Review and Consultation

8.1 This Conflicts of Interest Policy is to be approved using delegated responsibilities on 30 June 2016. It will be formally reviewed and updated at least every three years or sooner if the conflict management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

## Further Information

If you require further information about anything in or related to this Conflicts of Interest Policy, please contact:

Miriam Adams,
Tower Hamlets Pension Fund Manager,
London Borough of Tower Hamlets
E-mail – Miriam.adams@towerhamlets.gov.uk
Telephone – 020 7364 4248

## Appendix 1

## Examples of Potential Conflicts of Interest

a) An elected member on the Pension Committee is asked to provide views on a funding strategy which could result in an increase in the employer contributions required from the employer he or she represents.

b) A member of the Pension Committee is on the board of a Fund Manager that the Committee is considering appointing.

c) An officer of the Fund or member of the Pension Committee accepts a dinner invitation from a Fund Manager who has submitted a bid as part of a tender process.

d) An employer representative on the Pension Board is employed by a company to which the administering authority has outsourced its pension administration services and the Local Pension Board is reviewing the standards of service provided by that company.

e) The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.

f) An officer of the Fund is asked to provide guidance to the Local Pension Board on the background to an item considered at the Pension Committee. This could be a potential conflict as the officer could consciously or sub-consciously avoid providing full details, resulting in the Board not having full information and not being able to provide a complete view on the appropriateness or otherwise of that Pension Committee item.

g) The administering authority is considering buying its own payroll system for paying pensioners, rather than using the payroll system used for all employees of the Council. The Executive Director of Finance and Public Protection, who has responsibility for the Council budget, is expected to approve the report to go to the Pension Committee, which, if agreed, would result in a material reduction in the recharges to the Council from the Fund.

h) Officers of the Fund are asked to provide a report to the Pension Board or Pension Committee on whether the administration services should be outsourced which, if it were to happen, could result in a change of employer or job insecurity for the officers.

i) An employer representative employed by the administering authority and appointed to the Pension Board to represent employers generally could be conflicted if he or she only acts in the interests of the administering authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the pension board to represent the entire scheme membership could be conflicted if he or she only acts in the interests of their union and union membership, rather than all scheme members.

j) A Fund adviser is party to the development of a strategy which could result in additional work for their firm, for example, delegated consulting of fund monies or providing assistance with monitoring the covenant of employers.

k) An employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the Pension Committee or Local Pension Board. He or she has to consider whether to share this information in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pension Board.

## Appendix 2

## Declaration of Interests relating to the management of Tower Hamlets Pension Fund administered by London Borough of Tower Hamlets

*Tick as appropriate*

I, [insert full name], am:

- an officer involved in the management ☐
- Pensions Committee Member ☐
- Pension Board Member ☐

of Tower Hamlets Pension Fund and I set out below under the appropriate headings my interests, which I am required to declare under Tower Hamlets Pension Fund Conflicts of Interest Policy. I have put "none" where I have no such interests under any heading.

**Responsibilities or other interests that could result in a conflict of interest** (please list and continue overleaf if necessary):

*A) Relating to me*

*B) Relating to family members or close colleagues*

**Undertaking:**

I declare that I understand my responsibilities under the Tower Hamlets Pension Fund Conflicts of Interest Policy. I undertake to notify the Pensions & Investments Manager of any changes in the information set out above.

Signed ___________________________________________Date ____________________

Name (CAPITAL LETTERS) ___________________________________________________

**Appendix 3**

# Tower Hamlets Pension Fund - Register of Potential and Actual Conflicts of Interest

All reported conflicts of interest will be recorded in the minutes and a register of conflicts will be maintained and reviewed annually by London Borough of Tower Hamlets, the Administering Authority.

| Date Identified | Name of Person | Role of Person | Details of conflict | Actual or potential conflict | How notified(1) | Action taken(2) | Follow up required | Date resolved |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| | | | | | | | | |
| | | | | | | | | |

(1) E.g. verbal declaration at meeting, written conflicts declaration, etc.
(2) E.g. withdrawing from a decision making process, left meeting

TOWER HAMLETS

# The London Borough of Tower Hamlets Pension Fund
# Appendix 9
# Pension Administration Strategy Statement
# April 2017

## Introduction

This is the pension administration strategy of London Borough of Tower Hamlets Pension Fund (the Fund) in relation to the Local Government Pension Scheme (LGPS), which is administered by the London Borough of Tower Hamlets (the administering authority).

This document sets out a framework by way of outlining the policies and performance standards to be achieved when providing a cost-effective inclusive and high quality pensions administration service. The pension administration strategy is kept under review and revised to reflect changes to LGPS regulations and Fund policies. It has been developed following consultation with employers who participate in the Fund and schools who employ their own payroll providers.

The Fund comprises 17 employers and approximately 19,600 scheme members. The efficient delivery of the benefits of the LGPS is dependent on reliable administrative procedures being in place between the administering authority and scheme employers.

The effective date is 1st April 2017.

Any enquires in relation to the pension administration strategy should be sent to the Pensions & Investment, London Borough of Tower Hamlets at:

Pensions.LBTH@towerhamlets.gov.uk

This strategy when approved (and any significant amendments thereafter) will be sent to all scheme employers and the Secretary of State.

Regulatory context

The LGPS is a statutory scheme, established by an Act of Parliament and governed by regulations. The most recent of such regulations, appertaining to administration are the LGPS (Administration) Regulations 2014. Regulation 59(1) of the (Administration) Regulations 2014 covers the requirement for an administering authority to prepare a written statement of policies as it considers appropriate in the form of a Pensions Administration Strategy. This regulation outlines the primary matters which should be covered to include:

- administration standards
- performance measures
- communication with scheme employers

In addition, Regulation 70 of the (Administration) Regulations 2014 covers the ability of an administering authority to recover additional costs arising from scheme employers' level of performance. Furthermore, Regulation 71 of the same regulations allows the administering authority to apply interest on late payments by scheme employers.

The administering authority and scheme employers must have regard to the pension administration strategy when carrying out their functions under the LGPS Regulations

Aims

The aim of this pension administration strategy is to set out the quality and performance standards expected of the Fund, its scheme employers and payroll providers. It seeks to promote good working relationships and improve efficiency between the Fund, scheme employers and payroll providers.

The efficient delivery of the benefits of the scheme is reliant upon sound administrative procedures being in place between stakeholders, including the Fund and scheme employers. This administration strategy sets out the expected levels of performance of the Fund and the scheme employers, and provides details about the monitoring of performance levels and the action(s) that might be taken where persistent non-compliance occurs.

Implementation

The administration strategy is effective from 1 April 2017 and is kept under review and revised to keep abreast of changes in scheme and Fund regulations.

**London Borough of Tower Hamlets Pension Administration**

Responsibility

The London Borough of Tower Hamlets, as administering authority, is responsible for administering the Council's LGPS fund. The administering authority has delegated this responsibility to the Pensions Committee (the Committee). The Committee monitors the activity and performance of the administration function on a quarterly basis. The Committee will monitor and review this administration strategy on a regular basis.

Objective

The Fund's objective in relation to administration is to deliver an efficient and value for money service to its scheme employers and scheme members. Operationally, the administration of the Fund is carried out by staff employed by the administering authority.

Communications

The Fund has published a Communication Policy Statement, which details the way the Fund communicates with Committee, scheme members, prospective scheme members, scheme employers and other stakeholders. The latest version is accessible from the Fund website:

http://towernet/staff_services/hr_workforce_development/pensions/

Telephone: 020 7364 4251

**Performance Standards**

Administration of the LGPS is maintained at local level by a number of regional pension funds and, as such, certain decisions must be made by either the Fund or the scheme employer, in relation to the rights and entitlements of individual scheme members. In order to meet these obligations in a timely and accurate manner, and also to comply with overriding disclosure requirements, the Fund has service level agreements between itself and scheme employers which are set out below.

Overriding legislation

In carrying out their roles and responsibilities in relation to the administration of the LGPS, the Fund and scheme employers will, as a minimum, comply with overriding legislation.

Internal quality standards

The Fund and scheme employers will ensure that all functions and tasks are carried out to agreed quality standards. In this respect, the standards to be met are:

- information to be legible and accurate
- communications to be in a plain language style
- information provided to be checked for accuracy by an appropriately qualified member of staff
- information provided to be authorised by an appropriate officer
- actions carried out, or information provided, within the timescales set out in this Administration strategy

Punctuality

Overriding legislation dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the LGPS. The LGPS itself sets out a number of requirements for the Fund and scheme employers to provide information to each other, scheme members and prospective scheme members, dependants, other pension arrangements or other regulatory bodies. The following sections on responsibilities set out the locally agreed timescales for these requirements.

Fund Responsibilities

This section outlines the key responsibilities of the Fund and the performance standards scheme employers and scheme members should expect. It is focussed on the key activities which scheme employers and scheme members are involved in and should not be viewed as an exhaustive list.

Fund administration

This details the functions which relate to the whole Fund, rather than individual scheme members' benefits.

| Ref | Function / Task | Performance Target |
|---|---|---|
| 1 | Publish and keep under review the pensions administration strategy. | Within three months of any changes being agreed with scheme employers. |

| | | |
|---|---|---|
| 2 | Publish and keep up to date all forms required for completion by scheme members, prospective scheme members or scheme employers. | 30 days from any revision. New employers to receive within three months of admission. |
| 3 | Host meetings for all scheme employers. | Twice per annum (usually June/July and November/December each year). |
| 4 | Organise coaching sessions for scheme employers. | Upon request from scheme employers or as required. |
| 5 | Provide bespoke meetings for scheme employers. | As required. |
| 6 | Notify scheme employers and scheme members of changes to the scheme rules | Within one month of the change(s) coming into effect. |
| 7 | Issue scheme member / employer bulletin. | At least once a year. |
| 8 | Notify a scheme employer of issues relating to the scheme employer's non-compliance with performance standards. | Within ten days of a performance issue becoming apparent. |
| 9 | Notify a scheme employer of decisions to recover additional costs associated with the scheme employer's poor performance (including any interest that may be due). | Within ten days of scheme employer failure to improve performance, as agreed. |
| 10 | Issue annual benefit statements to active and deferred members as at 31 March each year. | By 31 August following the year-end. |
| 11 | Issue formal valuation results (including individual employer details). | No later than 1 March following the valuation date. |
| 12 | Carry out valuation assessments on cessation of admission agreements or a scheme employer ceasing participation in the Fund. | Upon each cessation or occasion where a scheme employer ceases participation on the Fund. |
| 13 | New admission agreement, where required (including the allocation of assets and notification to the Secretary of State). | Within three months of agreement to set up provided prospective employer adheres to certain prescribed timescales |
| 14 | Publish, and keep under review, the Fund's governance compliance statement. | By 30 September, following the year-end as part of the Fund's annual report and accounts, or within 30 days of the policy being agreed by the Pensions Committee. |
| 15 | Publish, and keep under review the Fund's funding strategy statement | To be reviewed at each triennial valuation, following consultation with scheme employers and the Fund's actuary. Revised statement to be published by 31 March following valuation date or as required. |
| 16 | Publish the Fund's annual statement of accounts. | By 30 September following the year-end or following the issue of the auditor's opinion. |
| 17 | Publish the Fund's annual report | By 30 September following the year-end |
| 18 | Publish, and keep under review, the Fund's communication policy statement. | By 30 September, following the year-end, as part of the Fund's annual report and accounts, or within 30 days of the policy being agreed by the Pensions Committee. |
| 19 | Publish, and keep under review, the Fund's termination policy statement. | Within 30 days of any changes being made to the policy |

| | | |
|---|---|---|
| 20 | Publish, and keep under review, the Fund's charging policy. | Within 30 days of any changes being made to the policy. |

## Scheme administration

This details the functions which relate to scheme member benefits from the LGPS.

| Ref | Function / Task | Performance Target |
|---|---|---|
| 21 | Provide an answer or acknowledgement to scheme members/scheme employers/ personal representatives/ dependents and other authorised persons. | Five days from receipt of enquiry. |
| 22 | Set up a new starter and provide statutory notification to the member. | Twenty days from receipt of correctly completed starter form from a scheme employer. |
| 23 | Non-LGPS inward transfers processed. | Ten days of receipt of request from scheme member. |
| 24 | Non-LGPS transfer out quotations processed. | Ten days of receipt of request. |
| 25 | Non-LGPS transfer out payments processed. | Ten days of receipt of completed forms. |
| 26 | Internal and concurrent transfers processed. | Ten days of receipt of request. |
| 27 | Estimates for divorce purposes. | Ten days of receipt of request. |
| 28 | Notify the scheme employer of any scheme member's election to pay additional pension contributions, including all required information to enable deductions to commence. | Ten days of receipt of election from scheme member. |
| 29 | Process scheme member requests to pay/amend/ cease additional voluntary contributions. | Five days of receipt of request from scheme member. |
| 30 | Provide requested estimates of benefits to employees/employers including any additional fund costs in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency. | 15 days from date of request. Note: bulk requests of more than 20 estimates per month will be subject to further agreement. |
| 31 | Deferred benefits calculated. | Fifteen days from receipt of all necessary information. |
| 32 | Deferred benefits processed for payment following receipt of election | Five days from receipt of all necessary information. |
| 33 | Refund payments | Five days from receipt of all necessary information. |
| 34 | Provision of new retirement letters detailing member options. | Fifteen days from receipt of all necessary information. |
| 35 | Payment of retirement benefits following receipt of election | Lump-sum payment within five days of receipt of all necessary documentation. First pension payment on next available payroll run. |
| 36 | Notification of death processed | Within ten days of receipt of all necessary documentation. |
| 37 | Calculate and pay death grant. | Within ten days of receipt of all necessary documentation. |

| | | |
|---|---|---|
| 38 | Processing of dependants' pensions for payment. | Within ten days of receipt of all necessary documentation. |
| 39 | Calculate and pay transfer out payments to receiving fund and notify scheme member. | Ten days following receipt of election form from scheme member. |
| 40 | Provide payslips to scheme members in receipt of a pension. | Twice a year in paper format unless specifically requested, otherwise available online. |
| 41 | Process all stage 2 pension internal dispute resolution applications | Within two months of receipt of the application, or such longer time as is required to process the application where further information or clarification is required. |
| 42 | Answer all calls to pensions during office hours. | 85%. |
| 43 | Answer calls to pensions in office hours at first point of contact. | 95%. |
| 44 | Formulate and publish policies in relation to areas where the administering authority may exercise a discretion within the scheme and keep under review. | Any changes to be published within one month. |

## Scheme Employer Responsibilities

This section outlines the responsibilities of all scheme employers in the Fund and the performance standards scheme employers are expected to meet to enable the Fund to deliver an efficient, quality and value for money service. All information must be provided in the format prescribed by the Fund within the prescribed timescales.

### Fund administration

This details the functions which relate to the whole Fund, rather than individual events.

| | | |
|---|---|---|
| 45 | Confirm a nominated representative to receive information from the Fund and to take responsibility for disseminating it within the organisation. | 30 days of employer joining fund or change to nominated representative. |
| 46 | Formulate and publish policies in relation to all areas where the employer may exercise a discretion within the LGPS (including providing a copy of the policy document to the Fund). | To be kept under review and a revised statement published within one month of any changes. |
| 47 | Respond to enquiries from the Fund / Administering Authority. | Ten days from receipt of enquiry |
| 48 | Remit employer and employee contributions to the Fund and provide schedule of payments in the format stipulated by the Fund. | Schedules by the 19th calendar day of the month after deduction. Cleared funds to be received by 22nd calendar day of the month after deduction or 19th if by cheque. |
| 49 | Implement changes to employer contribution rates as instructed by the Fund. | At date specified on the actuarial advice received by the Fund. |

| | | |
|---|---|---|
| 50 | Provide year-end information required by the Fund in the format stipulated in the instructions issued March each year. | By 30 April following the year-end. |
| 51 | To ensure optimum accuracy of year-end information | With no less than 98% accuracy across all members. |
| 52 | Distribute any information provided by the Fund to scheme members/potential scheme members | Within 10 days of its receipt. |
| 53 | Notify the Fund if contracting out services which will involve a TUPE transfer of staff to another organisation. | At the time of deciding to tender so that information can be provided to assist in the decision. |
| 54 | Work with the Fund to arrange for an admission agreement to be put in place when contracting out a service and assist in ensuring it is complied with. | Agreement to be in place no later than date of contract |
| 55 | Notify the Fund if the employer ceases to admit new scheme members or is considering terminating membership of the Fund. | As soon as the decision is made, so that the Fund can instruct the actuary to carry out calculations, if applicable. |
| 56 | Refer new/prospective scheme members to the Fund's website. | Ten days of commencement of employment or change in contractual conditions. |
| 57 | Make additional fund payments in relation to early payment of benefits from flexible retirement, redundancy or business efficiency retirement or where a member retires early with employer's consent. | Within 30 days of receipt of invoice from the Fund. |
| 58 | Make payment of additional costs to the Fund associated with non-compliance with performance standards of the scheme employer. | Within 30 days of receipt of invoice from the Fund. |
| 59 | All new prospective admitted bodies to undertake, to the satisfaction of the administering authority and the scheme employer, a risk assessment of the level of the bond required in order to protect other scheme employers. | To be completed before the body can be admitted to the Fund. |
| 60 | All admitted bodies to undertake a review of the level of the bond or indemnity required to protect the other scheme employers. | Annually, or such other period as may be agreed with the administering authority. |

<u>Scheme administration</u>

This section details the functions which relate to scheme member benefits from the LGPS.

| | | |
|---|---|---|
| 61 | Use online forms or web portal for all relevant scheme administration tasks as required by the administering authority. | Within one month of employer being set up to use the online system. |
| 62 | Notify the Fund of new starters. | Six weeks of member joining or such shorter periods as required by auto-enrolment obligations under the Pensions Act 2008. |

| | | |
|---|---|---|
| 63 | Arrange for the correct deduction of employee contributions from a member's pensionable pay. | Immediately on joining the scheme, opting in or out or change in circumstances. |
| 64 | Ensure correct employee contribution rate is applied. | Immediately upon commencing scheme membership and in line with the employer's policy and as a minimum in each April payroll thereafter. |
| 65 | Ensure correct deduction of pension contributions during any period of child related leave, strike absence or other forms of leave or absence from duty. | Immediately, following receipt of election from scheme member to make the necessary pension contributions |
| 66 | Commence deduction of additional regular contributions or amend such deductions, as appropriate. | Month following election to pay contributions or notification received from the Fund. |
| 67 | Cease deduction of additional regular contributions. | Immediately following receipt of election from scheme member. |
| 68 | Arrange for the deduction of AVCs and payment over of contributions to AVC provider(s). | Commence deduction of AVCs in month following the month of election. Pay over contributions to the AVC provider(s) by the 22nd of the month following the month of election or 19th if by cheque. |
| 69 | Provide the Fund with details of all changes to members' working hours using the method stipulated by the Fund. | Six weeks of change for protected members only. |
| 70 | Notify the Fund of other material changes in employees' circumstances (e.g., marital or civil partnership status) using the method stipulated by the Fund. | Immediately, following notification by the scheme member of a change in circumstances |
| 71 | Notify the Fund of leaves of absence with permission (maternity, paternity, career break, etc) using the method stipulated by the Fund. | Within 20 days of notice from employee for protected members only. |
| 72 | Notify the Fund when a member leaves employment including an accurate assessment of final pay using the method stipulated by the Fund. | Six weeks of month end of leaving where payroll service not provided by the London Borough of Tower Hamlets. |
| 73 | Notify the Fund when a member is due to retire including an accurate assessment of final pay and authorisation of reason for retirement using the method stipulated by the Fund. | At least one month before retirement date. |
| 74 | Notify the Fund of the death of a scheme member using the method stipulated by the Fund. | As soon as practicable, but within ten days. |
| 75 | Appoint person for stage 1 of the pension dispute process and provide full details to the Fund | Within 30 days of becoming a scheme employer or following the resignation of the current adjudicator. |

| | | |
|---|---|---|
| 76 | Review 3rd tier ill-health retirement cases. | Notify administering authority immediately a member retired with a third tier ill-health benefits returns to paid employment or outcome of the 18 month review, whichever is earlier. |

Monitoring Performance and Compliance

Ensuring compliance with the LGPS regulations and this administration strategy is the responsibility of the Fund and scheme employers. This section describes the ways in which performance and compliance will be monitored.

Audit

The Fund is subject to an annual external audit of the accounts by extension the processes employed in calculating the figures for the accounts. The key findings of their work are presented to the Pension Committee in an annual report, and the Committee / Administering Authority is provided with an action plan of recommendations to implement. In addition the Fund is subject to internal audits by the LB Tower Hamlets internal auditors of its processes and internal controls. Any subsequent recommendations made are considered by the Fund and, where appropriate, duly implemented.

Both the Administering Authority and Scheme Employers will be expected to comply with requests for information from internal and external audit in a timely manner.

Performance monitoring

The Fund monitors its performance utilising its own internal key performance indicators. Monitoring occurs on a monthly basis and the key performance indicators are reported to Committee via a quarterly report on administration of the Fund allowing them to monitor the performance of the Fund's in-house staff. A high level overview of performance is provided to Committee on an annual basis. The performance of Scheme Employers against the standards set out in this document will be incorporated into the reporting to the Committee, as appropriate, to include data quality.

Feedback from employers

Employers who wish to provide feedback on the performance of the Fund against the standards in this administration strategy should email comments to Pensions.LBTH@towerhamlets.gov.uk This feedback will be incorporated into the quarterly reports to the Committee.

Annual report on the strategy

The scheme regulations require the Fund to undertake a formal review of performance against the administration strategy on an annual basis. This report will be produced annually and incorporated within the annual report and accounts.

Policy on Charging Employers for Poor Performance

The scheme regulations provide pension funds with the ability to recover from a scheme employer any additional costs associated with the administration of the scheme incurred as a result of the poor level of performance of that scheme employer. Where a fund wishes to recover any such additional costs, they must give written notice stating:

- the reasons in their opinion that the scheme employer's poor performance contributed to the additional cost
- the amount of the additional cost incurred
- the basis on how the additional cost was calculated
- the provisions of the administration strategy relevant to the decision to give notice.

Circumstances where costs might be recovered

It is the policy of the Fund to recover additional costs incurred in the administration of the scheme as a direct result of the poor performance of any scheme employer (including the administering authority). The circumstances where such additional costs will be recovered from the scheme employer are:

- failure to provide relevant information to the Fund, scheme member or other interested party in accordance with specified performance targets in this administration strategy (either as a result of punctuality of delivery or quality of information)
- failure to pass relevant information to the scheme member or potential members, either due to poor quality of information or not meeting the agreed timescales outlined in the performance targets in this administration strategy
- failure to deduct and pay over correct employee and employer contributions to the Fund within the stated timescales
- instances where the performance of the scheme employer results in fines being levied against the Fund by the Pension Regulator, Pensions Ombudsman or other regulatory body.

Approach to be taken by the Fund

The Fund will seek, at the earliest opportunity, to work closely with scheme employers in identifying any areas of poor performance, provide the necessary support or training and put in place appropriate processes to improve the level of service delivery in the future. Therefore, scheme employers will be afforded the time to address the causes of non-compliance with performance standards in order that they do not become persistent, before any fines are levied. Employers should be aware that in the case of late payment of contributions and non-submission of monthly contribution forms, penalties will be incurred for persistent instances of non-compliance with performance standards.

The process for engagement with scheme employers will be as follows:

1) Write to the scheme employer, setting out area(s) of non-compliance with performance standards and offer support and, where applicable, further training.

2) If no improvement is seen within one month of the support or training or no response is received to the initial letter, the scheme employer will be asked to attend a conference call/meeting with representatives of the Fund to discuss area(s) of non-compliance with performance standards and to agree an action plan to address them. Where appropriate,

the originating employer will be informed and expected to work with the Fund to resolve the issues.

3) If no improvement is seen within one month or a scheme employer is unwilling to attend a meeting to resolve the issue, the Fund will issue a formal written notice, setting out the area(s) of non-compliance with performance standards that have been identified, the steps taken to resolve those area(s) and notice that the additional costs will now be reclaimed.

4) An invoice will then be issued to the scheme employer clearly setting out the calculations of any loss resulting to the Fund, or additional cost, taking account of time and resources in resolving the specific area(s) of poor performance, in accordance with the charging scale set out in this document.

A report will be presented to the quarterly Committee meeting detailing charges levied against scheme employers and outstanding payments.

<u>Charging scales for administration</u>

The table below sets out the charges which the Fund will levy on a scheme employer whose performance falls short of the standards set out in this document. Each item is referenced to the 'Scheme Employer Responsibilities' section.

| Item | Charge | Ref |
|---|---|---|
| Late payment of employee and employer contributions | £50 plus interest* | 48 |
| Non-provision of the correct schedule accompanying the contributions | £50 per occasion. | 48 |
| Underpayment of employee or employer contributions. | £50 plus interest* | 49, 63, 64. |
| Late or non-provision of year-end information or the poor quality of year-end information. | £250 plus £100 for every month the information is late. | 50 |
| Failure to use the notified process to provide member amendment and earnings information to the administration authority. | Recharge of the additional costs incurred by the administering authority. | 60 |
| Late or non-provision of starter forms. | £100 per month for forms not received or late. | 62 |
| Late or non-provision leaver forms. | £100 per month for forms not received or late. | 72, 73, 74. |

*Interest will be charged in accordance with Regulation 44 of the LGPS administration regulations, which states interest should be charged at Bank of England base rate plus one per cent.

**Service and Communication Improvement Planning**

As set out earlier in this administration strategy, the Fund's objective in relation to administration is to deliver an efficient, quality and value for money service to its scheme employers and scheme members. This can only be achieved through continuously reviewing and improving the service. Communication between the Fund and scheme employers is key to providing the service and is, therefore, an important aspect of service improvement planning.

The Fund's staffs work together on a programme of continuous improvement to the service and meet quarterly to review progress against the action plan agreed.

The monitoring of the performance standards set out in this document will inform the programme going forward, and feedback from scheme employers on the service and the way in which the Fund communicates is welcomed in developing plans. Feedback should be emailed to Pensions.LBTH@towerhamlets.gov.uk

The Fund will take responsibility for improving the service and determining the balance between implementing service improvements and the goal of providing a value for money service for the Fund.

Employers will be informed of any changes to the service provision which affect the way they interact with the Fund through the monthly briefing note.

**Consultation and Review Process**

In preparing this administration strategy, the Fund will place it upon its website and open up consultation with scheme employers with a closing date of 28 February 2017. The strategy will be reviewed every year and more frequently if there are changes to the scheme regulations or Fund policies. All scheme employers will be consulted before any changes are made to this document.

The latest version of this document can be accessed from the Fund website at: http://towernet/staff_services/hr_workforce_development/pensions/

TOWER HAMLETS

# LONDON BOROUGH OF TOWER HAMLETS

## Administering Authority for
## Tower Hamlets Pension Fund

## Appendix 10

## RISK POLICY

# RISK POLICY

## Introduction

This is the Risk Policy of the Tower Hamlets Pension Fund, which is managed and administered by London Borough of Tower Hamlets. The Policy details the risk management strategy for the Tower Hamlets Pension Fund, including

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the risk management process.

London Borough of Tower Hamlets ("we") recognise that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, we can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

We adopt best practice risk management, which will support a structured and focused approach to managing risks, and ensuring risk management is an integral part in the governance of the Tower Hamlets Pension Fund at a strategic and operational level.

## To whom this Policy Applies

This Risk Policy applies to all members of the Pension Fund Committee and the local Pension Board, including scheme member and employer representatives. It also applies to all managers in the London Borough of Tower Hamlets Pension Fund Management Team, the Chief Finance Officer (Section 151 Officer) and the Chief Officer, People and Resources (from here on in collectively referred to as the senior officers of the Fund).

Less senior officers involved in the daily management of the Pension Fund are also integral to managing risk for the Tower Hamlets Pension Fund and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Pension Fund Manager and his/her team.

Advisers to the Tower Hamlets Pension Fund are also expected to be aware of this Policy, and assist senior officers, Committee members and Board members as required, in meeting the objectives of this Policy.

## Aims and Objectives

We recognise the significance of our role as Administering Authority to the Tower Hamlets Pension Fund on behalf of its stakeholders which include:

- around 20,000 current and former members of the Fund, and their dependants;
- around 20 employers; and
- the local taxpayers.

Our Fund's Mission Statement is:

- We will be known as forward thinking, responsive, proactive and professional providing excellent customer focused, reputable and credible service to all our customers.
- We will have instilled a corporate culture of risk awareness, financial governance, and will be providing the highest quality, distinctive services within our resources.
- We will work effectively with partners, being solution focused with a can do approach.

One of our key governance objectives is to understand and monitor risk. In doing so, we will aim to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Pension Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Tower Hamlets Pension Fund we will aim to comply with:

- the CIPFA Managing Risk publication and
- the managing risk elements of the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes.

## Our Philosophy about Risk Management

We recognise that it is not possible or even desirable, to eliminate all risks. Accepting and actively managing risk is therefore a key part of our risk management strategy for Tower Hamlets Pension Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in the light of our risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, we will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained;
- adopt a system that will enable us to anticipate and respond positively to change;
- minimise loss and damage to the Tower Hamlets Pension Fund and us, and to other stakeholders who are dependent on the benefits and services provided;
- make sure that when we embark upon new areas of activity (new investment strategies, joint-working, framework agreements etc), the risks they present are fully understood and taken into account in making decisions.

We also recognise that risk management is not an end in itself; nor will it remove risk from the Fund or us as the Administering Authority. However it is a sound management technique that is an essential part of how we manage the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

## CIPFA and the Pensions Regulator Requirements

### *CIPFA Managing Risk Publication*

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

### *The Pension Regulator's Code of Practice*

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 related to the requirement to have internal controls in public service pension schemes.

> *"**249B Requirement for internal controls: public service pension schemes***
> *(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—*
> *(a) in accordance with the scheme rules, and*
> *(b) in accordance with the requirements of the law.*
> *(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.*
> *(3) In this section, "enactment" and "internal controls" have the same meanings as in section 249A."*

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which he encourage scheme managers to employ a risk based approach to assess the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator's code of practice guidance on internal controls require scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme;
- determining the various functions and activities carried out in the running of the scheme; and
- identifying the main risks associated with those objectives, functions and activities.

Schemes should then consider the likelihood of risks arising and the effect if they do arise as well as what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them

The code states risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that scheme should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

*Application to the Tower Hamlets Pension Fund*

We adopt the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to Tower Hamlets Pension Fund, and this Risk Policy highlights how we will strive to achieve those principles through use of risk management processes incorporating regular monitoring and reporting.

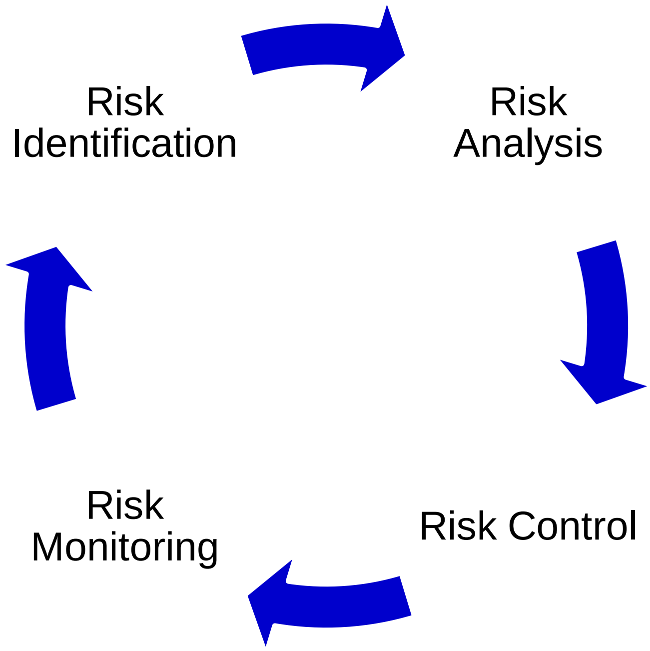
## Responsibility

As the Administering Authority for the Tower Hamlets Pension Fund, we must be satisfied that risks are appropriately managed. For this purpose, the Pension Fund Manager is the designated individual for ensuring the process outlined below is carried out subject to the oversight of the Pensions Committee.

However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

## The Tower Hamlets Pension Fund Risk Management Process

Our risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections.




### *Risk identification*

Our risk identification process is both proactive and reactive one, looking forward i.e. horizon scanning for potential risks and looking back, by learning lessons from reviewing how existing controls have manifested in risks to the organisation.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Tower Hamlets Pension Fund Officers and Advisers Panel;
- performance measurement against agreed objectives;
- monitoring against the Fund's business plan;
- findings of internal and external audit and other adviser reports;
- feedback from the local Pension Board, employers and other stakeholders;
- informal meetings of senior officers or other staff involved in the management of the Pension Fund; and
- liaison with other organisations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

### *Risk analysis*

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed against the following where the score for likelihood will be multiplied by the score for impact to determine the current risk rating.

| | | | | | | |
|---|---|---|---|---|---|---|
| **Potential impact if risk occurred** | 5 Catastrophic | 5 | 10 | 15 | 20 | 25 |
| | 4 Major | 4 | 8 | 12 | 16 | 20 |
| | 3 Moderate | 3 | 6 | 9 | 12 | 15 |

| | | | | | |
|---|---|---|---|---|---|
| 2 Minor | 2 | 4 | 6 | 8 | 10 |
| 1 Insignificant | 1 | 2 | 3 | 4 | 5 |
| | 1 Rare | 2 Unlikely | 3 Possible | 4 Likely | 5 Almost certain |

**Likelihood of risk occurring**

When considering the risk rating, we will have regard to the existing controls in place and these will be summarised on the risk register.

### *Risk control*

The Pension Fund Manager will then determine whether any further action is required to control the risk which in turn may reduce the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can proceed, it may require Pensions Committee approval where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- Risk elimination – for example, ceasing an activity or course of action that would give rise to the risk.
- Risk reduction – for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.
- Risk transfer – for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action. Where necessary we will update the Fund's business plan in relation to any agreed action as a result of an identified risk.

### *Risk monitoring*

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Tower Hamlets Pension Fund Advisory Panel. In monitoring risk management activity, we will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision- making process in relation to that risk
- there are any lessons to learn for the future assessment and management of risks.

### Reporting

Progress in managing risks will be monitored and recorded on the risk register and key information will be provided on a quarterly basis to the Tower Hamlets Pensions Committee and the Pensions Board as part of the regular update reports on governance, investments and funding, and administration and communications. This reporting information will include:

- a summary of the Fund's key risks (ranked 15 or above in the above matrix);
- a summary of any new risks or risks that have changed (by a score of 3 or more) or risks that have been removed since the previous report;
- the Fund's risk dashboard showing the score of all existing risks and any changes in a pictorial fashion; and
- a summary of any changes to the previously agreed actions.

## Monitoring of this Policy

In order to identify whether we are meeting the objectives of this policy the Independent Governance Adviser will be commissioned to provide an annual report on the governance of the Fund each year, a key part of which will focus on the delivery of the requirements of this Policy

## Key risks to the effective delivery of this Policy

The key risks to the delivery of this Policy are outlined below. The Pensions Committee members, with the assistance of the Tower Hamlets Pension Fund Officers and Advisers Panel, will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pensions Committee and/or Pensions Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources being available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.
- Conflicts of interest or other factors leading to a failure to identify or assess risks appropriately

## Costs

All training costs related to this Risk Policy are met directly by Tower Hamlets Pension Fund

## Approval, Review and Consultation

This Risk Policy tabled at the September 2017 Pensions Committee meeting for approval. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

## Further Information

If you require further information about anything in or related to this Risk Policy, please contact:
Miriam Adams – Pensions & Investments Manager,
London Borough of Tower Hamlets
E-mail – Miriam.adams@towerhamlets.gov.uk
Telephone – 020 7364 4248

# LONDON BOROUGH OF TOWER HAMLETS

## Administering Authority for
## Tower Hamlets Pension Fund

**APPENDIX 11**

## PENSIONS BOARD
## ANNUAL REPORT FOR 2018/19

# ANNUAL REPORT OF THE PENSIONS BOARD 2018-19

**Purpose of the Report**
To provide an update on the work undertaken by the Local Pensions Board during 2018-2019 and to meet the legislative requirement to produce an annual report.

**Constitution, Representation Meetings and Attendance**
The Board was constituted under the Public Service Pensions Act 2013 and held its first meeting on the 28 July 2015 before the recommended Scheme Advisory Bo8rd (SAB) deadline of 31 July 2015.
The board consists of three representatives of the scheme employers, three representing of the scheme members and an Independent Chair.

**Membership**

**Tower Hamlets Pension Board Membership 2018 /19**

| **Member Representatives** | **Designation** | **Employer Representatives** | **Designation** |
|---|---|---|---|
| David Thompson | Pensioners Representative | Councillor Puru Miah | Elected Member |
| John Gray | Admitted Bodies Representative | Roger Jones/Steve Hill | Administering Authority |
| Nneka Oroge | Active Members Representative | Annette McKenna | Admitted Bodies |

**The Independent Chair of the Board is John Jones.**

The Corporate Director, Resources wishes to thank the Board members for their work over the last year.

The Board met on four occasions during the year ending 31 March 2019.
1) 19 July 2018
2) 18 September 2019
3) 26 November 2018
4) 7 March 2019

**Functions and Operation of the Board**
The two primary functions of a Local Pension Board are to assist the Administering Authority to:
- Ensure effective and efficient governance and administration of the LGPS
- Ensure compliance with relevant laws and regulation

It therefore has a monitor/assist /review purpose, rather than being a decision making body. It could be seen as being a critical friend. As such, the general approach of the Board is to seek assurances with evidence from the Fund that it is meeting its objectives set out above.
The Board is not a Committee of the Council, but is established under the Public Service Pensions Act 2013. The Board operates under Terms of Reference which were approved at inception.

The Board recognises the need to prioritise and differentiates in its agenda between items for detailed discussion, and those for awareness or noting, and prioritises its time budget accordingly.

**Costs**
There is a financial budget for the Board of £12.5k. The costs of running the Board are borne by the Pension Fund as part of its overall budget. The costs have in fact minimal as forming and running the board have been incorporated within existing workloads.

**Detailed Work of the Board by the Independent Chair:**

1) This is my third annual report as Chair of the Tower Hamlets Pension Board since my appointment in January 2016. The Board was set up with effect from April 2015 under new arrangements for the governance of Local Authority Pension Funds.
2) The purpose of the Board is to assist Tower Hamlets Council (as the scheme manager) in the management of the Local Authority Pension Scheme (LGPS), and to provide oversight and challenge. The terms of reference for the Board were set out and agreed by Tower Hamlets Council prior to the establishment of the Board. These terms of reference are available on the Fund website.

3) The Board is comprised of 3 employee and 3 employer representatives together with an Independent Chair. This is line with the regulations requiring equal employee and employer representation. Details of the members of the Board are shown in the appendix to this report. The Board is not a decision making body and can only provide advice and comment on the management of the LGPS by Tower Hamlets Council. For this arrangement to be successful it is important that the Board carries out its responsibilities in a positive and constructive way.

4) The Board met on 4 occasions during 2018/19 in July, September and November 2018 and March 2019. There have been full agendas for the meetings and the issues discussed during the year included:

   i) The development of an annual work plan for the Board.
   ii) Briefings and discussion on the performance of the pension administration service
   iii) Briefing and discussion on the Investment performance on the Fund
   iv) Consideration of the Pensions Regulator’s compliance checklist
   v) Review and discussion of the decisions of the Pensions Investment Committee
   vi) Review of compliance with the Pensions Regulator’s Code of practice
   vii) Consideration of developments affecting the LGPS including progress with the London CIV.
   viii) Audit and risk management issues affecting the Fund
   ix) Consideration and discussion on the Fund’s Investment Strategy and Funding Strategy Statements, Governance compliance and Risk policy.

5) Three new members – Councillor Puru Miah, Annette McKenna (both representing fund employers) and Nneka Oroge (representing active fund members)– joined the Board during the year to increase the membership of the Board to its full complement of seven. As a consequence, attendance over the 4 meetings increased slightly to 64% compared with 61% in the previous year. Nonetheless,

there was good attendance from other Members and the Board continued to focus on the key issues affecting the Fund and its beneficiaries. The Board agrees a forward work plan at the start of the year to ensure that it best placed to support the Council in the delivery of the LGPS in Tower Hamlets.

6) At the end of the year Cllr Puru Miah stood down from the Board, and I would like to thank him for the positive and helpful contributions during his time as a Member of the Board.

7) In my role as Chair I am invited to attend the Council's Pension Committee to present and report on behalf of the Board to the Pensions Committee on Governance matters, and on issues arising from our consideration of policy and administration reports. This is a positive and welcome arrangement to ensure that the Board's views are considered by the Pensions Committee. This arrangement, although not widespread amongst LGPS Funds, helps to strengthen the overall governance of the Fund.

8) At the end of March 2019, the Tower Hamlets Pension Fund had total assets of £1.556 billion and a membership of 20,949 comprising pensioners, deferred pensioners and current contributors.

9) Pension Fund Investment and administration is becoming ever more complex so a structured programme of training and development is essential for individual members and the Board collectively to discharge its responsibilities. With this in mind, members of the Board have attended various training sessions over the past year. This has included:

    i) A presentation by the Fund's Independent Adviser and discussion on the Investment Strategy of the Tower Hamlets Pension Fund.
    ii) A presentation from the London CIV on governance arrangements.
    iii) Local Authority Pension Fund performance analytics by PIRC.
    iv) The developments and activities of the Local Authority Pension Fund Forum (LAPFF) with particular regard to voting and engagement.

10) Training and development for Members of the Pensions Committee and Board is an essential support to good governance. Following the appointment of several new members to the Committee and Board, it is particularly important that training and development is arranged and supported so that new members are able to make informed decisions on issues affecting the Fund. I am pleased to report that regular training sessions will be arranged and incorporated as part of Board meetings and similar arrangements are also in place for the Committee.

11) The LGPS nationally is currently going through major change with the establishment of asset pools to manage local authority pension fund investments. The rationale behind pooling is to reduce costs and provide the scale to access illiquid asset classes to help diversification and improve investment returns. The London collective investment vehicle (CIV) has been established for this purpose and the assets of the Tower Hamlets Fund are now being invested through this pool rather than directly as is the case at present. Approximately 80% of the Tower

Hamlets Fund is now invested collectively, the highest percentage across the London Boroughs.

12) The Board received a presentation from the CIV on Governance Arrangements at its meeting in July 2018. This included a detailed question and answer session and several issues were raised with the CIV covering independence and representation on Committees; trade union and member representation; the CIV responsible Investment policy and voting guidelines. The Board have been updated on developments at each meeting, and will continue to monitor this process working alongside the Council in delivering the best outcome for the Fund and its beneficiaries.

John Jones
Independent Chair
June 2019

TOWER HAMLETS

# London Borough of Tower Hamlets Pension Fund Annual Report and Accounts 2019/20

Contents

# Foreword by Chair, Pensions Committee

It is my privilege as the Chair of the Pensions Committee to introduce the annual report and accounts. I took the Chair in May 2023 from Councillor Muhammad Bellal Uddin whom I thank for his work and diligence in chairing the Committee. The principal role of the Pensions Committee is to steer the main policies of the Pension Fund in order to provide good governance and stewardship of the Local Government Pension Scheme.

The Pensions Committee has the responsibility for all aspects of the Pension Fund including managing the investments, ensuring governance arrangements are appropriate and scheme members and employers are kept informed of key information. The Committee carries a considerable responsibility to ensure that the Pension Fund is managed in an efficient and effective way and therefore recognise the issues around the historic pension scheme membership data and the impact on the present value of promised retirement benefits at 31 March 2020. The Council and The Pensions Committee are committed to ensuring that any issues are resolved.

The Fund’s value decreased by 2.1% to £1,520m at 31 March 2020 which was a very good outcome considering the volatility in financial markets in the last quarter of the year due to the emergence of the COVID-19 virus. The Fund’s equity protection strategy proved itself by returning 40% over the year and together with allocations to diversified growth strategies helped to mitigate the losses faced by equities.

The Fund continues to work with the London Collective Investment Vehicle (LCIV) to provide suitable strategies to invest in. LCIV was set up in 2015 as the ‘asset pool’ for London under a direction by the government with the objective of achieving savings in investment management costs as well as to enable investments in alternative asset classes such as infrastructure. During 2019/20 the Fund has an allocation of 44% to 4 of the LCIV funds with an additional 21% in index-tracker funds managed by Legal and General.

The Tower Hamlets Pension Fund has considered how it can meet the challenge of climate change and to this end the investments with Legal and General are in low carbon funds. The Committee are exploring other options such as investing in renewable energy and sustainable equities.

This was also a key year for the Fund which saw the outcome of the 2019 triennial valuation. I am pleased to see that the Fund has increased its funding level to 102%, up from 83% in 2016, which means the contributions paid by employers in the Fund have been able to be kept broadly stable.

The Fund’s membership now stands at over 22,000 members comprising of active members, deferred members, pensioners and dependents.

The Pensions Committee continues to benefit from the scrutiny and strengthening of governance from the Local Pensions Board and you can find a report of their work included in this annual report.

Councillor Ahmodul Kabir

Chair, Pensions Committee

**November 2023**

# Governance of the Pension Scheme

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

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

## MANAGEMENT AND ADVISERS TO THE PENSION FUND as at 31$^{st}$ March 2020

The Pensions Committee during 2019/20 was made up of seven Councillor Members, an Employer Representative and a Scheme Member Representative.

**Pensions Committee:**
Councillors:
**Chair**: Councillor Ahmodul Kabir (from May 2023)
Chair: Councillor Muhammad Bellal Uddin (from May 2022 to April 2023)
Chair: Councillor Kyrsten Perry (from May 2019 to April 2022)
Councillor Rachel Blake
Councillor Mohammed Ahbab Hossain
Councillor Eve McQuillan
Councillor Ayas Miah
Councillor Abdal Ullah
Councillor Andrew Wood

Trade Union Representative (non-voting):
Kehinde Akintunde (GMB)

Admitted Bodies Representative (non-voting):
Vacant

**Contact details for the Pensions Committee:-**
Head of Pensions and Treasury
London Borough of Tower Hamlets
Town Hall,
160 Whitechapel Road
London, E1 1BJ

## Staff, Advisers & Investment Managers

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

## London Borough of Tower Hamlets Responsible Officers:

**Miriam Adams** Interim Head of Pensions & Treasury

Corporate Director for Resources and S151 officer:

**Julie Lorraine** (from September 2023)
**Caroline Holland** (from January 2023 to August 2023)
**Kevin Bartle** (from February 2021 to January 2023)
**Neville Murton** (from November 2018 to January 2021)
**Zena Cooke** (until November 2018)

### Advisers:

**Consulting Actuary - Hymans Robertson LLP**
One London Wall, London, EC2Y 5EA

**Investment Consultant – Mercer Limited**
1 Tower Place West, Tower Place, London, EC3R 5BU

**Independent Investment Adviser** - Colin Robertson

**Custodial Services and Performance Measurement Services –** Northern Trust Company
50 Bank Street, Canary Wharf, London E14 5NT

**Legal Advisers** - Legal Services
London Borough of Tower Hamlets, Town Hall, 160 Whitechapel Road, London, E1 1BJ

**Auditor -** Deloitte LLP
3 Victoria Square, Victoria Street,
St Albans, AL1 3TF

### Investment Managers:

**Goldman Sachs Asset Management (GSAM)**
River Court, 120 Fleet Street, London, EC4A 2BE

**Insight Investment**
160 Queen Victoria Street, London EC4V 4LA

**Legal & General Investment Management Limited**
One Coleman Street, London, EC2R 5AA

**London LGPS CIV Ltd**
22 Lavington Street London SE1 0NZ

**Schroder Real Estate Capital Partners and Schroder Investment Management Limited**
1 London Wall Place, London EC2Y 5AU

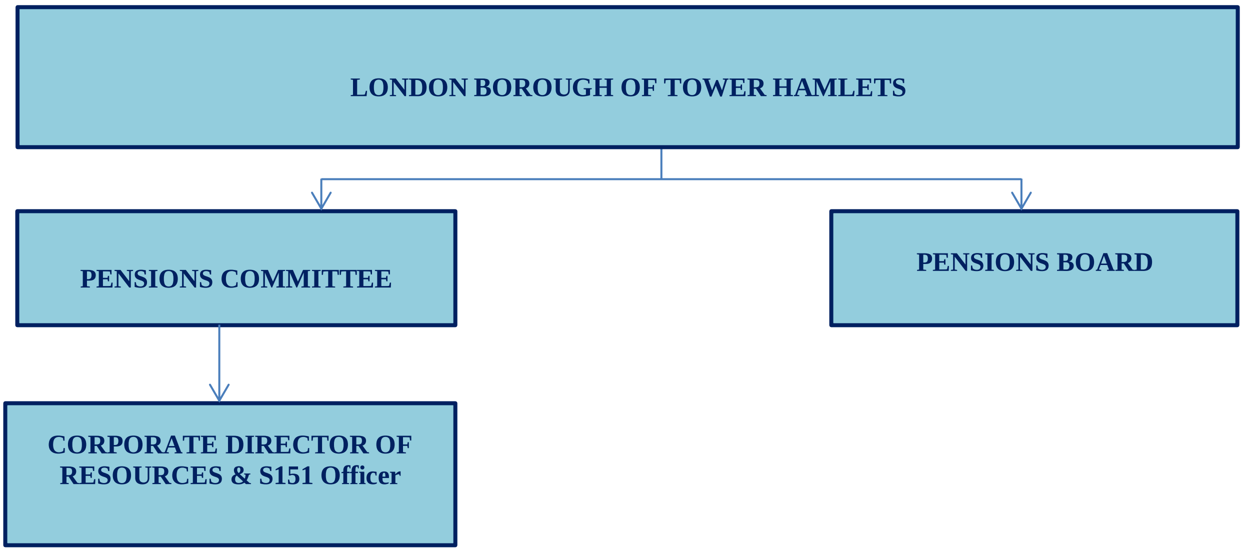
## Governance and Oversight Review

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

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

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

Please see below chart illustrating the new governance arrangement with effect from 1 April 2018:




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

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

## Pensions Committee Attendance 2019/20

| Attendee | Voting Rights | 20-Jun | 24-Sep | 28-Nov | 18-Feb |
|---|---|---|---|---|---|
| ***Member*** | | | | | |
| Chair: Councillor Kyrsten Perry | √ | Present | Present | Present | Present |
| Vice Chair: Councillor Rachel Blake | √ | Present | Present | Present | Present |
| Councillor Mohammed Ahbab Hossain | √ | Present | Absent | Present | Absent |
| Councillor Eve McQuillan | √ | Present | Absent | Present | Present |
| Councillor Ayas Miah | √ | Absent | Present | Present | Present |
| Councillor Abdal Ullah | √ | Absent | Present | Present | Absent |
| Councillor Andrew Wood | √ | Present | Absent | Present | Present |
| ***Substitute*** | | | | | |
| Cllr Kevin Brady | √ | N/A | Present | N/A | N/A |
| Cllr Faroque Ahmed | √ | N/A | Present | N/A | N/A |
| Cllr Peter Golds | √ | N/A | Present | N/A | N/A |
| ***Non-voting Member*** | | | | | |
| Kehinde Akintunde | x | Present | Absent | Absent | Present |

**Training** was provided to the Committee during 2019/20. The topics covered in the training programme for the Committee were in line with the Knowledge and Skills Framework to help ensure that the Committee can achieve high levels of the specialist knowledge required of them.

**Topics covered during the financial year were:**

- Roles and Responsibilities in the Local Government Pension Scheme (LGPS)
- Introduction to the LGPS
- Clean Energy
- Pension Management
- Trustee Training
- Actuarial Valuation
- Pension Scheme Investment Strategy
- Local Authority Update 2019
- ESG Workshop
- Equity Protection
- ESG and Impact Investing
- Sustainable Equities

# Knowledge and Skills Policy Statement

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

The adoption of the CIPFA "Pensions Finance, knowledge and skills framework, Technical Guidance for Elected Representatives and Non-executives in the Public Sector" (2010) provides the basis for a training and development programme for the Pensions Committee based on the latest national guidance.
London Borough of Tower Hamlets Pension Fund adopts the key recommendations of the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

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

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

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

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

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

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

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

# PENSIONS KNOWLEDGE AND SKILLS FRAMEWORK FOR PENSIONS COMMITTEE MEMBERS

## Core technical areas and areas of knowledge

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

**Accounting and auditing standards**
- Accounts and Audit regulations
- Role of internal and external audit

**Procurement of financial services and relationship management**
- Procurement requirements of UK and EU legislation
- Supplier risk management

**Investment performance and risk management**
- Monitoring of investment performance
- Performance of advisors
- Performance of the Pensions Committee
- Performance of support services

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

**Actuarial methods, standards and practices**
- Valuations, funding strategy and inter-valuation monitoring
- Ill-health and early retirement
- Admitted bodies
- Outsourcing and bulk transfers

## Risk Management

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

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

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

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

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

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

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

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

# Investment Performance Review

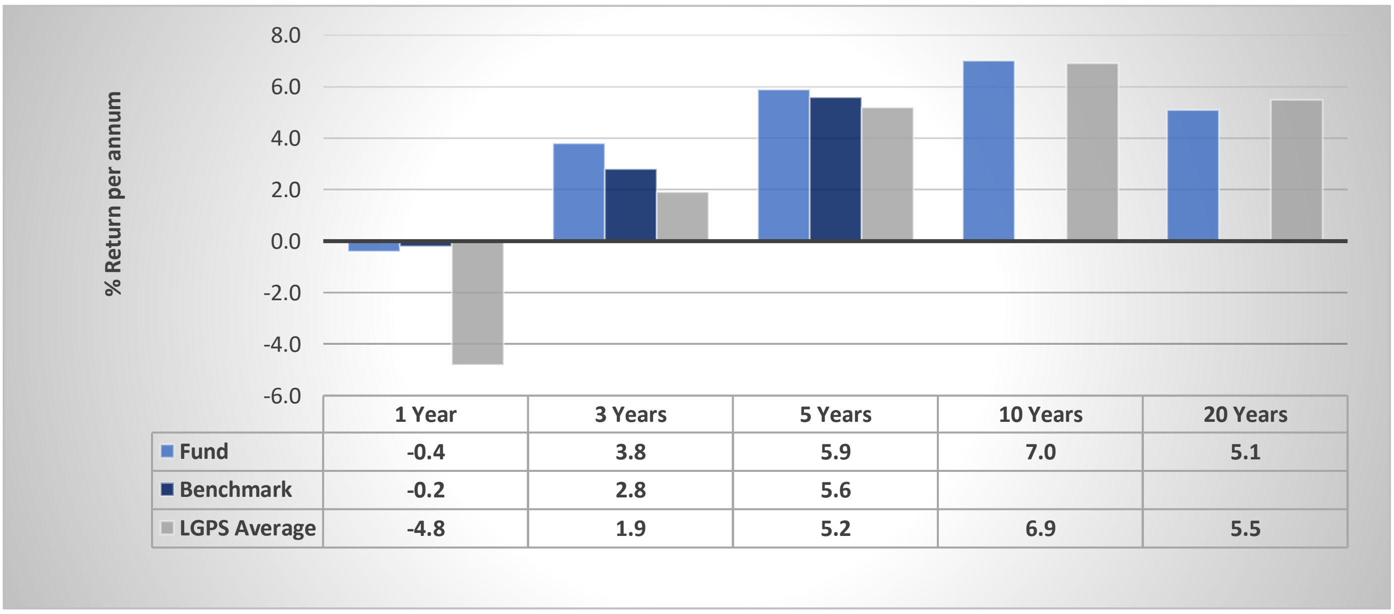
The Fund’s Investment Strategy Statement (ISS) is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused.

This section comments on the annual performance and long-term results of the Fund to 31 March 2020 based on information from the Pensions Investments Research Consultants Limited (PIRC) which compares the activity of the Fund against the Funds customised benchmark and the PIRC measure of Local Authority average based on some 64 Local Government Pension Scheme Funds. Overall, the Fund’s performance placed it in the 3rd percentile of Funds over the year to 31 March 2020.

Over the last twelve months the PIRC measure of the local authority (LA) average returned -4.8% in what has been a difficult year for equity and credit markets with government bonds, alternatives and property delivering positive returns of particular note is global equities which returned -12% but compared to the -18% decline in UK equities supports the decision by the Pensions Committee to re-allocate out of UK equities. Diversified growth funds have helped to reduce equity losses although they still delivered a negative return. Over the long-term the Fund has achieved returns of over 5% per annum.

The Fund performance over the 10 and 20 years has been below average, ranking in the 40th and 52nd percentile respectively. In the medium term the Fund has performed better, ranking 7th percentile and 15th percentile over the last three and five years respectively.

**<u>Fund Performance (One, Three, Five Ten and 20 Years)</u>**




| | 1 Year | 3 Years | 5 Years | 10 Years | 20 Years |
|---|---|---|---|---|---|
| Fund | -0.4 | 3.8 | 5.9 | 7.0 | 5.1 |
| Benchmark | -0.2 | 2.8 | 5.6 | | |
| LGPS Average | -4.8 | 1.9 | 5.2 | 6.9 | 5.5 |

**Fund Management Activity**

The London Borough of Tower Hamlets Pension Fund has been actively managed on a specialist basis by: Global Equities being managed by London Collective Investment Vehicle (CIV), Goldman Sachs Asset Management (GSAM) pooled fund and Insight's Investment pooled fund replaced Investec Asset Management (Corporate Bonds), Schroders Property Capital Partners (Property), the DGF mandates are being managed by LCIV and the passive management of UK Equities and UK Gilt & Index Linked are being managed by Legal & General Investment Management (LGIM).

**London Common Investment Vehicle (LCIV)**

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

The London CIV currently manages four investment portfolios of LBTH fund which are listed below:

a) **LCIV (Baillie Gifford) Global Alpha Equity Fund** had a value of £118.9m at the start of the mandate in July 2007. The performance target for this mandate is 2% to 3% above the benchmark (Morgan Stanley Composite Index All Country (MSCI AC) World Index gross of fees over a rolling 3-5 year period). This mandate was transferred to LCIV on 22 April 2016 at market value of £214.1m and named LCIV (BG) GA. The market value of the assets as of 31 March 2020 was £294.8m. The portfolio outperformed the one year benchmark return by 5.46% although the absolute return was -1.28%. The fund has also outperformed the 3 year benchmark return by 4.88% per annum and the 5 year benchmark return by 3.45% per annum.

b) **LCIV (BG) Diversified Growth Fund** - the original Tower Hamlets mandate was opened in February 2011 with a contract value of £40m. £6.409m was added to this portfolio in June 2015. The performance target for this mandate is to outperform the benchmark (3% p.a. above the 3 month London Interbank Offered Rate (LIBOR) net of fees over rolling 5 years with annual volatility of less than 10%). This mandate was transferred to LCIV on 15 February 2016 at market value of £54.177m and named as LCIV (BG) DGF. A further capital contribution of £70m was paid into this portfolio on 23 August 2017. The market value of assets as at 31 March 2020 was £143.5. This portfolio underperformed the one year benchmark by -12.77% and underperformed the three year benchmark return by 3.76% per annum and by 3.68% per annum over 5 years.

c) **LCIV (Ruffer) Absolute Return -** Ruffer LLP manages an Absolute Return Fund; the value of this contract on the 28 February 2011 was £40m. £6.474m was added to this portfolio on 2 June 2015. The management of this portfolio was transferred to the LCIV on 20 June 2016 at market value of £54m and the portfolio is named LCIV Ruffer (AR). A capital contribution of £70m was added to this portfolio on 23 August 2017. The performance target for this mandate is to outperform the benchmark (3.5% p.a. above 3 month LIBOR) net of fees over rolling 5 years with annual volatility of less than 10%. The value of assets under management as of 31 March 2020 was £155.9m. The portfolio underperformed the benchmark for one year by -0.73% and for 3 years by -3.22% and 5 years -1.72%.

d) **LCIV Multi Asset Credit LCIV (MAC) Fund** – LCIV invest in CQS Credit Multi Asset Fund with an objective to return London Interbank Offered Rate (LIBOR) +4-5% per annum over a 4-year rolling period and the expected volatility for this fund is 4-6% over a 4-year rolling period. Multi Asset Credit (MAC) – are strategies that make investments in multiple areas of credit. This involves bonds and loans from non-government issuers. Investments can be held as long or short. A long position is when the portfolio manager hold assets that the manager expected to rise in price. The short position is when the manager sell assets in advance as the manager expected a fall in price. The manager also uses this long / short positions to tailor risk exposures of the portfolio.
Tower Hamlets Pension Fund transferred £90m on 29 May 2018 to London CIV to invest in LCIV (CQS) MAC which was launched 31 May 2018. CQS MAC Fund had arguably been the London CIV's most successful fund launch to date. The portfolio had a market value of £79.1m at 31 March 2020. This portfolio has underperformed the benchmark by -18.79% over one year and by -11.79% since inception.

**Schroder's Investment Management**

Schroder currently manage two investment portfolios for the Fund.

a) **Property Investment** - The value of this mandate on 20 September 2004 was £90m. The performance target for this mandate is to outperform the Investment Property Databank (IPD) UK Pooled Property Fund Indices All Balanced Funds Median benchmark by 0.75% net of fees over a rolling three year period. The market value of assets at 31 March 2020 was £158.7m.

   The fund has delivered excess returns over 3 and 5 years of 0.79% and 0.60% respectively but underperformed over 1 year by -0.63%.

b) **Equity Protection Strategy** – In September 2018 the Fund implemented the equity protection strategy by investing in Schroders Bespoke Pooled Vehicle to manage equity downside risk on the Fund total equity holdings of £718m at the time with an option overlay, also establishing long synthetic equity positions of some £142m.

   The equity protection strategy is designed, on average, to help protect against losses of some 15% on a portfolio of the Fund global equities, after suffering an initial 5% loss. The Fund would start experiencing losses again should performance of equities fall by 20% below benchmark. The exact levels of protection vary by equity region but the US is the most important one.

   The objective of the strategy is to provide more certainty around the value of the equity assets during the Actuarial Valuation review in 2019 and in effect help protect strong gains in recent years. The equity protection expires at the end of March 2020.

A total value of £214.66m as constituents of £72.26m Gilts portfolio and £142.4m of equities redemption proceeds were transferred from the Tower Hamlets Pension Fund portfolios with LGIM to Schroders Bespoke Pooled Fund.

As at 31 March 2020 the Schroders synthetic equity element was valued at £193.2m and the index-linked element at £79.7m. Over one year the synthetic equity has returned 45.69% in excess of the benchmark and 25.19% since inception. The index-linked element was slightly behind the benchmark over 1 year at -0.61% but over performed since inception by 0.95%.

**Goldman Sachs** - On 4 April 2016, the fund invested £75m in Goldman Sachs Strategic Absolute Return Bond II (STAR II). The performance target is to outperform the benchmark (3 Month LIBOR) by 4.0% per annum net of fees over a rolling three year period. £24.5m was disinvested from this portfolio on 25 May 2018 to fund the LCIV (CQS) MAC portfolio. The portfolio had a market value of £50.8m at 31 March 2020.

The portfolio has performed disappointingly relative to benchmark and target with underperformance of -8.33% and -6.10% over 1 and 3 years respectively and -4.67% since inception.

**Insight Investment Management** - On 1 July 2016, the fund invested £70m with Insight Investment Management in BNY Mellon Global Funds. £21.7m was disinvested from this portfolio on 25 May 2018 to fund the LCIV (CQS) MAC portfolio. The portfolio had a market value of £45.1m at 31 March 2020. The performance target is to outperform the benchmark (3 Month LIBOR) by 3-4% per annum net of fees over a rolling three year period.

In common with other absolute return and diversified growth funds, the fund has significantly underperformed against its benchmark by -8.89% and -7.93% over 1 and 3 years respectively and by -6.65% since inception.

**Legal & General Investment Management -** On 2nd August 2010 was appointed to manage passively UK Equity and UK Index-Linked Mandates. A decision was made at the September 2017 Committee meeting following the outcome of the Fund investment strategy review to disinvest from passive UK Equity mandate as it is difficult to justify the overweight to the UK market from an investment perspective. The investment of the redemption proceeds of this portfolio along with GMO legacy portfolio in Passive Global Equity and Low Carbon Passive Global Equity Fund was agreed by the Committee and the transition of the assets occurred in December 2017. Hence the revised benchmark for LGIM Equity portfolio is as shown below:

| Fund | Allocation (30% of total LBTH Fund) |
|---|---|
| FTSE All World Equity Index | 16.7% |
| FTSE All World Equity Index GBP Hedged | 33.3% |
| MSCI World Low Carbon Target Index GBP Hedged | 50.0% |

In September 2018, the UK Index Linked Gilts portfolio of £72.26m was transferred to Schroders for EPS collateralisation management and £142.4m was redeemed from the Hedged Passive Global Equity portfolio to support the Equity Protection Strategy (EPS) Collateralisation.

In December 2019 the LGIM allocation was amended to invest entirely in low carbon indices, with 75% in MSCI World Low Carbon GBP Hedged and 25% in MSCI World Low Carbon Index.

At 31 March 2020, the Low Carbon Hedged fund had a market value of £241.7m and the Low Carbon unhedged fund had a market value of £78.2m. As expected from a tracking manager, all the portfolios matched the benchmark returns with a maximum tracking error of 0.03%.

### Asset Allocation

The asset allocation within the portfolio is in line with or within the agreed tolerance of the benchmark asset allocation as set out in the latest Investment Strategy Statement at Appendix 2. The Committee has agreed to take corrective action and rebalance asset allocation where bond to equity allocation moves by +/-5%.

**Analysis of Asset Allocation**

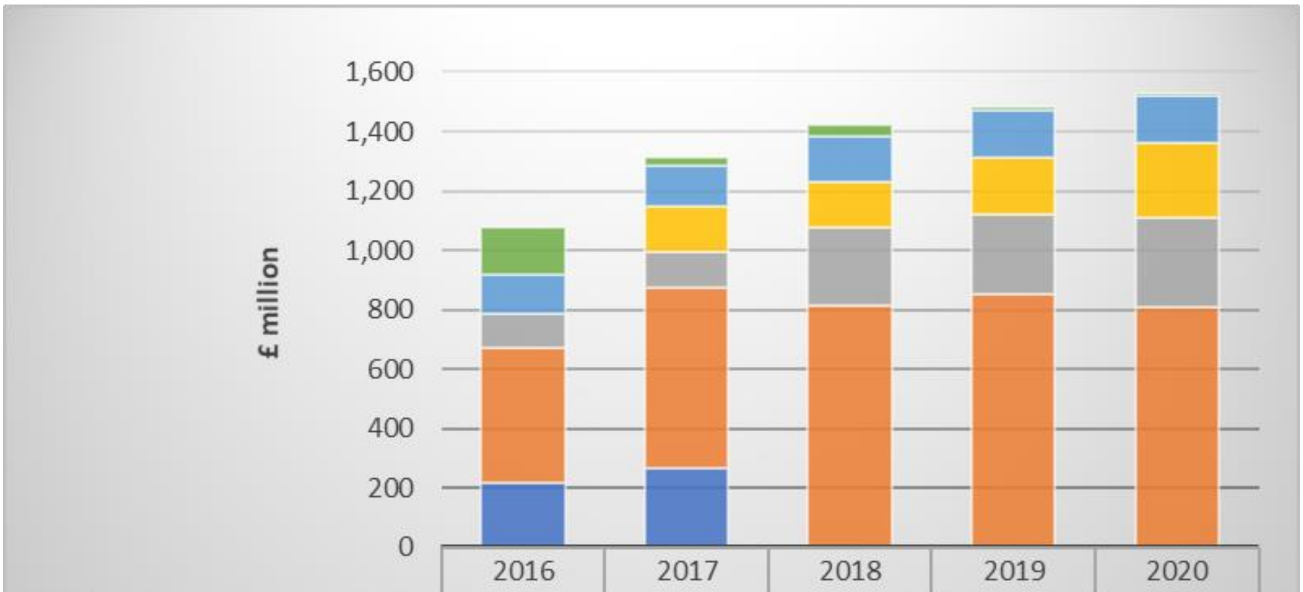
| Asset Class | Benchmark | Fund Position | Variance |
|---|---|---|---|
| Global Equities | 50.0% | 53.0% | 3.0% |
| Index Linked Gilts | 6.0% | 5.2% | -0.8% |
| Absolute Return Bonds | 6.0% | 6.3% | 0.3% |
| Multi Asset Credit | 6.0% | 5.2% | -0.8% |
| Property | 12.0% | 10.5% | -1.5% |
| Diversified Growth | 20.0% | 19.6% | -0.4% |
| Cash | 0.0% | 0.2% | 0.2% |

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

### Financial Accounts

During the financial year 2019/20 the value of the Fund decreased by £32m (-2.1%) from £1,552m to £1,520m.

**ANALYSIS OF ASSET CLASS**




| | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Cash | 154.6 | 23.9 | 35.3 | 10.5 | 3.0 |
| Pooled Property | 135.4 | 140.3 | 155.6 | 161.7 | 159.3 |
| Pooled Bonds and Credit | 0.0 | 149.6 | 148.9 | 191.2 | 254.6 |
| Diversified Growth | 110.9 | 124.0 | 267.7 | 267.4 | 299.4 |
| Global Equities | 457.2 | 606.5 | 812.1 | 852.6 | 808.1 |
| UK Equities | 217.5 | 266.3 | 0.0 | 0.0 | 0.0 |

**Fund Income**

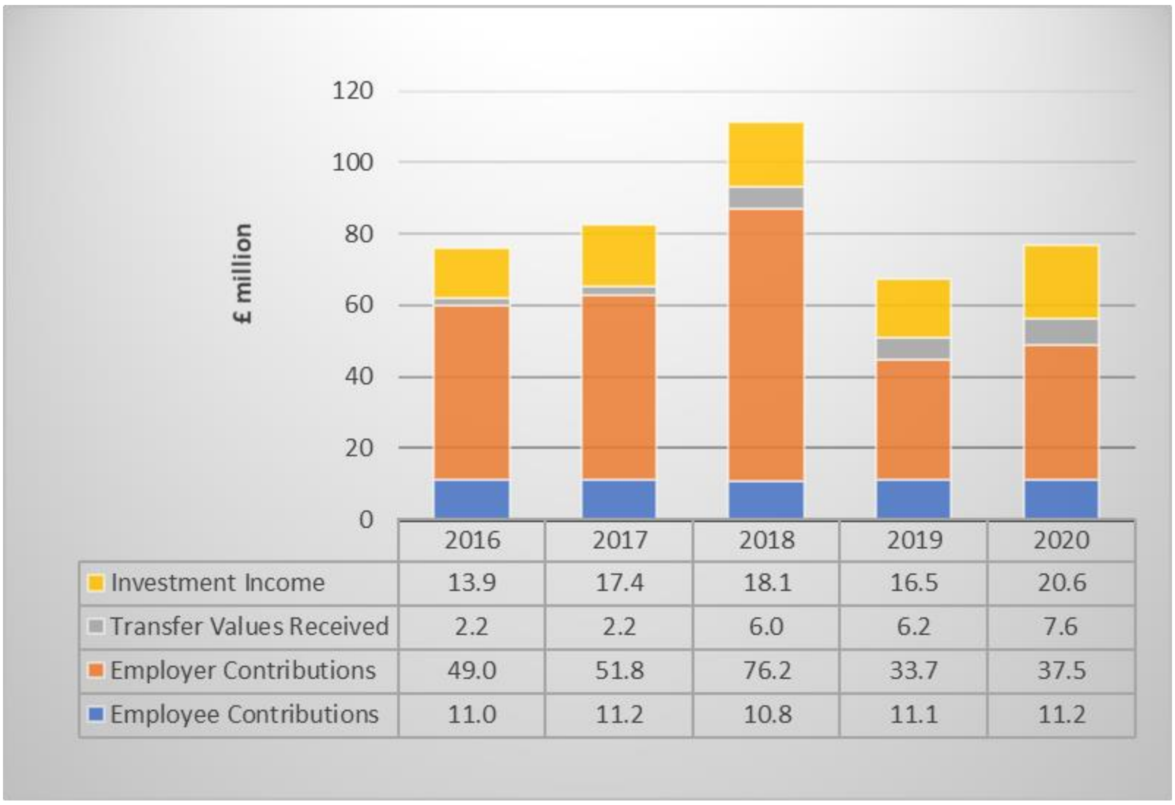
There was an overall increase of £9m in the amount of income received by the Fund in 2019/20 compared to 2018/19.

**Fund Income Variance Analysis**

| Type of Income | 2019 £m | 2020 £m | Variance % |
|---|---|---|---|
| Employee Contributions | -11.1 | -11.2 | 0.1% |
| Employer Contributions | -33.7 | -37.5 | 11.3% |
| Transfer Values Received | -6.2 | -7.6 | 22.6% |
| Investment Income | -16.5 | -20.6 | 24.9% |
| **Total Fund Income** | **-67.5** | **-76.9** | **13.9%** |

Investment income increased over the year by £4.1m. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) also increased. It is not possible to predict the value of transfer value payments as they are dependent on individual's length of service and salary and as such may vary significantly. Employee contributions increased slightly by 0.1% but employer contributions increased significantly by 11.3%.

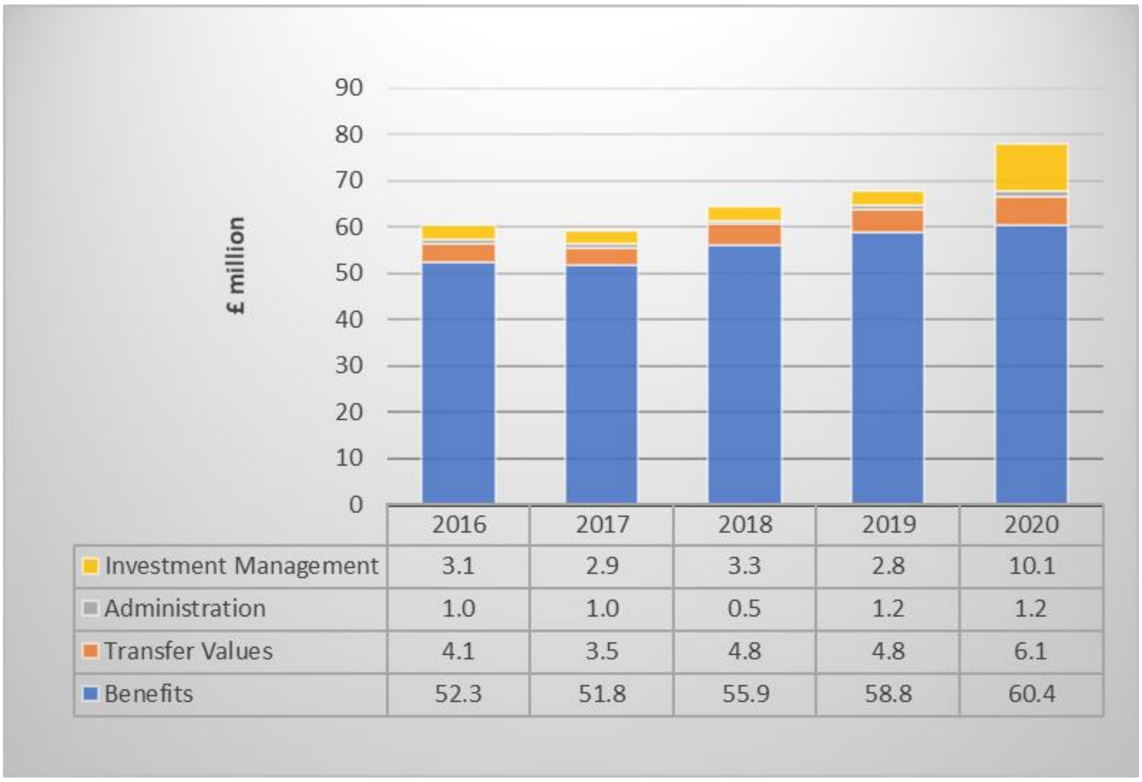
**Fund Income Analysis**



## Fund Expenditure

In 2019/20 the overall Fund expenditure increased by £10.2m (15.1%). The major contributor to this rise was the £7.3m increase in investment management expenses. This increase is due to the cost transparency inititiative whereby costs that are hidden within the fund (that is where costs are deducted from income or the net asset value) are made explicit in the reporting. These costs were previously incurred by the Fund's investment in pooled funds so this is not an actual increase in real costs. Investment management expenses are typically a percentage of the net asset value so will change in line with movements in market value. Transfer values are up by 27% but these are highly variable year on year as they reflect not just the number of staff leaving the Council but also the value of their accrued benefits. Benefits payable increase in line with inflation each year plus change in the value of benefits paid to individual pensioners.

## Fund Expenditure Analysis Chart




## Expenditure Variance Analysis

| Type of Expenditure | 2019 £m | 2020 £m | Variance % |
|---|---|---|---|
| Benefits | 58.8 | 60.4 | 2.7% |
| Transfer Values | 4.8 | 6.1 | 27.1% |
| Administration | 1.2 | 1.2 | 0.0% |
| Investment Management | 2.8 | 10.1 | 260.7% |
| **Total Fund Expenditure** | **67.6** | **77.8** | **15.1%** |

## Management Costs

Management costs of the Fund are classified into 3 categories: investment management, administration and oversight and governance. The table below shows these costs over the past 5 years and the cost per member. (Note that for 2020 the investment costs included additional costs of pooled investments not previously reported).

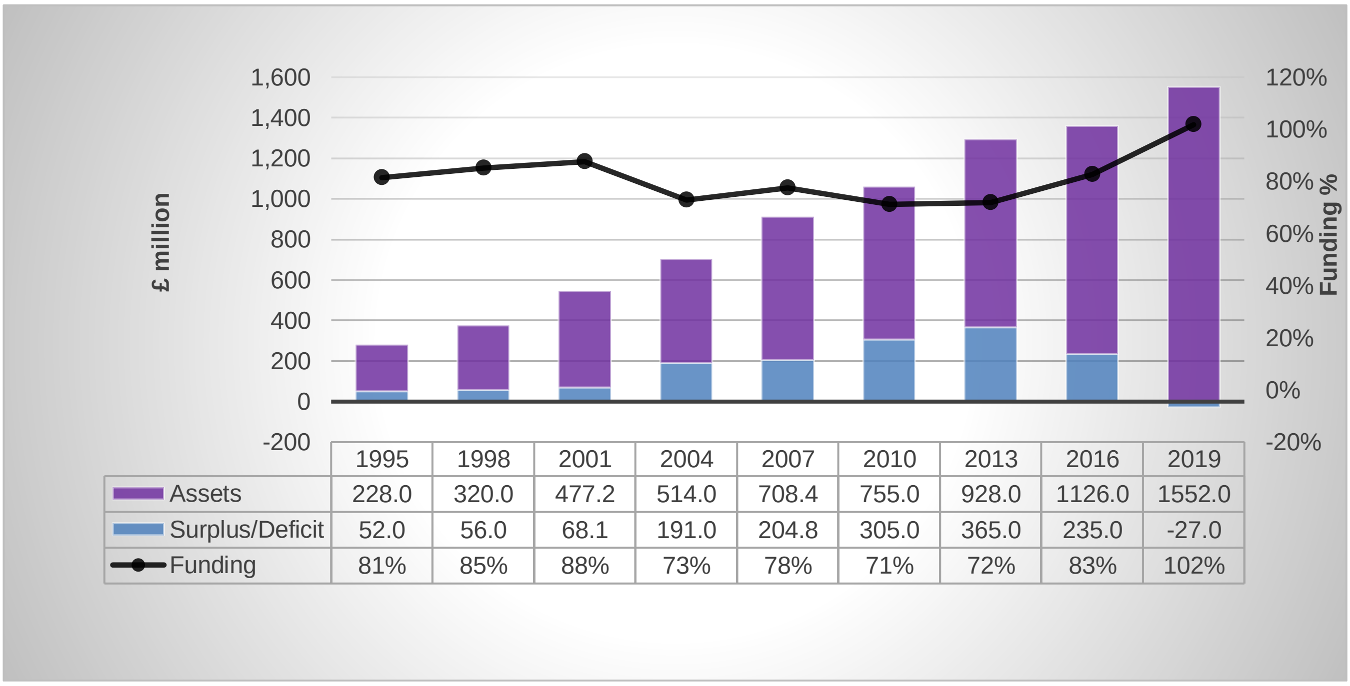
| Management Expenses | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|
| Members (average during year) | 19,410 | 20,209 | 20,634 | 20,804 | 21,524 |
| | | | | | |
| **Investment Management** | £3.1m | £2.9m | £3.3m | £2.8m | £10.1m |
| cost per member | £159.71 | £143.50 | £159.93 | £134.59 | £469.24 |
| **Administration** | £0.9m | £0.8m | £0.4m | £1.0m | £0.7m |
| cost per member | £47.09 | £40.43 | £18.85 | £49.27 | £34.66 |
| **Oversight and Governance** | £0.1m | £0.2m | £0.1m | £0.2m | £0.5m |
| cost per member | £4.43 | £9.06 | £5.38 | £8.41 | £21.09 |
| **Total Fund Management Expenses** | **£4.1m** | **£3.9m** | **£3.8m** | **£4.0m** | **£11.3m** |
| **cost per member** | **£211.2** | **£193.0** | **£184.2** | **£192.3** | **£525.0** |

## Funding Level

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

The Fund was valued by the Scheme Actuary Hymans Robertson LLP as at the 31st March 2019. The Actuary calculated that the Pension Fund is 102% funded and has a surplus of £27m.

## Movement in Funding Level



The funding level has improved from 83% in 2016 to 102% in 2019. Additionally, the funding deficit has been eliminated and the Fund is in surplus by £27m. The main reasons for the change in the funding level over the period were better than anticipated investment returns, receipt of deficit repair contributions, and positive membership experience.

The liabilities have also increased due to a reduction in the future expected investment return, although this has been offset by lower than expected pay and benefit growth.

For the Fund as a whole, the Primary rate remains unchanged from the 2016 valuation at 19.9% of pensionable pay. The Secondary rate per annum is marginally less than that due for 2019/20, although over the 3 years of the valuation there will be an additional £1m compared to previously.

The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates (before any pre-payment or capitalisation of future contributions), calculated in accordance with the Regulations and CIPFA guidance. Changes to employer contributions targeted to ensure full funding have been variable across employers.

It should be emphasised that the deficit does not affect employees' pension entitlement. The Council is under a statutory obligation to provide sufficient funds to pay pensions and has adopted a strategy recommended by the Actuary to achieve full funding in twenty years. Councils can take a long-term perspective because of their financial stability and statutory backing. The 2019 valuation exercise has shown the Fund to be gradually maturing as the proportion of employee members has fallen whilst the deferred and pensioner numbers have risen.

## The Scheme Details

The London Borough of Tower Hamlets Pension Fund is part of the Local Government Pension Scheme (LGPS) and is governed by Statute. The main regulations governing the operation of the Fund during the year were the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 2013. The Local Government Pension Scheme Regulations 2013 introduced the new 2014 LGPS which amongst other things changed the benefits structure from a final salary to career average revalued earning (CARE) scheme. In addition, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 covers the investment aspects of the funds.

The London Borough of Tower Hamlets is the Administering Authority for the Pension Fund and pensions and entitlement to benefits are fully protected in law. Membership of the Fund is open to all employees of the Council including school employees with the exception of teachers (who have their own pension scheme). Other employers are admitted to the Pension Fund and depending on their status; their employees may also be able to participate in the LGPS. Employee contributions are determined by central government and are between 5.5% and 12.5% of pensionable pay. Employer rates are set by the Fund actuary every 3 years following a valuation of the assets and liabilities of the Fund, with the next valuation due to take place as at 31 March 2022.

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

The Pension Scheme as applying during the financial year 2019/20 was a defined benefit career average revalued earnings scheme which aligns LGPS retirement age with an individual's state pension age. The key benefits of the scheme are outlined below:

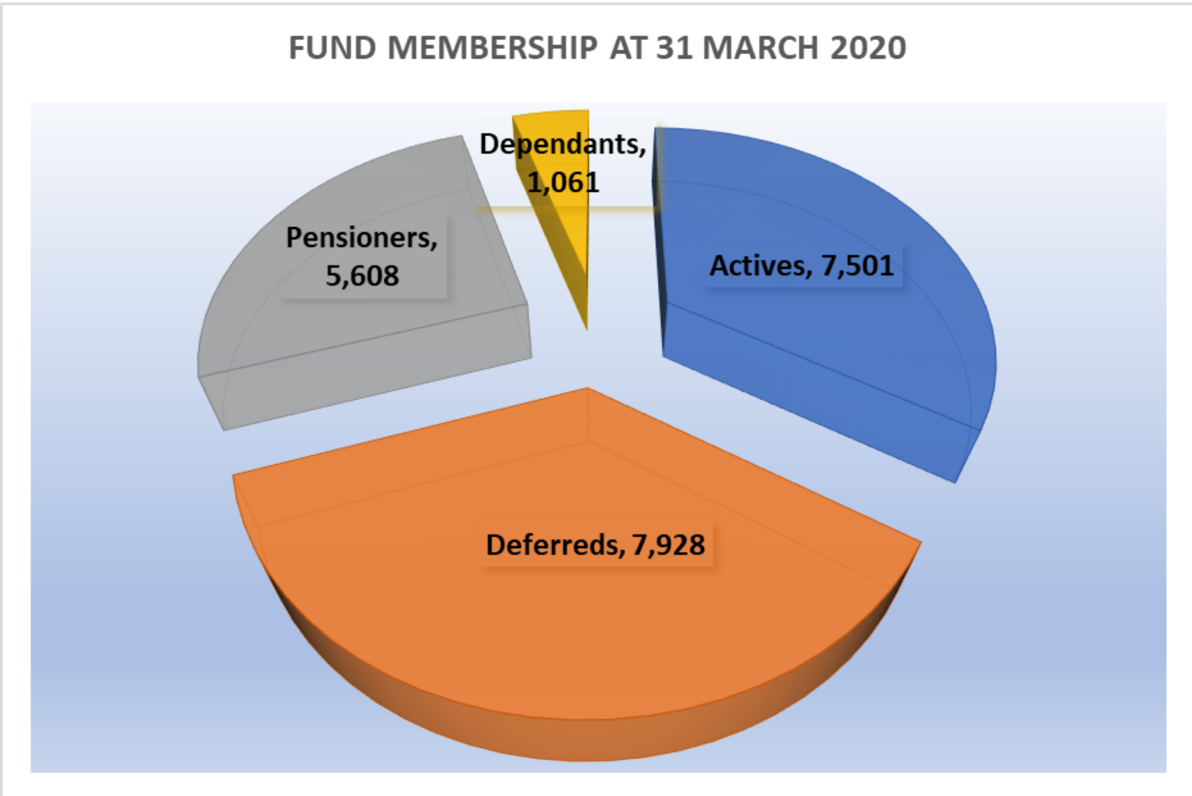
- Pension benefits based on a 1/49th accrual basis for each year of pensionable service with benefits calculated on the career average pay revalued annually in line with inflation.
- Pre-2014 benefits guaranteed with a final salary link for any benefits earned prior to 1 April 2014.
- Option to pay 50%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

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

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

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

**Scheme Membership**
The Fund currently has a membership of 22,098 comprising the following categories as set out in the below chart. Membership to the Fund is automatic for full and part-time employees unless they opt out.



The total pension fund membership has increased by 5.5% between 2018/19 and 2019/20. The number of active members (those currently contributing to the fund) has increased by 761 members (11.3%). The deferred membership category (members who have contributed in the past but who have not yet become entitled to their benefits) has increased by 184 (2.4%) and pensioners has increased by 228 (4.2%). The dependants' category saw a decrease of 24 (-2.2%).

**Movement in Fund Membership**

| Membership Type | 31-Mar-19 | 31-Mar-20 | Variance | Variance % |
|---|---|---|---|---|
| Actives | 6,740 | 7,501 | 761 | 11.3% |
| Deferreds | 7,744 | 7,928 | 184 | 2.4% |
| Pensioners | 5,380 | 5,608 | 228 | 4.2% |
| Dependants | 1,085 | 1,061 | -24 | -2.2% |
| **Total** | **20,949** | **22,098** | **1,149** | **5.5%** |

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

| Membership Type | 31-Mar-16 | 31-Mar-17 | 31-Mar-18 | 31-Mar-19 | 31-Mar-20 |
|---|---|---|---|---|---|
| Actives | 7,022 | 7,256 | 6,635 | 6,740 | 7,501 |
| Deferreds | 7,145 | 7,482 | 7,899 | 7,744 | 7,928 |
| Pensioners | 4,599 | 4,811 | 5,055 | 5,380 | 5,608 |
| Dependants | 1,044 | 1,059 | 1,070 | 1,085 | 1,061 |
| **Total** | **19,810** | **20,608** | **20,659** | **20,949** | **22,098** |

**Fund Employers**

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

### Admitted Bodies

- Agilisys
- City Gateway
- Compass contract
- East End Homes
- Energy Kidz
- Gateway Housing Association
- Greenwich Leisure Ltd
- Medequip
- One Housing Group
- Swan Housing Association
- Tower Hamlets Community Housing
- Vibrance *(formerly Redbridge Community Housing Ltd)*
- Wettons Cleaning Services Limited

### Scheduled Bodies

- Attwood Academy *(Ian Mikardo High School)*
- Canary Wharf College
- East London Academy
- Green Spring Academy

- Letta Trust *(Stebon & Bygrove)*
- London Enterprise Academy
- Mulberry Academy
- Paradigm Trust *(Culloden, Old Ford & Solebay Academy)*
- Sir William Burrough
- St Pauls Way Community School
- Tower Hamlets Homes Ltd
- Tower Trust *(Clara Grant & Stepney Green)*
- Wapping High School

**Contributions to the Fund**

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

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

| Contributing Employers | Active Members | Contributions from Members £ | Contributions from Employers £ |
|---|---|---|---|
| London Borough of Tower Hamlets | 6,590 | 9,490,693.46 | 30,461,482.45 |
| Agilisys | 4 | 12,784.26 | 29,549.56 |
| Attwood Academy (Ian Mikardo School) | 13 | 25,871.30 | 84,350.51 |
| Letta Trust (Bygrove and Stebon Schools) | 66 | 48,314.69 | 172,136.69 |
| Canary Wharf College | 18 | 21,939.69 | 54,224.77 |
| Compass Contract Services (U.K.) Limited | 9 | 0.00 | 0.00 |
| South Quay (City Gateway) | 14 | 18,458.28 | 51,551.88 |
| Tower Trust (Clara Grant and Stepney Green) | 54 | 67,838.17 | 222,345.71 |
| East End Homes | 19 | 62,647.30 | 247,329.34 |
| East London Arts and Music | 19 | 25,452.94 | 73,557.84 |
| Energy Kidz | 0 | 27.28 | 168.65 |
| Gateway Housing Association | 1 | 1,649.59 | 36,064.27 |
| Greenwich Leisure Ltd | 3 | 14,127.31 | 52,621.29 |
| London Enterprise Academy | 18 | 21,773.86 | 61,445.00 |
| Medequip | 1 | 1,626.15 | 8,706.13 |
| Mulberry Academy | 89 | 178,404.60 | 550,769.04 |
| Paradigm Trust | 66 | 60,388.07 | 205,886.25 |
| Sir William Burrough School | 16 | 24,133.71 | 64,177.92 |
| St Paul's Way Trust | 85 | 110,762.34 | 313,498.18 |
| Swan Housing Association | 0 | 160.20 | 4,615.99 |
| Tower Hamlets Community Housing | 4 | 10,900.96 | 56,745.89 |
| Tower Hamlets Homes Ltd | 397 | 909,917.14 | 2,343,799.38 |
| Toynbee Island Homes Ltd (One Housing) | 5 | 8,869.32 | 56,514.34 |
| Vibrance (Redbridge Community Housing) | 2 | 3,854.86 | 10,496.89 |
| Wapping High School | 3 | 8,341.38 | 21,453.39 |
| Wetton Cleaning Services Ltd | 5 | 2,236.82 | 14,036.30 |
| **Total** | **7,501** | **11,131,173.68** | **35,197,527.66** |

The full accounts are as set out in Appendix 1.

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

Appendix 2 Investment Strategy Statement
Appendix 3 Funding Strategy Statement
Appendix 4 Communications Strategy Statement
Appendix 5 Governance Compliance Statement

The above listed policy documents can also be found by clicking below link:
http://www.towerhamletspensionfund.org/governance-documents

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

# PENSIONS ADMINISTRATION

The main processes undetaken by the Pensions Administration team are shown in the table below together the number of cases dealt with in 2019/20. The table also shows key performance data (KPI) such as number of cases per staff member and the percentage of cases completed within the approved time period.

| Process | No of Cases commenced in year | No. of cases completed in year | % completed in year | Average cases per fte staff member | KPI (days) | Target met % |
|---|---|---|---|---|---|---|
| Death - initial letter acknowledging death | 110 | 92 | 83.6 | 55 | 10 | 78.3 |
| Death - letter notifying amount of dependent's pension | 178 | 157 | 88.2 | 89 | 10 | 76.4 |
| Retirements - letter notifying estimate of retirement benefits | 462 | 439 | 95.0 | 115 | 10 | 89.3 |
| Retirements - letter notifying actual retirement benefits | 160 | 144 | 90.0 | 53 | 10 | 74.3 |
| Retirements - process and pay pension benefits on time | 160 | 144 | 90.0 | 53 | 10 | 74.3 |
| Deferment - calculate and notify deferred benefits | 380 | 332 | 87.4 | 64 | 30 | 80.8 |
| Transfers in/out - letter detailing transfer quote | 382 | 335 | 87.7 | 64 | 10 | 74.4 |
| Refund - process and pay refund | 358 | 383 | 100.0 | 119 | 10 | 75.6 |
| Divorce quote - letter detailing cash equivalent value and other benefits | 8 | 6 | 75.0 | 4 | 10 | 83.5 |
| Divorce settlement - letter detailing implementation of pension sharing | 0 | 0 | 0.0 | 0 | 10 | 0.0 |
| Joiners - notification date of enrolment | 1687 | 1610 | 95.4 | 422 | 60 | 98.3 |

# ASSET POOLS

The London Borough of Tower Hamlets Pension Fund is a shareholder in the London Collective Investment Vehicle (LCIV) along with 30 other London boroughs and the City of London. LCIV was set up in 2015 as one of 8 regional pools in England and Wales to deliver investment strategies for individual LGPS funds. The table below shows how the Fund's investments are managed as part of the LCIV.

| **FUND INVESTMENTS 2019/20** | | **£m** | **% of Fund** |
|---|---|---|---|
| **MANAGER** | **FUND** | | |
| **Investments Within Asset Pool** | | | |
| London LGPS CIV | Global Alpha Equity | 295.0 | 19.4% |
| | Multi-Asset Credit | 79.1 | 5.2% |
| | Diversified Growth | 143.5 | 9.4% |
| | Absolute Return | 155.9 | 10.3% |
| **Sub-total** | | **673.5** | **44.3%** |
| **Investments Outside Asset Pool** | | | |
| Schroder | Synthetic Equities | 193.3 | 12.7% |
| | Index-Linked Gilts | 79.2 | 5.2% |
| | Real Estate | 156.6 | 10.3% |
| Legal & General | MSCI World Low Carbon Index (GBP Hedged) | 241.7 | 15.9% |
| | MSCI World Low Carbon Index (unHedged) | 78.2 | 5.1% |
| Goldman Sachs | Strategic Absolute Return Bonds | 50.8 | 3.3% |
| Insight Investment | Absolute Return Bonds | 45.0 | 3.0% |
| LBTH | Internally managed cash | 3.0 | 0.2% |
| **Sub-total** | | **847.8** | **55.7%** |
| **Grand Total** | | **1,521.3** | **100.0%** |

### Investment Costs Comparison

The table below shows the costs of investments held by the asset pool and those held outside of it. Overall, investment management costs represent 0.662% of Fund assets with those of LCIV higher than other managers. This difference reflects the more complex strategies managed by LCIV such as diversified growth funds and credit funds. The costs outside of LCIV have been kept lower partly due to investments in low cost tracker funds.

| | **London CIV Asset Pool** | | | | **Non-Asset Pool** | | | | **Whole Fund** | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Category** | **Direct Costs £000** | **Indirect Costs £000** | **Total Costs £000** | **% of Asset Value** | **Direct Costs £000** | **Indirect Costs £000** | **Total Costs £000** | **% of Asset Value** | **Total Costs £000** | **% of Asset Value** |
| Asset Pool Costs | 43.3 | | 43.3 | 0.006% | | | | | 43.3 | 0.003% |
| Management Fees | | 4,045.8 | 4,045.8 | 0.601% | 811.9 | 1,203.5 | 2,015.4 | 0.238% | 6,061.2 | 0.398% |
| Transaction Costs | | 2,857.2 | 2,857.2 | 0.424% | | 1,109.2 | 1,109.2 | 0.131% | 3,966.4 | 0.261% |
| Custody Fees | | | | | 50.5 | | 50.5 | 0.006% | 50.5 | 0.003% |
| **Total** | **43.3** | **6,903.0** | **6,946.3** | **1.031%** | **862.4** | **2,312.7** | **3,175.1** | **0.375%** | **10,121.4** | **0.662%** |

# ACTUARIAL VALUATIONS

## 1. Actuarial Valuation March 2016

An actuarial valuation of the London Borough of Tower Hamlets Pension Fund was carried out by Hymans Robertson LLP as at 31 March 2016 to determine the contribution rates that should be paid into the Fund by the employing authorities as from 1 April 2017 to 31 March 2020 in order to maintain the solvency of the Fund.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets represented 82.8% of the Funding Target and the estimated deficit on the Fund at the valuation date was £235m. The Actuary has determined that the deficit can be recovered over a period of 20 years and the agreed monetary contribution to recover the deficit for the term of the revaluation is £15m (2017/18) rising to £15m (2018/19) and £15m (2019/20).

Individual employer rates are required under Regulation 62(4) for the period 1 April 2017 to 31 March 2020 resulting in a Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

| | | Minimum Contribution for the year ending | | | | |
|---|---|---|---|---|---|---|
| Employer Name as per 31 March 2017 | Year ending 31 March 2018 | Additional Monetary Deficit Payment £ | Year ending 31 March 2019 | Additional Monetary Deficit Payment £ | Year ending 31 March 2020 | Additional Monetary Deficit Payment £ |
| London Borough of Tower Hamlets | 19.9% | 15m | 19.9% | 15m | 19.9% | 15m |
| Tower Hamlets Community Housing Limited | 37.6% | | 37.6% | | 37.6% | |
| Paradigm Trust | 30.9% | | 26.1% | | 21.3% | |
| Redbridge Community Housing Limited | 17.7% | | 17.7% | | 17.7% | |
| East End Homes Limited | 29.4% | | 29.4% | | 29.4% | |
| Greenwich Leisure Limited | 20.0% | 13k | 20.0% | 14k | 20.0% | 14k |
| Swan Housing Association Limited | 30.5% | 11k | 30.5% | 11k | 30.5% | 11k |
| Gateway Housing Association (Bethnal Green & Victoria Park) | 30.0% | 28k | 30.0% | 28k | 30.0% | 28k |
| One Housing Group (Toynbee Island Homes) | 41.4% | | 41.4% | | 41.4% | |
| Tower Hamlets Homes | 18.4% | | 18.4% | | 18.4% | |
| Bethnal Green Academy | 24.5% | | 24.5% | | 24.5% | |
| Sir William Burrough School | 16.4% | | 16.4% | | 16.4% | |
| St Pauls Way Community School | 18.9% | | 18.9% | | 18.9% | |
| Canary Wharf College | 15.9% | | 15.9% | | 15.9% | |
| Agilisys | 16.8% | | 16.8% | | 16.8% | |
| London Enterprise Academy | 17.6% | | 17.6% | | 17.6% | |
| Wapping High School | 16.1% | | 16.1% | | 16.1% | |

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

The results of the triennial valuation depend on the actuarial assumptions made about various factors impacting on the Fund. The table below shows the main assumptions used in 2016 together with a comparison with the previous valuation in 2013.

**Valuation Assumptions**

| Financial assumptions | 31 March 2013 | 31 March 2016 |
|---|---|---|
| Discount rate | 4.6% | 4.2% |
| Benefit increase (CPI) | 2.5% | 2.1% |
| Salary increase | 3.8% | 2.0% |

## 2. Actuarial Valuation March 2019

An actuarial valuation of the London Borough of Tower Hamlets Pension Fund was carried out by Hymans Robertson LLP as at 31 March 2019 to determine the contribution rates that should be paid into the Fund by the employing authorities as from 1 April 2020 to 31 March 2023 in order to maintain the solvency of the Fund.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets represented 102% of the Funding Target and the estimated surplus on the Fund at the valuation date was £27m. The Actuary has determined that any deficit for individual employers can be recovered over a period of 20 years and the agreed monetary contribution to recover the deficit for the term of the revaluation is approximately £15m per annum.

Individual employer rates are required under Regulation 62(4) for the period 1 April 2020 to 31 March 2023 resulting in a Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

| | Minimum Contribution for the year ending | | | | | |
|---|---|---|---|---|---|---|
| Employer Name as per 31 March 2019 | Year ending 31 March 2021 | Additional Monetary Deficit Payment | Year ending 31 March 2022 | Additional Monetary Deficit Payment | Year ending 31 March 2023 | Additional Monetary Deficit Payment |
| London Borough of Tower Hamlets (non-schools) | 19.9% | £13.7m | 19.3% | £13.7m | 18.6% | £13.7m |
| London Borough of Tower Hamlets (schools) | 20.3% | | 21.8% | | 23.3% | |
| Tower Hamlets Community Housing Limited | 37.6% | | 37.6% | | 37.6% | |
| Mulberry Trust | 23.5% | | 23.5% | | 23.5% | |
| Paradigm Trust | 20.8% | | 20.8% | | 20.8% | |
| East End Homes Limited | 29.4% | | 34.7% | | 34.7% | |
| Greenwich Leisure Limited | 28.6% | | 28.6% | | 28.6% | |
| Gateway Housing Association (Bethnal Green & Victoria Park) | 30.0% | £28k | 30.0% | £28k | 30.0% | £28k |
| One Housing Group (Toynbee Island Homes) | 41.4% | | 41.4% | | 41.4% | |
| Tower Hamlets Homes | 18.4% | | 18.4% | | 18.4% | |
| Sir William Burrough School | 16.0% | | 16.0% | | 16.0% | |
| St Pauls Way Community School | 17.3% | | 17.3% | | 17.3% | |
| Canary Wharf College | 19.7% | | 19.7% | | 19.7% | |

| Minimum Contribution for the year ending | | | | | | |
|---|---|---|---|---|---|---|
| Employer Name as per 31 March 2019 | Year ending 31 March 2021 | Additional Monetary Deficit Payment | Year ending 31 March 2021 | Additional Monetary Deficit Payment | Year ending 31 March 2021 | Additional Monetary Deficit Payment |
| Agilisys | 0.0% | | 0.0% | | 0.0% | |
| London Enterprise Academy | 19.5% | | 19.5% | | 19.5% | |
| Wapping High School | 18.2% | | 18.2% | | 18.2% | |
| City Gateway | 15.5% | | 15.5% | | 15.5% | |
| Compass contract services | 34.8% | | 34.8% | | 34.8% | |
| The LETTA Trust | 22.9% | | 22.9% | | 22.9% | |
| Ian Mikardo Academy | 23.9% | | 23.9% | | 23.9% | |
| East London Arts and Music | 19.4% | | 19.4% | | 19.4% | |
| Tower Trust | 25.1% | | 25.1% | | 25.1% | |
| Wettons Cleaning Services Ltd | 37.0% | | 37.0% | | 37.0% | |
| Medequip | 34.8% | | 34.8% | | 34.8% | |

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

The results of the triennial valuation depend on the actuarial assumptions made about various factors impacting on the Fund. The table below shows the main assumptions used in the 2019 valuation.

**Valuation Assumptions:**

Funding Target

| Assumption | Economic Indicator |
|---|---|
| **Benefit increases** | Future CPI inflation expectations |
| **CARE revaluation** | Future CPI inflation expectations |
| **Salary increases** | As above plus 0.2% p.a. |
| **Future investment returns** | Prevailing risk free rate of return plus margin |

Salary and Benefits

| Financial assumptions (per annum) | 31 March 2016 | 31 March 2019 |
|---|---|---|
| Benefit increase and CARE revaluation (CPI) | 2.1% | 2.3% |
| Salary increase | 2.0% | 2.5% |

Life Expectancy

| Assumed Life Expectancy | 31 March 2016 | 31 March 2019 |
|---|---|---|
| **Male** | | |
| Pensioners | 22.1 years | 21.5 years |
| Non-pensioners | 23.9 years | 22.6 years |
| **Female** | | |
| Pensioners | 24.1 years | 23.5 years |
| Non-pensioners | 25.8 years | 25.0 years |

The next triennial valuation of the Fund is due as at 31 March 2022. The contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

# Statement of Responsibilities

The London Borough of Tower Hamlets as Administering authority of the London borough of Tower Hamlets Pension fund is required to:

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

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

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

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

The Corporate Director, Resources has:

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

**Responsible Financial Officer's Certificate**
I certify that the Accounts as set out on pages 32 to 61 have been prepared in accordance with proper practices and that they give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2020 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2020, except for, the effects of issues relating to the quality of pension scheme membership data on the present value of promised retirement benefits at 31 March 2020.

Julie Lorraine
Corporate Director for Resources and S151 officer
(from September 2023)

Date: 29th November 2023

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

We have examined the pension fund financial statements for the year ended 31 March 2020, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 25.

## Respective responsibilities of the Chief Financial Officer and the auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you my opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of London Borough of Tower Hamlets, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

## Opinion

In our opinion, the pension fund financial statements are consistent, in all material respects, with the pension fund financial statements in the full annual statement of accounts of London Borough of Tower Hamlets for the year ended 31 March 2020 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Our opinion on the pension fund financial statements in the full financial statements of the London Borough of Tower Hamlets for the year ended 31 March 2020 was qualified because errors were identified in a sample of membership data used to calculate the information provided by the council to the actuary for the purpose of the valuation of the present value of promised retirement benefits at 31 March 2020 of £1,990 million and at 31 March 2019 of £2,102 million. The present value of promised retirement benefits was corrected for some, but not all of these errors. As a result of the volume of member records involved, we were unable to determine whether any further adjustments to these amounts were necessary. This also caused us to qualify our opinion in respect of the financial statements for the year ended 31 March 2019. In addition, where the results and financial position of the Authority in respect of these matters are discussed in the other information, we concluded that the other information is materially misstated for the same reasons.

## Use of our report

This report is made solely to the members of London Borough of Tower Hamlets, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the London Borough of Tower Hamlets, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Jonathan Gooding.

Jonathan Gooding (Appointed auditor)
For and on behalf of Deloitte LLP
St Albans, United Kingdom

30 November 2023

# The London Borough of Tower Hamlets Pension Fund

## Appendix 1

## Statement of Accounts 2019/20

# PENSION FUND ACCOUNTS

| PENSION FUND ACCOUNT | Note | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|---|
| **DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME** | | | |
| **Contributions** | | | |
| From employers | | | |
| Normal | 7 | (31,885) | (35,145) |
| Augmentation | 7 | (1,796) | (2,321) |
| Deficit funding | 7 | (53) | (53) |
| From members | 7 | (11,102) | (11,156) |
| **Transfers in** | | | |
| Transfers in from other pension funds | 8 | (6,157) | (7,608) |
| **Benefits** | | | |
| Pensions | 9 | 45,194 | 47,620 |
| Lump sum benefits | 9 | 13,580 | 12,798 |
| **Payments to and on account of leavers** | | | |
| Refunds of contributions | 10 | 224 | 756 |
| Transfers out to other pension funds | 10 | 4,848 | 6,079 |
| **Administrative expenses** | 11 | 1,151 | 1,196 |
| **NET DEDUCTIONS FROM DEALINGS WITH MEMBERS** | | **14,004** | **12,166** |

| RETURN ON INVESTMENTS | | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|---|
| Investment income | 12 | (16,473) | (20,580) |
| Taxes on Income | 12 | 73 | 7 |
| Change in market value of investments | | | |
| Realised | 14a | (7,530) | (44,152) |
| Unrealised | 14a | (65,098) | 75,782 |
| Investment management expenses | 11 | 2,774 | 10,121 |
| **NET RETURN ON INVESTMENTS** | | **(86,254)** | **21,178** |
| Net (increase)/decrease in the Fund during the year | | (72,250) | 33,344 |
| Add: Opening net assets of the scheme | | (1,480,656) | (1,552,906) |
| **CLOSING NET ASSETS OF THE SCHEME** | | **(1,552,906)** | **(1,519,562)** |

| NET ASSETS STATEMENT AS AT 31ST MARCH | | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|---|
| **Long Term Investments** | | | |
| London CIV Share capital | | 0 | 150 |
| **Investments Assets** | | | |
| Pooled Investment Vehicles | | | |
| Unit Trusts | 14 | 1,390,480 | 1,360,710 |
| Property | 14 | 157,351 | 147,556 |
| Legacy | 14 | 4 | 0 |
| Other | 14 | (38) | (33) |
| | | 1,547,797 | 1,508,233 |
| Cash Deposits | | | |
| Cash Balances (held directly by the Fund) | 14 | 6,512 | 3,033 |
| Cash Balances (held by the Fund's external managers) | 14 | 2,710 | 8,894 |
| Other investment balances | 14 | 980 | 734 |
| **Current Assets** | 21 | 1,187 | 1,171 |
| **Current Liabilities** | 22 | (6,280) | (2,653) |
| **NET ASSETS** | | **1,552,906** | **1,519,562** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 1 : DESCRIPTION OF THE FUND

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

**a) General**

The LGPS is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

The Fund is a contributory defined benefit pension scheme administered by London Borough of Tower Hamlets to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies.
Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Fund is overseen by the London Borough of Tower Hamlets Pension Committee which is a Committee of the London Borough of Tower Hamlets Pension Fund.

**b) Membership of the Fund**

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.
Organisations participating in the London Borough of Tower Hamlets Pension Fund include the following:

- „Scheduled bodies, which are automatically entitled to be members of the Fund.
- „Admitted bodies, which participate in the Fund under the terms of an admission agreement between the fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table sets out the membership of the London Borough of Tower Hamlets Pension Fund as at 31st March 2020

| | 31st March 2019 | 31st March 2020 |
|---|---|---|
| **Number of employees in the scheme** | | |
| LBTH | 5,944 | 6,602 |
| Other employers | 836 | 921 |
| | **6,780** | **7,523** |
| **Number of pensioners** | | |
| LBTH | 5,847 | 6,108 |
| Other employers | 397 | 432 |
| | **6,244** | **6,540** |
| **Number of deferred pensioners** | | |
| LBTH | 7,340 | 7,437 |
| Other employers | 489 | 523 |
| | **7,829** | **7,960** |
| **Total number of members in pension scheme** | **20,853** | **22,023** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 1 : DESCRIPTION OF THE FUND

**c) Funding**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019 although these rates will not apply until 2020/21. Currently, employer contribution rates range from 15.8% to 41.4% of pensionable pay.

**d) Benefits**

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the LGPS became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index. A range of other benefits are also provided including early retirement, disability pensions and death benefits are explained on the LGPS website.

## NOTE 2: BASIS OF PREPARATION

The statement of accounts summarises the Fund's transactions for the 2019/20 financial year and its financial position at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The pension fund has opted to disclose this information in Appendix A.

The Pension Fund accounts have been prepared on a going concern basis.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Fund account – revenue recognition**

**a) Contribution income**

Normal contributions from both the members and the employer are accounted for on an accruals basis as follows:

Employee contribution rates are set in accordance with LGPS regulations using common percentage rates for all schemes which rise according to pensionable pay. They are set at the percentage rate recommended by the Fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the Fund's actuary in the Rates and Adjustment Certificate issued to the relevant employing body.

Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

Augmentations such as additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset.

**b) Transfers to and from other schemes**

Transfers in and out relate to members who have either joined or left the Fund. Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 8).
Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement. This does not include insourcing of 323 Veolia employees back to the Fund which took place on 29th March 2020.

**c) Investment income**

Investment income arising from the underlying investments in pooled funds is either reinvested or taken as a cash dividend to support the Fund's cash requirements.
Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an investment asset.

Changes in the value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Fund account – expense items**

**d) Benefits payable**

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities, providing that payment has been approved.

**e) Taxation**

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

**f) Management expenses**

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the Fund on an accruals basis.

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Investment management expenses include transaction costs and custody fees.

Where an investment manager's fee has not been received by the year end date an estimate is used based upon the market value of their fund.
Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

**Administrative expenses**

All staff costs of the pensions administration team are recharged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

**Oversight and governance**

All staff costs associated with governance and oversight are recharged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

**Investment management expenses**

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11A and grossed up to increase the change in value of investments or to increase income if netted off from income received. Transaction costs met from the net asset value of the Fund are also grossed up and reported in Note 11A.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Net assets statement**

**g) Financial assets**

Investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund account. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16).

**h) Freehold and leasehold properties**

The Fund has no direct investment in property

**i) Derivatives**

The Fund uses derivative financial instruments as part of its equity protection portfolio managed by Schroders Investment Management to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

**j) Cash and cash equivalents**

Cash comprises cash in hand and internally managed cash and includes amounts held by the Fund's external managers.
Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

**k) Loans and receivables**

Financial assets classed as amortised cost are carried in the net asset statement at amortised cost, i.e the outstanding principal receivable as at the year-end date plus accrued interest.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### l) Financial liabilities

A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the Fund account as part of the Change in Value of Investments. Other financial liabilities classed as amortised cost are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

### m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS26) and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of an appendix to the net assets statement (Appendix A).

The amount disclosed for the present value of promised retirement benefits relies on information about scheme members, such as their age and current salary or annual pension. Errors were identified in the information provided by the council to the actuary for the purpose of the valuation of the present value of promised retirement benefits at 31 March 2020, some of which were also present at 31 March 2019. It has not been practicable to check and correct all errors in view of the volume of records involved.

### n) Additional voluntary contributions

The London Borough of Tower Hamlets Pension Fund provides an additional voluntary contribution AVC scheme for its members, the assets of which are invested separately from those of the pension fund. AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) Regulations 2016 but are disclosed for information in Note 23.

### o) Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.
A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.
Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

### p) Recharges from the General Fund

The LGPS (Management and Investment of Funds) Regulations 2016 permit the council to charge administration costs to the Fund. A proportion of the relevant costs have been charged to the Fund on the basis of time spent on pension fund activity.
Costs incurred are shown in Note 25.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

**Pension fund liability**

The net pension fund liability is re-calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted actuarial guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19. Actuarial re-valuations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

In response to the government's guidance and criteria on pooling investments issued in 2015, the London Borough of Tower Hamlets Pension Fund is a founding member of the London Collective Investment Vehicle (LCIV) established as a Collective Investment Vehicle for LGPS Funds. At the end of 31 March 2020, the Fund has £673.4m (44.3%) under LCIV management. A further £319.7m (21.0%) is invested in Legal and General Passive Pool.

## NOTE 5: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

Preparing financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made. The items in the net asset statements for which there is a significant risk of material adjustment the following year are as follows:

**a) Actuarial present value of promised retirement benefits**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied

For example:

„a 0.5% decrease in the discount rate used would result in a decrease in the pension liability of £181m.

„a 0.5% increase in salary increase rate would increase the earnings inflation value of the liabilities by approximately £14m.

**b) Valuation of Investments at Level 3**

The Pension Fund contains investments in unitised pooled property funds that are classified within the financial statements as level 3 investments. These funds are valued at £148m according to non-exchange based market valuations. As a result of this, the final realised value of the pooled units may differ from the valuations presented in the accounts. In particular, the Nuveen UK Retail Warehouse Fund valued at £2.1m has restricted withdrawals due to current market conditions and therefore increases uncertainty over its realisable value.

## NOTE 6: EVENTS AFTER THE REPORTING DATE

The first quarter of 2020 saw global stock markets fall by over 20% in response to the emergence of a virus named COVID 19 with the World Health Organisation declaring a pandemic on 11 March 2020. The response of many governments was to declare 'lockdowns' to slow the spread of the virus. This resulted in many sectors of the economy effectively closing down for several months with the corresponding adverse impact on economic growth and the rise of government borrowing to support the economy. The expectation is that this will be a short, sharp shock to the global economy with global markets recovering by 20% in quarter 2. The Fund's investment assets have increased by £222m, or 15%, to stand at £1.743m at 30 June 2020. However, there are fears of a second wave later in the year unless a vaccine is developed. The longer term impact on individual asset classes is unclear.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 7: CONTRIBUTIONS RECEIVABLE

| | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| **Employees** | | |
| Council Employees' Normal Contributions | (9,458) | (9,491) |
| Admitted Bodies Employees' Normal Contributions | (115) | (119) |
| Scheduled Bodies Employees' Normal Contributions | (1,529) | (1,546) |
| **Total** | **(11,102)** | **(11,156)** |
| | | |
| **Employers** | | |
| Council Employer's Normal Contributions | (27,059) | (30,462) |
| Admitted Bodies Employers' Normal Contributions | (602) | (517) |
| Scheduled Bodies Employers' Normal Contributions | (4,224) | (4,166) |
| **Total** | **(31,885)** | **(35,145)** |
| | | |
| Employers' Special Contribution | (1,796) | (2,321) |
| Deficit Funding | (53) | (53) |
| **Total** | **(1,849)** | **(2,374)** |

## NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

| | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| **Transfer Values** | | |
| Transfer Values Received - Individual | (6,157) | (7,608) |
| **Total** | **(6,157)** | **(7,608)** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 9: BENEFITS PAYABLE

| | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| Pensions | 45,194 | 47,620 |
| Lump Sums Retirement Benefits | 11,899 | 11,486 |
| Lump Sums Death Benefits | 1,681 | 1,312 |
| **Total** | **58,774** | **60,418** |
| | | |
| By type of employer | | |
| Administering authority | 56,399 | 54,852 |
| Scheduled bodies | 1,525 | 2,906 |
| Admitted bodies | 850 | 2,660 |
| **Total** | **58,774** | **60,418** |

## NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| Transfer values paid | 4,848 | 6,079 |
| Refunds to members leaving service | 224 | 756 |
| **Total** | **5,072** | **6,835** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 11: MANAGEMENT EXPENSES

| | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| Administration | 976 | 742 |
| Investment management expenses | 2,774 | 10,121 |
| Oversight & Governance | 175 | 454 |
| **Total** | **3,925** | **11,317** |

## NOTE 11A: MANAGEMENT EXPENSES

| | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| Management Fees | 2,605 | 6,105 |
| Custody Fees | 51 | 50 |
| Transaction Costs | 118 | 3,966 |
| | **2,774** | **10,121** |

## NOTE 12: INVESTMENT INCOME

| | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| Fixed interest securities | (9) | 0 |
| Equity dividends | (49) | 0 |
| Pooled property Investments | (5,885) | (6,425) |
| Pooled Investments -unit trusts and other managed funds | (10,475) | (14,094) |
| Interest on cash deposits | (55) | (61) |
| | **(16,473)** | **(20,580)** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 13: EXTERNAL AUDIT COSTS

| | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| Audit Fees Payable in respect of external audit* | 21 | 21 |
| **Total** | **21** | **21** |

*2018/19 and 2019/20 Revised audit fee £43k and £49k respectively. These figures will be updated after the auditors, Public Sector Audit Appointments, and the Council agree additional fees based on the standard scale rate and the additional time spent.

## NOTE 14: INVESTMENTS

| | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| Equities | 4 | 0 |
| Pooled Investments | 1,390,480 | 1,360,710 |
| Pooled Property Investments | 157,351 | 147,556 |
| Other | (38) | (33) |
| **Total** | **1,547,797** | **1,508,233** |
| | | |
| Other Investment Balances | | |
| Cash Deposits held by Managers | 2,710 | 8,894 |
| Cash Deposits held Internally | 6,512 | 3,033 |
| Amounts Receivable for Sales of Investments | 99 | 0 |
| Investment Income Due | 881 | 734 |
| **Total** | **10,202** | **12,661** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

| | Market Value 31 Mar 2019 £'000 | Purchases during the year and derivative payments £'000 | Sales during the year and derivative receipts £'000 | Change in Market Value during the year £'000 | Market Value 31 Mar 2020 £'000 |
|---|---|---|---|---|---|
| Equities | 4 | 0 | 0 | (4) | 0 |
| Pooled Investments | 1,390,480 | 53,362 | (57,889) | (25,243) | 1,360,710 |
| Pooled Property Investments | 157,351 | 4,896 | (8,311) | (6,380) | 147,556 |
| Other | (38) | 5 | | | (33) |
| | **1,547,797** | **58,263** | **(66,200)** | **(31,627)** | **1,508,233** |
| **Other Investment Balances** | | | | | |
| Cash Deposits held by Managers | 2,710 | | | (3) | 8,894 |
| Cash Deposits held Internally | 6,512 | | | | 3,033 |
| Amounts Receivable for Sales of Investments | 99 | | | | 0 |
| Investment Income Due | 881 | | | 0 | 734 |
| **Net Investment Assets** | **1,557,999** | | | **(31,630)** | **1,520,894** |

| | Market Value 31 Mar 2018 £'000 | Purchases during the year and derivative payments £'000 | Sales during the year and derivative receipts £'000 | Change in Market Value during the year £'000 | Market Value 31 Mar 2019 £'000 |
|---|---|---|---|---|---|
| Fixed Interest Securities | 0 | 0 | (71,904) | 71,904 | 0 |
| Equities | 13 | 0 | 0 | (9) | 4 |
| Pooled Investments | 1,302,826 | 312,512 | (222,767) | (2,091) | 1,390,480 |
| Pooled Property Investments | 142,803 | 16,996 | (5,178) | 2,730 | 157,351 |
| Other | 0 | (38) | 0 | 0 | (38) |
| | **1,445,642** | **329,470** | **(299,849)** | **72,534** | **1,547,797** |
| **Other Investment Balances** | | | | | |
| Cash Deposits held by Managers | 8,733 | | | 1 | 2,710 |
| Cash Deposits held Internally | 26,484 | | | | 6,512 |
| Amounts Receivable for Sales of Investments | 0 | | | 93 | 99 |
| Investment Income Due | 832 | | | | 881 |
| **Net Investment Assets** | **1,481,691** | | | **72,628** | **1,557,999** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 14B: ANALYSIS OF INVESTMENTS

| | 2018/19<br>£'000 | 2019/20<br>£'000 |
|---|---|---|
| **Equities** | | |
| **UK** | | |
| Quoted | 4 | 0 |
| | **4** | **0** |
| **Pooled Funds - additional analysis** | | |
| **UK** | | |
| Fixed income unit trust - quoted | 91,800 | 79,089 |
| Equity unit trust - quoted | 130,574 | 234,063 |
| **Overseas** | | |
| Fixed income unit trust - quoted | 334,399 | 367,686 |
| Equity unit trust - quoted | 696,885 | 536,367 |
| **UK & Overseas** | | |
| Diversified Growth | 136,822 | 143,505 |
| | **1,390,480** | **1,360,710** |
| UK Pooled property investments | 157,351 | 147,556 |
| | **157,351** | **147,556** |
| Other | (38) | (33) |
| **Investment Assets** | | |
| Cash Deposits held by Managers | 2,710 | 8,894 |
| Cash Deposits held Internally | 6,512 | 3,033 |
| Investment Income Due | 881 | 734 |
| Amounts Receivable from Sales | 99 | 0 |
| | **10,202** | **12,661** |
| **Net Investment Assets** | **1,557,999** | **1,520,894** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

| | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| **Investments managed by regional asset pool** | | |
| London LGPS CIV | 705,087 | 673,356 |
| | **705,087** | **673,356** |
| **Investments managed outside of regional asset pool** | | |
| Schroder | 395,041 | 428,391 |
| Legal & General | 350,994 | 319,684 |
| Goldman Sachs | 52,542 | 50,806 |
| Insight Investment | 46,901 | 45,051 |
| Legacy | 922 | 573 |
| Internally managed cash | 6,512 | 3,033 |
| | **852,912** | **847,538** |
| | **1,557,999** | **1,520,894** |

The following investments represent over 5% of the net assets of the Fund. All of these companies are registered in the UK Security Market.

| Security | Market value as at 31st March 2019 £'000 | % total of fund | Market value as at 31st March 2020 £'000 | % total of fund |
|---|---|---|---|---|
| London Lgps Civ Lt Global Alpha Growth A | 345,890 | 22% | 294,846 | 19% |
| Mfo Gpcu - Msciworldlowcarbtarin Dgcurhofc | 244,453 | 16% | 241,537 | 16% |
| Schroder Matching Plus Bespoke Investment Fund 9 I Acc | 234,956 | 15% | 271,829 | 18% |
| London Lgps Civ Lt Diversified Growth A | 136,822 | 9% | 143,505 | 9% |
| London Lgps Civ Lt Rf Absolute Return A Gbp Di | 130,574 | 8% | 155,916 | 10% |
| Epoch Investment P Cqs Credit Multi-Asset A Gb | 91,800 | 6% | 0 | 0% |
| Gpcf - All World Index (Ofc) | 83,774 | 5% | 0 | 0% |
| LCIV CQS CREDIT MULT ASSET-A | 0 | 0% | 79,089 | 5% |
| GPCL - MSCIWORLDLW CARBONTARGETINDOFC | 0 | 0% | 78,147 | 5% |
| | **1,268,269** | **81%** | **1,264,869** | **82%** |

## NOTE 14D: STOCK LENDING

The Fund does not participate in stock lending.

## NOTE 14E: PROPERTY HOLDINGS

The Fund's investment in property portfolio does not comprise directly owned properties.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 15: ANALYSIS OF DERIVATIVES

**Objectives and policies for holding derivatives**

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreements in place between the Fund and the various investment managers.

## NOTE 16: FAIR VALUE – BASIS OF VALUATION

| Description of asset | Valuation hierarchy 18/19 | Valuation hierarchy 19/20 | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the valuation provided |
|---|---|---|---|---|---|
| Pooled Investments - Eqquity Funds UK and Overseas Managed Funds | Level 2 | Level 2 | The NAV for each share class is calcuated based on the market value of the underlying equity assets | Evaluated price feeds | Not required |
| Quoted UK and Overseas Bonds | Level 1 | Level 2 | Fixed income securities are priced based on evaluated price provided by independent pricing services | Evaluated price feeds | Not required |
| Pooled Investments - Property Funds | Level 3 | Level 3 | Closing bid price where bid and offer prices are published | Adjusted for net capital current assets | Estimated acquisition and disposal costs |
| Pooled Investments - Multi Asset Credit | Level 2 | Level 2 | Fixed income securities are priced based on evaluated prices provided by independent pricing services | Evaluated price feeds | Not required |

### Fair Value Hierarchy

| | Market Value as at 31 Mar 2020 | Quoted market price | Using observable inputs | With significant observable inputs | Total |
|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Financial assets at fair value | 1,508,233 | 0 | 1,360,677 | 147,556 | 1,508,233 |
| Loans and receivables | 12,661 | 12,661 | 0 | 0 | 12,661 |
| | **1,520,894** | **12,661** | **1,360,677** | **147,556** | **1,520,894** |

| | Market Value as at 31 Mar 2019 | Quoted market Level 1 | Using observable Level 2 | With significant Level 3 | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Financial assets at fair value | 1,548,777 | 4 | 1,391,422 | 157,351 | 1,548,777 |
| Loans and receivables | 9,222 | 9,222 | 0 | 0 | 9,222 |
| | **1,557,999** | **9,226** | **1,391,422** | **157,351** | **1,557,999** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 16 : TRANSFERS BETWEEN LEVELS 1 AND 2

On the 1 April 2019 the Fund re-assessed the holdings in London CIV Global Equity Fund and Goldman Sachs STAR fund as Level 2 which have a value at 31 March 2020 of £295m and £51m respectively.

## NOTE 16: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

| | Market Value 1 Apr 2019 £'000 | Transfers in/out of level 3 | Purchases £'000 | Sales £'000 | Unrealised gains (losses) £'000 | Realised gains (losses) | Market Value 31 Mar 2020 £'000 |
|---|---|---|---|---|---|---|---|
| UK Property Funds | 157,351 | 0 | 4,896 | (6,899) | (10,264) | 2,472 | 147,556 |
| **Total** | **157,351** | **0** | **4,896** | **(6,899)** | **(10,264)** | **2,472** | **147,556** |

| | Assessed valuation range (+/-) % | Value 31 Mar 2020 £'000 | Value on Increase £'000 | Value on Decrease £'000 |
|---|---|---|---|---|
| UK Property Funds | 10% | 147,556 | 162,312 | 132,800 |
| Total | | **147,556** | **162,312** | **132,800** |

| | Market Value 1 Apr 2018 £'000 | Transfers in/out of level 3 | Purchases £'000 | Sales £'000 | Unrealised gains (losses) £'000 | Realised gains (losses) | Market Value 31 Mar 2019 £'000 |
|---|---|---|---|---|---|---|---|
| UK Property Funds | 142,803 | 0 | 16,995 | (5,177) | 1,054 | 1,676 | 157,351 |
| Total | **142,803** | **0** | **16,995** | **(5,177)** | **1,054** | **1,676** | **157,351** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

| Market Value as at 31 Mar 2019 | | | | | | Market Value as at 31 Mar 2020 |
|---|---|---|---|---|---|---|
| Designated as fair value through profit and loss £ | Loans and receivables £'000 | Financial liabilities at amortised cost £'000 | | Designated as fair value through profit and loss £'000 | Loans and receivables £'000 | Financial liabilities at amortised cost £'000 |
| | | | **Financial assets** | | | |
| 4 | 0 | 0 | Equities | 150 | 0 | 0 |
| 1,390,480 | 0 | 0 | Pooled investments | 1,360,710 | 0 | 0 |
| 157,351 | 0 | 0 | Pooled property Investments | 147,556 | 0 | 0 |
| 0 | 2,710 | 0 | Cash held with External Managers | 0 | 8,894 | 0 |
| 0 | 6,512 | 0 | Cash held Internally | 0 | 3,033 | 0 |
| 99 | 0 | 0 | Other investment balances | 734 | 0 | 0 |
| 0 | 2,068 | 0 | Debtors | 0 | 1,171 | 0 |
| **1,547,934** | **11,290** | **0** | | **1,509,150** | **13,098** | **0** |
| | | | **Financial liabilities** | | | |
| (38) | 0 | 0 | Other Investment balances | (33) | 0 | 0 |
| 0 | 0 | (6,280) | Creditors | 0 | 0 | (2,653) |
| **(38)** | **0** | **(6,280)** | | **(33)** | **0** | **(2,653)** |
| **1,547,896** | **11,290** | **(6,280)** | **Total** | **1,509,117** | **13,098** | **(2,653)** |
| | **1,552,906** | | **Grand Total** | | **1,519,562** | |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

| Financial Assets | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| Fair value through profit or loss | (72,534) | 31,627 |
| Loans and receivables | (94) | 3 |
| **Total Financial Assets** | **(72,628)** | **31,630** |

All realised gains and losses arise from the sale or disposal of financial assets which have been derecognised in the financial statements.
The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

**Risk and Risk Management**

The Fund's primary long-term risk is that the Fund's assets will fall short of its liablities. (i.e. promised benefits payable to members). To mitigate this risk the Fund has established various policies that include the Funding Strategy Statement and the Investment Strategy Statement. The Fund also keeps a Risk Register that addresses specific risks on governance, funding and investments. These documents are available on the Fund's website.

The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for the Fund's risk-management strategy rests with the Pensions Committee. Risk management policies are established that aim to identify and analyse the investment risks faced by the Fund and these are regularly reviewed by the Pensions Committee and Pensions Board in the light of changing market and other conditions.

**Credit risk**

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

Deposits are made with banks and financial institutions that are rated independently and meet the Council's credit criteria.

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

**Liquidity risk**

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

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

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont.)

**Liquidity Risk (cont.)**

Should the Fund have insufficient money available to meet its commitments it may, under Regulation 5.2 borrow cash for up to 90 days. If there was a longer term shortfall then the Fund's assets could be sold to provide additional cash. A significant proportion of the Fund is made up of readily realisable assets. As at 31 March 2020, liquid assets were £1,371m representing 90.3% of total assets of the Fund assets (£1,396m as at 31 March 2019). The majority of these investments can be in fact liquidated within a matter of days.

**Currency risk**

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than Sterling. The Fund aims to mitigate this risk through the use of hedging. The Pensions Committee recognises that a strengthening /weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

Overseas equities, fixed interest securities and equity protection swaps and some elements of the pooled investment vehicles are exposed to currency risk. The currency risk table demonstrates the change in value of these assets had there been a 10% change strengthening/weakening of the pound against foreign currencies.

**Market risk**

This is the risk of loss emanating from general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of asset class, geographical and industry sectors and individual securities. To mitigate market risk, the Committee and its investment advisors undertake regular monitoring of market conditions.

**Price risk**

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual instrument or its issuer factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities regardless of being in a pool represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments with the exception of derivatives.

The Fund manages price risk of its portfolio by diversifying its investments across different asset classes and fund managers as required by regulations. Further, the Fund has a long-term investment horizon and can accept the price risk in its portfolio. The Fund can mitigate the price risk by regular reviews of its investment strategy in consultation with its investment advisors.

The price risk table below demonstrates the change in the net assets available to pay benefits if the market price has increased or decreased by 10%. The analysis excludes cash, debtors, creditors, other investment balances and forward exchange as these financial instruments are not subject to price risk.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (cont.)

**Market risk (cont.)**
As the Fund is a long term investor the Fund accepts the risk of volatility in asset values year on year. The price risk is managed through the Fund's Investment Strategy Statement and its Funding Strategy Statement. The Fund uses a combination of investment returns and pension contributions by employers and employees to meet its liabilities.

**Interest rate risk**
The Fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Pensions Committee and its advisors regularly monitor the Fund's interest rate risk exposure during the year.

Fixed interest securities, cash and cash equivalents are exposed to interest rate risk.

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

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

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS(cont.)

### OTHER PRICE RISK - sensitivity analysis

| Asset type | Market Value as at 31/03/2020 £'000 | Percentage change % | Value on increase £'000 | Value on decrease £'000 |
|---|---|---|---|---|
| **Cash and cash equivalents** | 11,927 | 0.6% | 11,999 | 11,855 |
| **Investment portfolio assets:** | | | | |
| UK fixed Income unit trusts | 79,089 | 5.6% | 83,518 | 74,660 |
| Overseas fixed Income unit trusts | 367,686 | 5.6% | 388,276 | 347,096 |
| UK equity unit trusts | 234,063 | 13.3% | 265,193 | 202,933 |
| Overseas equity unit trusts | 536,384 | 13.3% | 607,723 | 465,045 |
| Pooled property Investments | 147,556 | 2.3% | 150,950 | 144,162 |
| Other PIV | 143,455 | 5.8% | 151,828 | 135,182 |
| Investment income due | 734 | 0.0% | 734 | 734 |
| **Total assets available to pay benefits** | **1,520,894** | | **1,660,221** | **1,381,667** |

| Asset type | Market Value as at 31/03/2019 £'000 | Percentage change % | Value on increase £'000 | Value on decrease £'000 |
|---|---|---|---|---|
| **Cash and cash equivalents** | 9,222 | 0.2% | 9,240 | 9,204 |
| **Investment portfolio assets:** | | | | |
| UK equities | 4 | 9.0% | 4 | 4 |
| UK fixed Income unit trusts | 91,800 | 4.3% | 95,747 | 87,853 |
| Overseas fixed Income unit trusts | 334,399 | 4.3% | 348,778 | 320,020 |
| UK equity unit trusts | 130,574 | 9.0% | 142,326 | 118,823 |
| Overseas equity unit trusts | 696,885 | 9.0% | 759,605 | 634,165 |
| Pooled property Investments | 157,351 | 1.7% | 160,026 | 154,676 |
| Other PIV | 136,784 | 4.1% | 142,392 | 131,176 |
| Investment income due | 980 | 0.0% | 980 | 980 |
| **Total assets available to pay benefits** | **1,557,999** | | **1,659,098** | **1,456,901** |

### CURRENCY EXPOSURE - asset type

| Asset type | Market Value as at 31/03/2020 £'000 | Change in year in the net assets available to pay benefits 7.4% | -7.4% |
|---|---|---|---|
| **Overseas Equities** | | | |
| Overseas Fixed Inome Funds | 367,686 | 394,895 | 340,477 |
| Overseas Equity Funds | 536,384 | 576,076 | 496,692 |
| **Total change in assets available** | **904,070** | **970,971** | **837,169** |

| Asset type | Market Value as at 31/03/2019 £'000 | Change in year in the net assets available to pay benefits +8.2% | -8.2% |
|---|---|---|---|
| **Overseas Equities** | | | |
| Overseas Fixed Inome Funds | 334,399 | 361,820 | 306,978 |
| Overseas Equity Funds | 696,885 | 754,030 | 639,740 |
| **Total change in assets available** | **1,031,284** | **1,115,850** | **946,718** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (con

### INTEREST RATE RISK

| Asset type | Market Value as at 31/03/2020 | Market Value as at 31/03/2019 |
|---|---|---|
| | £'000 | £'000 |
| **Cash and cash equivalents** | | |
| **Cash** | 11,927 | 9,222 |
| **Total** | **11,927** | **9,222** |

**Interest rate risk sensitivity analysis**

| Asset type | Market Value as at 31/03/2020 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +100 bps | -100bps |
| | £'000 | £'000 | £'000 |
| **Cash and cash equivalents** | | | |
| **Cash** | 11,927 | 119 | -119 |
| **Total change in assets available** | **11,927** | **119** | **-119** |

| Asset type | Market Value as at 31/03/2019 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +100 bps | -100bps |
| | £'000 | £'000 | £'000 |
| **Cash and cash equivalents** | | | |
| **Cash** | 9,222 | 92 | -92 |
| **Total change in assets available** | **9,222** | **92** | **-92** |

### CREDIT RISK

| Summary | Rating | Market Value as at 31/03/2020 | | Market Value as at 31/03/2019 |
|---|---|---|---|---|
| | | £'000 | | £'000 |
| **Money Market Fund** | AAA | 0 | | 6,000 |
| **Bank current accounts** | | | | |
| Northern Trust custody cash account | AA | 8,894 | | 2,710 |
| National Westminster Bank Plc | AA | 3,033 | | 512 |
| **Total** | | **11,927** | **0** | **9,222** |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 19: FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The valuation that took place as at 31 March 2016 covered the period up to 31 March 2020. The latest triennial valuation of the Fund was carried out by Hymans Robertson, the Fund's actuary as at 31 March 2019. The results were published in the triennial valuation dated 31 March 2020, with the funding level rising to 102%. This report details fund assumptions and employer contributions for the three years following 2019/20.

The key elements of the funding policy are:

1) to ensure the long-term solvency of the Fund, ie that sufficient funds are available to meet all pension liabilities as they fall due for payment

2) to ensure that employer contribution rates are as stable as possible

3) to minimise the long-term cost of the LGPS by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return

4) to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so and

5) to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time.

The triennial valuation undertaken as at 31 March 2016 covers the financial assumptions for 2019/20. The actuary estimated the deficit of the Fund to be £235m and the funding level to be 82.8%. This compared to a deficit at the previous valuation in 2013 of £365m and a corresponding funding level of 71.8%. The triennial valuation also sets the individual contribution rate to be paid by each employer from 1 April 2017 to 31 March 2020.

The contribution rates are made of two values, the Primary and Secondary rate.
The Primary rate is the payroll weigthted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer Secondary rates (before applying any pre-payment or capitalisation of future contributions).

The table below summarises the whole Fund Primary and Secondary Contribution rates at the 2016 triennial valuation:

| Primary Rate (% of pay) | | 2017/18 £'000 | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|---|---|
| | 19.90% | 13,974 | 14,603 | 15,256 |
| | | **13,974** | **14,603** | **15,256** |

50:50 option
it is assumed that 1% of members opt into the 50:50 option in the LGPS 2014 scheme.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 20: CURRENT ASSETS

| | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| Short term debtors | | |
| Contributions due - employees | 35 | 30 |
| Contributions due - employers | 527 | 920 |
| Sundry debtors | 536 | 128 |
| Other | 89 | 93 |
| **Total** | 1,187 | 1,171 |

## NOTE 21: CURRENT LIABILITIES

| | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| Sundry creditors | (1,279) | (1,756) |
| Transfer values payable (leavers) | (1,548) | (22) |
| Benefits payable | (3,415) | (875) |
| Other investment | (38) | 0 |
| **Total** | (6,280) | (2,653) |

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 22: ADDITIONAL VOLUNTARY CONTRIBUTIONS

| | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| Aviva | 19 | 27 |
| Equitable Life / Utmost Life | 2 | 2 |
| | **21** | **29** |

Additional voluntary contributions (AVC's) were paid to Aviva and Equitable Life (taken over by Utmost Life on 1 January 2020 ) during the year.

## NOTE 23: AGENCY SERVICES

The Fund is fully reimbursed of all agency services costs paid on behalf of the administering authority.

# NOTES TO THE PENSION FUND ACCOUNTS

## NOTE 24: RELATED PARTY TRANSACTIONS

The LBTH pension fund is administered by the LBTH.

The Council incurred costs of £669k (£669k 2018/19) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. All monies owing to and from the fund were paid in the year.

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

The pension fund cash held by London Borough of Tower Hamlets is invested on the money markets by the treasury management operations of the Council. During the year to 31 March 2020, the Fund held an average investment of £6.0m (£11.5m 31 March 2019), earning interest of £32k, (£55k 2018/19)

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £3.3m (£3.0m 2018/19) from this company.

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

| **Fund Administration Expenses** | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| Payroll/HR Support | 494 | 494 |
| Central Finance | 175 | 175 |
| | 669 | 669 |

## NOTE 24A: KEY MANAGEMENT PERSONNEL

Employees holding key positions in the financial management of the Fund are:

as at 31st March 2020:
Corporate Director Resources

as at 31 March 2019:
Corporate Director Resources
Service Head - Finance & Procurement
Chief Accountant
Investment & Treasury Manager

| The value of their relationship with the Fund, in accordance with IAS24 is as set out below: | 2018/19 £'000 | 2019/20 £'000 |
|---|---|---|
| Short term benefits | 34 | 8 |
| Long term/post retirement benefits | 22 | 11 |

## NOTE 25: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund may be required by government regulations to increase benefits paid on the guaranteed minimum pension (GMP) for new pensioners after 6 April 2021. This will increase the pension liability of the Fund as detailed in Note 20.

# APPENDIX A

## PENSION FUND ACCOUNTS REPORTING REQUIREMENT

**Introduction**
CIPFA's Code of Practice on Local Authority Accounting 2019/2019 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Tower Hamlets Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- Showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

**Present value of promised retirement benefits**

| Year ended | 31 Mar 2019<br>£m | 31 Mar 2020<br>£m |
|---|---|---|
| Active members | 670 | 684 |
| Deferred members | 523 | 475 |
| Pensioners | 909 | 831 |
| **Total** | **2,102** | **1,990** |

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

Note the above figures at 31 March 2020 include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

**Assumptions**
The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2020 and 31 March 2019. I estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £174m. The demographic and longevity assumptions have not changed and as such there is no impact on the actuarial present value.

**Financial assumptions**

| Year ended | 31 Mar 2019 | 31 Mar 2020 |
|---|---|---|
| Pension Increase Rate | 2.5% | 1.9% |
| Salary Increase Rate | 2.7% | 2.1% |
| Discount Rate | 2.4% | 2.3% |

**Longevity assumptions**
Life expectancy is based on the Fund's VitaCurves with improvement in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long-term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

| | Males | Females |
|---|---|---|
| Current pensioners | 21.5 years | 23.5 years |
| Future pensioners (assumed to be 45 at the latest formal valuation) | 22.6 years | 25.0 years |

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

**Commutation assumptions**
An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

**Sensitivity Analysis**
CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

| Sensitivity to the assumptions for the year ended 31 March 2019 | Approximate increase to liabilities (%) | Approximate monetary amount (£m) |
|---|---|---|
| 0.5%p.a. increase in the Pension Increase Rate | 9% | 175 |
| 0.5%p.a. increase in the Salary Increase Rate | 1% | 14 |
| 0.5%p.a. increase in the Real Discount Rate | 10% | 193 |

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

**Professional notes**
This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2020 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Barry Dodds FFA

30 October 2023

For and on behalf of Hymans Robertson LLP

# The London Borough of Tower Hamlets Pension Fund

## Appendix 2

## Investment Strategy Statement

**2020**

# Investment Strategy Statement

## 1. Introduction and background

1.1 This is the Investment Strategy Statement ("ISS") of the Tower Hamlets Pension Fund ("the Fund"), which is administered by Tower Hamlets Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

1.2 The Administering Authority has delegated all its functions as administering authority to the Pensions Committee ("the Committee"). The ISS is subject to periodic review at least every three years or after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate – for example, pensions board, independent adviser, local authority employers such as admitted bodies and scheduled bodies.

1.3 The Committee will invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund.

1.4 The Pensions Committee is charged with the responsibility for the governance and stewardship of the Fund. The Fund has adopted a long-term, risk aware investment strategy, which is kept under regular review. Asset allocation decisions are taken in the best long-term interest of Fund employers and member beneficiaries.

1.5 The ISS should be read in conjunction with the Fund's Funding Strategy Statement, which sets out how solvency risks will be managed with regard to the underlying pension liabilities.

## 2.0 Long-term view of investments

2.1 The Fund's primary investment objective is to ensure that over the long-term the Fund will have sufficient assets to meet all pension liabilities as they fall due. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

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

2.3 The strength of the respective employers' covenant and the present cash flow positive nature of the Fund allow a long-term deficit recovery period and enable the Fund to take a long-term view of investment strategy.

2.4 The most important aspect of risk is not the volatility of returns, but the risk of absolute loss, and of not meeting the objective of facilitating low, stable contribution rates for employers. Illiquidity and volatility are risks which offer potential sources of additional compensation to the long-term investor. Although, it is more important to avoid being a forced seller in short-term market setbacks.

2.5 Participation in economic growth is a major source of long-term equity return. Over the long- term, equities are expected to outperform other liquid assets, particularly government bonds and cash. Well governed companies that manage their business in a responsible manner will likely produce higher returns over the long-term.

2.6 The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. (See section 5.6) This benchmark is consistent with the Committee's view on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

2.7 The Fund carried out an Asset Outperformance Assumption modelling exercise in conjunction with the 2019 actuarial valuation. In order to maintain a funding position of 100% the Fund would need to achieve investment returns of c. 3.9% p.a. As at 31 March 2019 the likelihood of the Fund's assets yielding at least this return was 71%. In general, higher probabilities of success are achieved by paying higher contributions and relying less on volatile investment returns. The probability required for each employer is largely based on each employer's assessed covenant. For instance, a lower probability of success (e.g. 66%) may be required for a secure body as they may be considered to be able to pay higher contributions (or current rates for longer) should they not reach their funding target over their time horizon.

2.8 This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

2.9 In line with the above overall objective the Fund will invest money in a wide variety of investments, having assessed the suitability of particular investments; the investment objectives, the impact of different economic scenarios on achieving required total Fund returns, and the resulting diversity across the whole Fund. Prior to any such decisions being made the Fund will take appropriate external independent advice.

2.10 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. The Fund will invest in accordance with its investment strategy, any Fund money that is not needed immediately to make payments from the Fund. Any deviations within guidelines from the agreed strategy will be reported to the Pensions Committee, the Pensions Board and the Section 151 Officer so that appropriate corrective actions can be undertaken.

## 3.0 The investment objectives of the Fund

a) The long-term objective is for the Fund to maintain a funding level of at least 100%. This target will be reviewed following each triennial actuarial valuation and consultation with Fund employers.

b) The outcome of the last valuation carried out as at 31st March 2019:

- The funding level has improved from 82.8% to 101.8%.
- In monetary terms the deficit of £235m (as at March 2016) had moved to a surplus of £27m (as at 31 March 2019). This was based on the Fund having assets of £1,552m and liabilities of £1,525m.

c) The actuarial valuation at 31 March 2019, was prepared on the basis of an expected real return on assets of 1.7 p.a.% over the long-term, a nominal return of 4.0 p.a.% assuming inflation (CPI) to be 2.3 p.a.%.

d) The Fund's objective is to perform in line with this target, by investing in a diversified portfolio of return-generating assets.

e) In order to monitor the investment objective, the Pensions Committee requires the provision of detailed performance measurement of the Fund's investments. This is provided by the Fund's custodian, Northern Trust, on a quarterly basis. In addition, the Pensions Committee conducts a formal annual performance review of each of its investment managers.

f) The actuarial funding target is reviewed after periodic actuarial valuations and consultation with Fund employers and may undergo a partial or full review at other times should circumstances warrant it.

## 4. Strategy Review and Strategic Benchmark

4.1 The investment strategy (including the core investment objectives and asset allocations) will be sufficiently flexible to meet longer term prevailing market conditions and address any short-term cash flow requirements. Interim reviews may be undertaken to ensure that the Strategy remains appropriate.

4.2 The Fund will operate a fund-specific benchmark for the investment portfolio, with long-term allocations to the various investment asset classes, which reflect the circumstances of the Fund.

4.3 As is appropriate all asset classes and products will be kept under regular review. In addition to considering the benefits of individual products and asset classes for introduction into the strategy, consideration will be given to how the inclusion affects the overall risk/return characteristics of the total portfolio. Before any investment decisions are made by the Pensions Committee, professional advice will be sought. If there are any instances where advice received is not to be acted upon reporting to both the Committee and the Pensions Board will ensue.

*Asset classes*

4.4 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index-linked bonds, cash, property, infrastructure and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

4.5 The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

4.6 The Fund's target investment strategy is set out below.

| Asset class | Targeted Strategic Asset Allocation % | Investments Range (%) |
|---|---|---|
| Active Global Equities | 20% | (15% - 25%) |
| Passive Low Carbon Global Equities | 30% | (25% - 35%) |
| **Total Global Equities** | **50%** | **(45% - 55%)** |
| Property | 12% | (10% - 15%) |
| Diversified Growth Funds | 20% | (15% - 25%) |
| Multi-Asset Credit | 6% | (3% - 9%) |

| | | |
|---|---|---|
| Absolute Return Bonds | 6% | (3% - 9%) |
| Index Linked Gilts | 6% | (3% - 9%) |
| **Total** | **100%** | **100%** |

## 5. *Restrictions on investment*

5.1 The Regulations do not permit more than 5% of the Fund's value to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e). The investment policy of the Fund does not permit any employer-related investment, other than is necessary to meet the regulatory requirements with regards to pooling.

5.2 The Pensions Committee believes that the Fund's portfolio is adequately diversified and has taken professional advice to this effect from their investment consultant and independent advisor.

5.3 The strategic asset allocation includes ranges for each asset class within which the asset allocation can vary. In the event that any asset class range is breached, the Pensions Committee will be informed and the Fund's Officers will endeavour to bring the asset allocation back within the range within an appropriate period of time.

5.4 The Pensions Committee reviews the suitability of the asset allocation of the Fund on a yearly basis, following advice from the officers, investment consultant and independent advisor.

5.5 It is intended that the Fund's investment strategy will be reviewed at least every three years, following the latest actuarial valuation of the Fund. The investment strategy takes due account of the maturity profile of the Fund and the current funding position.

5.6 The Pensions Committee has set the following benchmark against which performance of the Fund will be measured:

| Asset class | Benchmark |
|---|---|
| **Equities** | |
| Passive Global Equity | FTSE All World Equity Index |
| Passive Global Equity Hedged | FTSE All World Equity Index GBP Hedged |
| Passive Global Equity Low Carbon Hedged | MSCI World Low Carbon Target Index GBP Hedged |
| Passive Global Equity Low Carbon | MSCI World Low Carbon Target Index |
| Active Global Equity | MSCI AC World Index |
| **Bonds and Cash** | |
| UK Index Linked Gilts Over 5 Years | FTSE UK Gilts Index-Linked Over 5 Years Index |
| Multi-Asset Credit | 3 Months LIBOR plus 4% |
| Cash | LIBID 7 Day |

| **Alternatives** | |
|---|---|
| Property Unit Trusts | UK IPD Monthly Index Property |
| Diversified Growth Funds | 3 Months LIBOR plus 3% |

## 6.0 Managers

6.1 The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

6.2 The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund.

6.3 The Fund's investment managers will hold a mix of investments which reflect their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles.

6.4 The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects their respective benchmark indices as set out in section 5.6.

6.5 The Fund's current structure and performance targets are set out in the table below.

| **Current Managers and Mandates** | | | | |
|---|---|---|---|---|
| **Manager** | **Mandate** | **Benchmark Allocation** | **Investment Ranges** | **Performance Target** |
| Legal & General | Global Equities (Passive Low Carbon)<br>Global Equities (Passive Low Carbon) | 15%<br>15% | 12%-18%<br>12%-18% | FTSE All World Equity Index GBP Hedged<br>76% MSCI World Low Carbon Target Index GBP Hedged, 24% MSCI World Low Carbon Target Index |
| LCIV (Baillie Gifford) | Global Equities (Active & Growth)<br>Diversified Growth | 20%<br>10% | 15%-25%<br>7.5%-12.5% | Outperform benchmark by 2-3% over a rolling 3 year period<br>3 Months LIBOR +3% per annum |
| LCIV (Ruffer) | Diversified Growth | 10% | 7.5%-12.5% | 3 Months LIBOR +3% per annum |
| LCIV (CQS) | Multi Asset Credit | 6% | 4%-8% | 3 Months LIBOR +4% per annum |
| Goldman Sachs | Absolute Return Bonds | 3% | 2%-4% | 3 Months LIBOR +3% per annum |

| | | | | |
|---|---|---|---|---|
| Insight | Absolute Return Bonds | 3% | 2%-4% | 3 Months LIBOR +3% per annum |
| Schroders | Property | 12% | 10%-15% | Outperform benchmark by 0.75% over a rolling 3 year period |

## 7.0 The approach to risk

7.1 The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has a programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

7.2 The principal risks affecting the Fund and the Fund's approach to managing these risks and the contingency plans that are in place are set out below:

*Funding risks*

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities. (The impact is reducing the value of investments/assets and requiring increased employer's contributions).

7.3 The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk.

7.4 The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

7.5 The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

7.6 The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

7.7 *Asset risks*

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance ("ESG") – The risk that ESG related factors reduce the Fund's ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

7.8 The Committee measure and manage asset risks as follows:

a) The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has delegated rebalancing arrangements to officers to ensure the Fund's "actual allocation" does not deviate from its maximum limits. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property; the Committee has recognised the need for access to liquidity in the short-term.

b) The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; in addition, the Committee has agreed to hedge 50% of the overseas currency exposure relating to the global equity allocation. This is achieved by investing in pooled currency hedged funds managed by LGIM.

c) The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers performance on a regular basis, and will take steps, including potentially replacing one or more of their managers if underperformance persists.

7.9 *Other provider risk*

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

7.10 The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

7.11 A more comprehensive breakdown of the risks to which the Fund is exposed and the approach to managing these risks is set out in the Fund's risk register and policy documents.

## 8. Pooling of investments

8.1 The Fund is a participating scheme in the London Collective Investment Vehicle (LCIV) Pool.

8.2 The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

8.3 The Fund has already transitioned assets into the London CIV and will look to invest further via this platform as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

8.4 The Fund also invests in a range of passively managed life funds which are outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being.

8.5 Any assets not currently invested via the London CIV will be reviewed on a regular basis to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

**Performance measurement**

8.6 Fund performance is measured at a number of different levels. The objective of the Fund is to outperform the actuarial discount rate. The policy portfolio is selected by the Committee, with advice from the Fund Investment Advisers and Officers, and investment managers including LCIV, is expected to generate returns above the discount rate.

8.7 The performance of the pooling arrangements is monitored via regular reporting and through periodic meetings. LCIV seeks to outperform the policy portfolio on a risk adjusted basis, via active sub-funds creation/selection and or selecting high quality managers for each of the sub-funds and by implementing investments in a low-cost manner. Performance for the investment sub-funds is measured against widely used and transparent benchmarks.

8.8 Where performance falls short of expectations the Committee, Officers and the Investment Advisers for the Fund will identify the cause of this underperformance and will respond appropriately either to alter its policy portfolio (where asset allocation is the underlying cause) or to require changes to the management of the sub-fund vehicles (where management skill within LCIV is the underlying cause).

## 9. Environmental, Social and Corporate Governance

9.1 It is recognised that ESG factors can influence long-term investment performance and the ability to achieve long-term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

*Sustainable investment / ESG factors* – considering the financial impact of environmental, social and governance (ESG) factors on its investments.

*Stewardship and governance* – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

**Sustainable investment / ESG**

9.2 The Fund is committed to being a long-term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long-term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition, the Pensions Committee undertakes training on a regular basis and this will include training on and information sessions on matters of environmental, social and corporate governance.

9.3 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

9.4 The Fund expects its external investment managers (including the London CIV) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

9.5 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes. The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

9.6 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors where these present financial risks to the delivery of portfolio objectives and therefore impact on the sustainability of the Fund's returns.

9.7 Where appropriate, the Committee considers how it wishes to approach specific ESG factors in the context of its role in asset allocation and investment strategy setting. The Committee considers exposure to carbon risk in the context of its role in asset allocation and investment strategy setting. The limited exposure that the Fund has to fossil fuels is largely through investments in equity portfolios which aim to outperform, or track the performance of, broad market indices which themselves include allocations to companies that are responsible for carbon emissions.

9.8 Taking into account the ratification in October 2016 of the Paris Agreement, the Committee considers that significant exposure to fossil fuel reserves within the Fund's portfolio could pose a material financial risk. In spring 2017, a Carbon Risk Audit for the Fund was carried out, quantifying the Fund's exposure through its equity portfolio to fossil fuel reserves and power generation and where the greatest risks lie.

9.10 This will be periodically reviewed to ensure that it remains consistent with the risks associated with investment in carbon assets and with the Committee's fiduciary duties.

9.11 Where necessary, the Fund will also engage with its investment managers and or the London CIV to address specific areas of carbon risk. The Fund expects its investment managers to integrate financially material ESG factors into their investment analysis and decision making and may engage with managers and the London CIV to ensure that the strategies it invests in remain appropriate for its needs. However, the Fund does not at this time operate an exclusion policy in respect of specific sectors or companies.

9.12 The Committee reviews its approach to non-financial factors periodically when selecting, retaining or realising its investments, taking into account relevant legislation and the Law Commission's guidance on when such factors may be considered. Additionally, the Committee monitors legislative and other developments with regards to this subject and will review its approach in the event of material changes.

9.13 The Fund does not exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

9.14 The Fund does not at the time of preparing this statement hold any assets which it deems to be social investments; however, this ISS places no specific restrictions on the Fund in respect of such investments beyond those of suitability within the Investment Strategy as a whole and compatibility with the Committee's fiduciary duties. In considering any such investment in the future, the Committee will have regard to the Guidance issued by the Secretary of State and to the Law Commission's guidance on financial and non-financial factors.

9.15 The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

### Voting rights

9.16 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries.

9.17 The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

9.18 The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. The managers are strongly encouraged to vote in line with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee has elected to monitor the voting decisions made by all its investment managers on a regular basis.

9.19 The Fund's investments through the London CIV are covered by the voting policy of the CIV. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

9.20 The Fund will report on voting activity through the Pensions Committee.

### Stewardship

9.21 The Fund complies with the UK Stewardship Code ('the Code') and is preparing a formal statement of commitment with the Code for assessment. The current draft is set out in Appendix A.

9.22 The Fund expects its external investment managers to be signatories of the Stewardship Code and reach Tier One level of compliance or to be seeking to achieve a Tier One status within a reasonable timeframe. Where this is not feasible the Fund expects a detailed explanation as to why it will not be able to achieve this level.

9.23 In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

9.24 The Committee recognises that taking a collaborative approach with other investors can help to achieve wider and more effective outcomes.

The Fund:

(a) is a member of the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners;

(b) is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners;

(c) gives support to shareholder resolutions where these reflect concerns which are shared and represent the Fund interest; and

(d) joins wider lobbying activities where appropriate opportunities arise.

***Myners principles for investment decision making***

9.25 The old regulation requiring administering authorities to state the extent to which they comply with Myners principles for investment decision making no longer applies. However, they should still have regard to the guidance. This section has been kept in this document as Appendix B for Tower Hamlets Funds, with some small amendments to keep the responses current.

**Full compliance**

The Fund's annual report includes all the Fund's policies including the governance policy statement, governance policy compliance statement, communications policy statement, responsible investment and stewardship policy, funding strategy statement and statement of investment principles. The annual report can be found on the Council's website.

Quarterly reports to the Pensions Committee and Pensions Board on the management of the Fund's investments are publicly available on the council's website. http://democracy.towerhamlets.gov.uk/mgCommitteeDetails.aspx?ID=392

Prepared by: - Miriam Adams (Pensions & Investments)
(For and on behalf of LBTH Pensions Committee)

**Appendices**

Appendix A – Draft Statement of Commitment with the UK Stewardship code
Appendix B – Myners Investment Principles – Compliance Statement

**Appendix A - *Statement of Commitment with the UK Stewardship Code***

**Principle 1**: ***Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.***

The Fund takes its responsibilities as a shareholder seriously and has made a commitment to the informed exercise of its ownership rights as detailed in the Fund's Investment Strategy Statement.

The Fund invests via pooled funds and therefore expects its underlying investment managers to exercise voting and engagement rights on its behalf. The Fund encourages its underlying investment managers to comply with the UK Stewardship Code.

The Fund is subject to the ESG and voting policies of its underlying investment managers. The Pensions Committee ('the Committee') considers these policies when appointing a new manager and when monitoring investment managers, the Fund's Officers consider whether each manager's actions and engagement activities have been appropriate and in keeping with the Fund's policy.

In considering its stewardship activities, the Fund monitors the activities of its investment managers with regard to the following:

- The exercise of voting rights
- The integration and management of Environmental, Social and Corporate Governance (ESG) issues
- Engagement activities and progress

The Fund is a long-term investor and is committed to being an active owner. It wishes to promote a policy of dialogue on responsible investment issues, through its investment managers, with company management.

The Committee has identified the following ESG issues as a focus for engagement:

- Environmental issues: including conserving energy, promoting alternative energy sources, recycling, avoiding pollution and using environmentally friendly and sustainable resources
- Human rights: including child labour issues in foreign subsidiaries of UK companies or operations in countries with oppressive regimes
- Employment standards: including equal opportunities, health and safety, trade union recognition and employee participation

The Fund recognises that taking a collaborative approach with other investors can help to achieve wider and more effective outcomes and is a member of the Local Authority Pension Fund Forum (LAPFF), which aims to promote best practice on corporate governance and RI issues through co-operative action with other local authority funds.

The Fund regularly reviews its approach to responsible investment and the exercise of its stewardship activities.

**Principle 2**: ***Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.***

The Fund expects its investment managers to have effective policies addressing potential conflicts of interest related to stewardship.

In respect of potential conflicts of interest within the Fund, the Committee members are required to make declarations of interest prior to panel meetings.

All declarations are captured in the minutes of the meeting, which are publicly available, potential conflicts, based on declarations, are managed accordingly by the Chair of the Committee.

**Principle 3**: ***Institutional investors should monitor their investee companies.***

While the day-to-day responsibility for managing the Fund's equity holdings is delegated to the Fund's appointed investment managers, the Fund recognises that it cannot delegate its stewardship obligations. The Fund's Committee and Officers monitor the Fund's investment managers on a regular and ongoing basis, including with respect to stewardship activities.

As such the Fund expects its investment managers to monitor investee companies, intervene where necessary, and report back regularly on activity undertaken. This may be via written reports, phone calls, or meetings with the Officers and the Committee.

In addition, the Committee receives an annual report from the Fund's investment consultant on the ESG credentials, including active ownership, of its investment managers.

**Principle 4**: ***Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.***

Responsibility for day-to-day interaction with companies is delegated to the Fund's investment managers, including the escalation of engagement when necessary.

The Fund's Officers and Committee monitor the escalation activities undertaken by the Fund's investment managers through the regular reporting provided by the Fund's managers.
On occasion, the Fund may itself choose to escalate activity; this will typically be through its membership of LAPFF or via one of the underlying investment managers.

Escalation activities undertaken by LAPFF may include writing a letter to the board or additional meetings with company management.

**Principle 5**: ***Institutional investors should be willing to act collectively with other investors where appropriate.***

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies.

The Fund undertakes collective engagement activities through its membership of LAPFF as well as through initiatives proposed by the Fund's investment managers or advisors.

In addition, the fund has formally agreed to join the London Collective Investment Vehicle (CIV) and regularly collaborates with other members of the CIV with respect to ESG and stewardship issues.

**Principle 6**: ***Institutional investors should have a clear policy on voting and disclosure of voting activity.***

The Fund invests via pooled funds and is therefore subject to the underlying investment managers' policies. The Fund expects its investment managers to exercise all votes associated with the Fund's equity holdings where practicable. The Fund encourages its investment managers to publicly disclose their voting records.

Generally, the Fund expects its investment managers to support resolutions that are consistent with the UK Corporate Governance Code and represent best practice. In overseas markets, the Committee expects the managers to take account of local best practice principles.

Where resolutions or issues fall short of the expected standards, the Committee expects managers will either abstain or vote against, depending on the individual circumstances of the company and the issues presented. The Committee expects the investment managers to report on their voting activities on a regular basis and the Fund's Officers consider whether each manager's actions and engagement activities have been appropriate and in keeping with the Fund's policy.
The policy is reviewed at least annually in order to take account of regulatory developments and timely or controversial issues may be discussed at Committee meetings.

**Principle 7**: ***Institutional investors should report periodically on their stewardship and voting activities.***

The Fund expects its underlying investment managers to report regularly to both the Officers and the Committee with respect to voting and engagement activities, including examples of company engagement, progress on engagement over time and collaborative activities. The Fund encourages its investment managers to publicly report on their stewardship activities.

The Fund will report on its stewardship activity to the Committee on an annual basis. In addition, quarterly reports of voting actions are posted as part of the funds reporting to Committee and are available on the Council's website:
http://democracy.towerhamlets.gov.uk/ieListMeetings.aspx?CommitteeId=392
The Committee will provide an annual report on how the Fund satisfies its UK Stewardship Code obligations requirements, which will be made available publicly.

This statement has been approved by the Committee on 16 March 2017.

**Compliance and monitoring**
The investment managers are required to adhere to the principles set out in this Investment Strategy Statement. The Pensions Committee will require an annual written statement from the investment managers that they have adhered to the principles set out in this statement.

If you have any questions on this statement or the Fund's approach to stewardship, please contact Miriam Adam, Pensions & Investment Manager by e-mail at the following address Miriam.adams@towerhamlets.gov.uk

**Appendix B - Myners Investment Principles – Compliance Statement**

## Principle 1: Effective Decision-making

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

**Full compliance**

The Pensions Committee and Pensions Board are supported in their decision making/assisting roles by the Corporate Director, Resources, Divisional Director Finance Procurement & Audit and the Pensions & Investments Manager.

Members of both Committee and Board participate in regular training delivered through a formal programme. Training is provided at every quarterly meeting.

## Principle 2: Clear Objectives

An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

**Full compliance**

The Fund's overall objectives are defined in the Funding Strategy Statement and are directly linked to the triennial actuarial valuation. The investment objectives are clearly stated in the Statement of Investment Principles/Investment Strategy Statement.

The content of the Funding Strategy Statement reflects discussions held with individual scheme employers during the actuarial valuation process. Employers understand that contribution rates are set, having given consideration to the key tenets of affordability, sustainability and stability but also with the understanding that any decisions made must be prudent. To this end, the strength of the employer covenant is considered when setting contribution rates.

## Principle 3: Risk and liabilities

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

**Full compliance**

The Fund's actuary reviews the funding position of each employer every three years and this valuation includes an assessment of the gap between the employer's share of the Fund assets and the liabilities specific to each employer. The strength of the employer covenant is considered when setting contribution rates.

The Fund's investment strategy is reviewed following each triennial valuation to ensure that the investment strategy will achieve the expected returns assumed during the valuation process.

As a member of Club Vita, a bespoke set of assumptions are specifically tailored to fit the membership profile of the Tower Hamlets Fund. The assumptions selected are intended to make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund.

**Principle 4: Performance assessment**

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

**Full compliance**

Each manager's performance is measured quarterly against benchmark targets, which are specified in the contract between the Fund and the manager. The Fund's global custodian produces performance data for each manager and for the Fund as a whole. The target outperformance for the Fund as a whole is specified within the Statement of Investment Principles/Investment Strategy Statement. The Fund performance is also assessed with reference to the local authority peer group.

Performance data is reported to the Committee on a quarterly basis. Fund managers present to the officers or the Committee on at least an annual basis and officers hold four additional meetings with managers per quarter to discuss the portfolio composition, strategy and performance.

Consideration has been given to quantitative measures to assess the performance of the Committee, although options other than measuring meeting attendance and the success of the Committee's implemented strategies are limited.

**Principle 5: Responsible ownership**

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Stewardship Code.
- Include a statement of their policy on responsible ownership in the statement of investment principles.
- Report periodically to scheme members on the discharge of such responsibilities.

**Full compliance**

All new investment mandates will be expected to include a statement of a manager's adoption of the Stewardship Code.

The Council wishes to have an active influence on issues of environmental or ethical concern with companies in which the Pension Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern.

The Council requires the Fund Managers to take into account the implications of substantial “extra financial” considerations, e.g., environmental, social or reputational issues that could bring a particular investment decision into the public arena.

The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. In addition, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

All of the Fund’s managers are signed up to the Stewardship Code, which provides a framework for investors to consider environmental, social and corporate governance issues when making investment decisions.

**Principle 6: Transparency and reporting**

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives
- Provide regular communication to scheme members in the form they consider most appropriate

TOWER HAMLETS

# The London Borough of Tower Hamlets Pension Fund

## Appendix 3

## Funding Strategy Statement

# 1 Introduction

### 1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2017.

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

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

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

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

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

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

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

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

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

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

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

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- all Fund's policies which can be found on the Fund's website https://www.towerhamlets.gov.uk/lgnl/jobs_and_careers/Pension_fund/Pension_fund.aspx
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Section 4)

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

This depends on who you are:

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

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

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

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

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

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

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

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

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

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

B. who is responsible for what,

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

D. some more details about the actuarial calculations required,

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

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

If you have any other queries, please contact the Pensions & Investments Manager email: pensionsLBTH@towerhamlets.gov.uk or call telephone number 020 7364 4248.

## 2 Basic Funding issues

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

### 2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

- Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

### 2.2 What is each employer's contribution rate?

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

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

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

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

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

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

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

The LGPS Regulations define various types of employer as follows:

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

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

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

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

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

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

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

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

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

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

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

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

**2.5 How is a deficit (or surplus) calculated?**

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

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

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

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

In short, deficits and funding levels are short-term measures, whereas contribution-setting is a longer term issue.

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

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

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

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

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not

alter the employer's ultimate obligation to the Fund in respect of its current and former employees;

- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund will seek to moderate short-term increases in contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council taxpayers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council taxpayers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

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

## 3 Calculating contributions for individual Employers

### 3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

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

### 3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

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

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

Section 3.4 onwards deals with various other funding issues which apply to all employers.

### 3.3 The different approaches used for different employers

| **Type of employer** | **Scheduled Bodies** | | | **Community Admission Bodies and Designating Employers** | | **Transferee Admission Bodies** |
|---|---|---|---|---|---|---|
| **Sub-type** | **Council** | **Colleges** | **Academies** | **Open to new entrants** | **Closed to new entrants** | **(all)** |
| **Funding Target Basis used** | Ongoing, assumes long-term Fund participation (see Appendix E) | | | Ongoing, but may move to “gilts basis” - see Note (a) | | Ongoing, assumes fixed contract term in the Fund (see Appendix E) |
| **Primary rate approach** | (see Appendix D – D.2) | | | | | |
| **Stabilised contribution rate?** | Yes - see Note (b) | No | No | No | No | No |
| **Maximum time horizon – Note (c)** | 20 years | 20 years | 20 years | Future working lifetime | Future working lifetime | Outstanding contract term |
| **Secondary rate – Note (d)** | % of payroll or monetary amount | Monetary amount | % of payroll | % of payroll or monetary amount | % of payroll or monetary amount | % of payroll or monetary amount |
| **Treatment of surplus** | Covered by stabilisation arrangement | Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority | | | | Preferred approach: contributions kept at future service rate. However, contractors may be permitted to reduce contributions by spreading the surplus over the remaining contract term |
| **Probability of achieving target – Note (e)** | 66% | 70% | 70% | 66% if guaranteed, 75% otherwise | 66% if guaranteed, 75% otherwise | 66% if guaranteed, 75% otherwise |
| **Phasing of contribution changes** | Covered by stabilisation arrangement | At the discretion of the Administering Authority | | None | None | None |
| **Review of rates – Note (f)** | Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations | | | | | Particularly reviewed in last 3 years of contract |
| **New employer** | n/a | n/a | Note (g) | Note (h) | | Notes (h) & (i) |
| **Cessation of participation: cessation debt payable** | Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j). | | | Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j). | | Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising. |

*Note (a) (Basis for CABs and Designating Employers closed to new entrants)*

In the circumstances where:

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

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

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

*Note (b) (Stabilisation)*

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

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

The current stabilisation mechanism applies to London Borough of Tower Hamlets Council as a tax raising body:

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), total contributions have been set to ensure that stabilised employers have at least a 66% chance of being fully funded in 20 years under the 2016 formal valuation assumptions.

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

*Note (c) (Maximum time horizon)*

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

*Note (d) (Secondary rate)*

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

*Note (e) (Probability of achieving funding target)*

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

*Note (f) (Regular Reviews)*

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

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

*Note (g) (New Academy conversions)*

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

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and membership data, all as at the day prior to conversion;

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

*Note (h) (New Admission Bodies)*

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

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer and will be reassessed on an annual basis. See also Note (i) below.

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

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

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

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

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

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

i) Pooling

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

ii) Letting employer retains pre-contract risks

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

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The

Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example, the contractor should typically be responsible for pension costs that arise from:

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

*Note (j) (Admission Bodies Ceasing)*

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

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

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

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee. The approach to calculating the cessation payment will be as per the Admission Body's Admission Agreement.

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

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

### 3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. Currently the pools in place within the Fund are as follows:

- Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

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

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

### 3.5 Additional flexibility in return for added security

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

Such flexibility includes a reduced probability of achieving funding target, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

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

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

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

### 3.6 Non ill health early retirement costs

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

The payment will be paid immediately, unless otherwise agreed with the Administering Authority.

### 3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

### 3.8 External Ill health insurance

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

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

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

### 3.9 Employers with no remaining active members

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

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

# 4 Funding strategy and links to investment strategy

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

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

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

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

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

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

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

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

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

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long-term;
- Affordability – how much can employers afford;

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

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

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

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

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

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

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, annually. It reports this to the regular Pensions Committee meetings.

# 5 Statutory reporting and comparison to other LGPS Funds

### 5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Ministry of Housing Communities & Local Government (MHCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long-term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

### 5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

### 5.3 Long-term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long-term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under "relative considerations" above compares to the estimated future return being targeted by the Fund's current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

## Appendix A – Regulatory framework

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

The Ministry of Housing Communities and Local Government (MHCLG) has stated that the purpose of the FSS is:

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

These objectives are desirable individually but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

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

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

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

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

a) A draft version of the FSS was issued to all participating employers 13th February 2017 for comment;

b) Comments were requested within 21 days;

c) Following the end of the consultation period the FSS was updated where required and then published, on 31st March 2017.

### A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at April 2017;
- A copy sent by /e-mail to each participating employer in the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

### A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

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

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

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

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

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

These documents can be found on the web at www.towerhamletspensionfund.org.

## Appendix B – Responsibilities of key parties

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

### B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- prepare and maintain a FSS and a SIP/ISS, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

### B2 The Individual Employer should:-

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

**B3 The Fund Actuary should:-**

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

**B4 Other parties:-**

- investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
- the Ministry of Housing Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

## Appendix C – Key risks and controls

### C1 Types of risk

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

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

### C2 Financial risks

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

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

### C3 Demographic risks

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

| Risk | Summary of Control Mechanisms |
|---|---|
| Deteriorating patterns of early retirements | Employers are charged the extra cost of non ill-health retirements following each individual decision.<br><br>Employer ill health retirement experience is monitored, and insurance is an option. |
| Reductions in payroll causing insufficient deficit recovery payments | In many cases this may not be sufficient cause for concern and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:<br><br>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).<br><br>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts. |

## C4 Regulatory risks

| Risk | Summary of Control Mechanisms |
|---|---|
| Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform. | The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.<br><br>The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions. |
| Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5). | Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis. |

| | |
|---|---|
| Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies. | The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.<br><br>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate. |

**C5 Governance risks**

| **Risk** | **Summary of Control Mechanisms** |
|---|---|
| Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants. | The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.<br><br>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations<br><br>Deficit contributions may be expressed as monetary amounts. |
| Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way | The Administering Authority maintains close contact with its specialist advisers.<br><br>Advice is delivered via formal meetings involving Elected Members and recorded appropriately.<br><br>Actuarial advice is subject to professional requirements such as peer review. |
| Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body. | The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.<br><br>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken. |
| An employer ceasing to exist with insufficient funding or adequacy of a bond. | The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.<br><br>The risk is mitigated by: |

| Risk | Summary of Control Mechanisms |
|---|---|
| | Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).<br><br>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.<br><br>Vetting prospective employers before admission.<br><br>Where permitted under the regulations requiring a bond to protect the Fund from various risks.<br><br>Requiring new Community Admission Bodies to have a guarantor.<br><br>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).<br><br>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3). |

# Appendix D – The calculation of Employer contributions

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

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

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

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

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

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

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

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

### D2 How is the Primary contribution rate calculated?

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

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund and includes allowances for benefits payable on death in service and on ill health retirement.

**D3 How is the Secondary contribution rate calculated?**

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

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

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

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
- within the determined time horizon (see 3.3 Note (c) for further details)
- with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

The Administering Authority, after taking advice from the Fund's actuary, may choose to calculate Primary and Secondary contribution rates differently if particular circumstances apply to an employer.

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

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

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

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

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

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

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

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

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

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

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

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

# Appendix E – Actuarial assumptions

### E1 What are the actuarial assumptions?

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

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

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

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

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

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

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

#### a) Investment return / discount rate

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

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

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long-term will be 2.0% per annum greater than gilt yields at the time of the valuation (this is higher than that used at the 2013 valuation, which therefore gives a lower funding target, all other things being equal). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

**b) Salary growth**

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long-term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. 0.7% p.a. below the retail prices index (RPI) p.a. thereafter.

This gives a single "blended" assumption of Consumer Price Index (CPI) less 0.1% (equivalent to RPI less 1.2%) per annum. This is a change from the previous valuation, which assumed a flat assumption of RPI plus 0.5% per annum. The change has led to a reduction in the funding target (all other things being equal).

**c) Pension increases**

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we have used a reduction of 1.0% per annum. This is a larger reduction than at 2013 (which was 0.8%), which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

**d) Life expectancy**

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

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

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is to reduce life expectancy by around 0.4 years on average, which reduces the funding target all other things being equal. The approach taken is considered reasonable in light of the long-term nature of the Fund and the assumed level of security underpinning members' benefits.

General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

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

## Appendix F – Glossary

| | |
|---|---|
| **Actuarial assumptions/ Basis** | The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value. |
| **Administering Authority** | The council with statutory responsibility for running the Fund, in effect the Fund's "trustees". |
| **Admission Bodies** | Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3). |
| **Covenant** | The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term. |
| **Designating Employer** | Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund. |
| **Discount rate** | The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**. |
| **Employer** | An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**. |
| **Funding target** | The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**. |
| **Gilt** | A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets |

by the Fund, but their main use in funding is as an objective measure of solvency.

**Guarantee / guarantor** A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

**Letting employer** An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority but can sometimes be another type of employer such as an Academy.

**LGPS** The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

**Maturity** A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

**Members** The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

**Primary contribution rate** The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.

**Profile** The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.

| | |
|---|---|
| **Rates and Adjustments Certificate** | A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed. |
| **Scheduled Bodies** | Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers). |
| **Secondary contribution rate** | The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details. |
| **Stabilisation** | Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these. |
| **Valuation** | An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016) but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long-term bond market yields at that date also. |

TOWER HAMLETS

# The London Borough of Tower Hamlets Pension Fund

## Appendix 4

## Communications Strategy Statement

CONTENTS

**Introduction**

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

The Fund liaises with over 30 employers and approximately 22,000 scheme members in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

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

London Borough of Tower Hamlets
Town Hall
Resources
Pensions & Investments Services
160 Whitechapel Road
London E1 1BJ

Telephone: 020 7364 4251
Facsimile: 020 7364 4593

Email: pensions@towerhamlets.gov.uk

**Regulatory Framework**

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

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

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

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

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

As a provider of an occupational pension scheme, we are already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure of information) Regulations and other legislation, for example the Pensions Act 2004. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more generalised disclosure requirements are to be introduced, supported by a Code of Practice. The type of information that pension schemes are required to disclose will remains very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a *"reasonable period"*. The draft Code of Practice[1] issued by the Pensions Regulator in September 2005 sets out suggested timescales in which

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

the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Management section of this document, alongside those proposed by the Pension Regulator in the draft Code of Practice.

**Responsibilities and Resources**

Within the Pension Section, the responsibility for communication material is performed by our Pensions & Investment Manager with the assistance of two Principal Pensions Officers.
Although, the team write all communications within the section, all design work is carried out by the Council's Creative & Technical team. The Pensions team are also responsible for arranging all forums, workshops and meetings covered within this Statement.
All printing is carried out by an external supplier, which is usually decided upon by the Council's Creative & Technical team.

**Communication with key audience groups**

Our audience

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

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

In addition there are a number of other stakeholders with whom we communicate on a regular basis, such as Her Majesty's Revenue and Customs, the Ministry of Housing Communities and Local Government, solicitors, the Pensions Advisory Service, and other pension providers. We also consider as part of this policy how we communicate with these interested parties.

**How we communicate**

General communication

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

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

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

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

**Policy on Communication with Active, Deferred and Pensioner Members**
Our objectives with regard to communication with members are:

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

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

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

**Explanation of communications**

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

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

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

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

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

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

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

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

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

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

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

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

Our objectives with regard to communication with prospective members are:

- to improve take up of the LGPS.
- for the LGPS to be used as a tool in the attraction of employees.

- for our employers to be employers of choice.
- for public relations purposes.

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

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

**Explanation of communications**

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

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

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

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

**Policy on communication with Employing Authorities**

Our objectives with regard to communication with employers are:

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

**<u>Our objectives will be met by providing the following communications:</u>**

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

**Explanation of communications**

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

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

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

Pensions Fund Report and Accounts – Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.
Adviser meeting – Gives employers the opportunity to discuss their involvement in the Scheme with advisers.

**Policy on communication with senior managers**
Our objectives with regard to communication with senior managers are:

- to ensure they are fully aware of developments within the LGPS
- to ensure that they understand costs/funding issues

- to promote the benefits of the Scheme as a recruitment/retention tool.

Our objectives will be met by providing the following communications:

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

**Explanation of communications**

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

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

**Policy on communication with union representatives**

Our objectives with regard to communication with union representatives are:

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

Our objectives will be met by providing the following communications:

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

**Explanation of communications**

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

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

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

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

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

Our objectives will be met by providing the following communications:

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

**Explanation of communications**
Training sessions – to provide a broad overview of the main provisions of the LGPS to elected members and their responsibilities within it.

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

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

**Policy on communication with pension section staff**
Our objectives with regard to communication with Pension Section's staff are:

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

Our objectives will be met by providing the following communications:

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

**Explanation of communications**

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

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

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

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

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

**Policy on communication with taxpayers**

Our objectives with regard to communication with taxpayers are:

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

Our objectives will be met by providing the following communications:

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

**Explanation of communications**

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

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

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

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

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

Our objectives will be met by providing the following communications:

| Method of Communication | Media | Frequency of Issue | Method of Distribution | Audience Group |
|---|---|---|---|---|
| Pension Fund valuation reports<br>• Rates and Adjustments (R&A) certificates<br>• Revised R&A certificates<br>• Cessation valuations | Electronic | Every three years | Via email | Government Departments)/ Her Majesty's Revenue and Customs HMRC)/all Scheme employers |
| Details of new employers entered into the Fund | Hard copy | As new employers are entered into the Fund | Post | Government Departments /HMRC |
| Formal resolution of pension disputes | Hard copy or electronic | As and when a dispute requires resolution | Via email or post | Scheme member or their representatives, the Pensions Advisory Service/the Pensions Ombudsman |
| Completion of questionnaires | Electronic or hard copy | As and when required | Via email or post | Government Departments /HMRC/the Pensions Regulator |

**Explanation of communications**

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

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

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

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

**Performance Measurement**

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

**Timeliness**

We will measure against the following target delivery timescales:

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

| | | | |
|---|---|---|---|
| Changes to Scheme rules | Active/deferred and pensioner members, as required | Within two months of the change coming into effect | Within one month of change coming into effect |
| Annual Pension Fund Report and Accounts | All | Within two months of request | Within ten working days |

**Quality**

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

### Results

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

### Review Process

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

# The London Borough of Tower Hamlets Pension Fund

## Appendix 5

## Governance Compliance Statement

# Governance and Compliance Statement

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

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

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

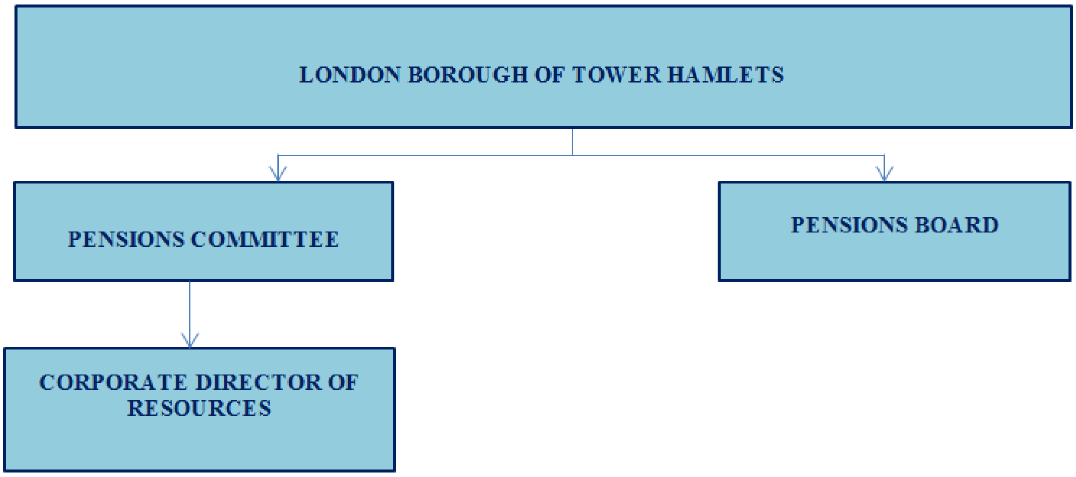
- around 20,000 current and former members of the Fund, and their dependants
- over 20 employers within the Tower Hamlets Council area or with close links to Tower Hamlets Council
- the local taxpayers within the London Borough of Tower Hamlets.

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

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

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

The Council delegates its responsibility for administering the Fund to the Pensions Committee. The terms of this delegation are as set out in the Council Constitution and provide that the Committee is responsible for consideration of all pension matters and discharging the obligations and duties of the Council under the Superannuation Act 1972 and various statutory matters relating to investment issues.
The Constitution sets out the framework under which the Pension Fund is to be administered as depicted in the diagram below.




**Terms of Reference for the Pensions Committee**

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

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

1) To act as Trustees of the Council's Pension Fund, consider pension matters and meet the obligations and duties of the Council under the Superannuation Act 1972, the Public Service Pensions Act 2013, and the various pensions' legislation.
2) To make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, actuaries, advisers, investment managers and custodians and periodically to review those arrangements.
3) To formulate and publish an Investment Strategy Statement.
4) To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and to develop a medium term plan to deliver the objectives.
5) To determine the strategic asset allocation policy, the mandates to be given to the investment managers and the performance measures to be set for them.
6) To make arrangements for the triennial actuarial valuation, to monitor liabilities and to undertake any asset/liability and other relevant studies as required.
7) To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles.
8) To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
9) To receive and approve an Annual Report on the activities of the Fund prior to publication.
10) To make arrangements to keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis.
11) To keep the terms of reference under review.
12) To determine all matters relating to admission body issues.

13) To focus on strategic and investment related matters at two Pensions Committee meetings.

14) To review the Pension Fund's policy and strategy documents on a regular basis and review performance against the Fund's objectives within the business plan

15) To maintain an overview of pensions training for Members.

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

## Membership of the Pensions Committee

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

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

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

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

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

### Meetings

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

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

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

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

The Council will make available copies of the minutes of the meeting and records of decisions taken for six years after a meeting. Minutes of meetings and records of decisions are available for inspection on the Council's website:
http://moderngov.towerhamlets.gov.uk/ieListMeetings.aspx?CommitteeId=392

## Other Delegations of Powers

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

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

## Pension Board

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

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

Such Pension Boards are not local authority committees; as such the Constitution of Tower Hamlets Council does not apply to the Pension Board unless it is expressly referred to in the Board's terms of reference. The Tower Hamlets Pension Board established by Tower Hamlets

Council and the full terms of reference of the Board can be found within the Council's Constitution. The key points are summarised below.

**Role of the Pension Board**

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

**Membership of the Pension Board**

The Pension Board consists of 7 members as follows:

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

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

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

The members of the Board are appointed by an Appointments Panel which consists of:

- the Cabinet Member for Resources
- the Corporate Director, Resources
- the Divisional Director Finance, Procurement and Audit
- the Corporate Director, Governance

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

**Meetings**

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

**Policy Documents**
In addition to the foregoing, there are a number of other documents which are relevant to the Governance and management of the Pension Fund. Brief details of these are listed below and the full copies of all documents can be found on the Pension Fund Website:
http://www.towerhamletspensionfund.org/

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

***Investment Strategy Statement***
The Investment Strategy Statement (ISS) replaced the Statement of Investment Principles from 1st April 2016. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.
This ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused.
This document will be reviewed following the completion of the Fund investment strategy review and updated revised version will be tabled at the November Pensions Committee meeting for approval.

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

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

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

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

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

***Annual Report and Accounts***
As part of the financial standing orders it is the duty of the Chief Financial Officer to ensure that record keeping and accounts are maintained by the Pension Fund. The Pension Fund accounts are produced in accordance with the accounting recommendations of the Financial Reports of Pension Schemes - Statement of Recommended Practice. The financial statements summarise the transactions of the Scheme and deal with the net assets of the Scheme. The statement of accounts is reviewed by both the Pensions Committee and the Audit Committee and incorporated in the Statement of Accounts for the Council. Full copies of the Report and Accounts are distributed to employers in the Fund and other interested parties and a copy placed on the websites:
http://www.towerhamletspensionfund.org/
http://moderngov.towerhamlets.gov.uk/ieListMeetings.aspx?CommitteeId=392

***Communication Policy***
This document sets out the communications policy of the administering authority and sets out the strategy for ensuring that all interested parties are kept informed of developments in the Pension Fund. This helps to ensure transparency and an effective communication process for all interested parties. A copy of the policy can be found on the Pensions website:
http://www.towerhamletspensionfund.org/

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

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

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

**Approval, Review and Consultation**
This Governance Policy and Statement was approved at the London Borough of Tower Hamlets Pensions Committee meeting on 23 July 2015 following consultation with all the participating employers in the Fund and other interested parties. It will be formally reviewed and updated at

least every year or sooner if the governance arrangements or other matters included within it merit reconsideration. In August 2017, this document has been reviewed and updated for Pensions Committee consideration and approval at its meeting of 21st September 2017.

Contact Information

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

London Borough of Tower Hamlets Pension Fund
Town Hall,
160 Whitechapel Road
London
E1 1BJ

Email: pensions@towerhamlets.gov.uk
Website: http://www.towerhamletspensionfund.org/

**Appendix A**

**Delegation of Functions to Officers by Tower Hamlets Pensions Committee**

**Key:**
PC – Pensions Committee OAP-Officers & Advisers Panel PIM – Pensions & Investments Manager
CDR – Corporate Director, Resources & Officers DDoFPA -Divisional Director Finance, Procurement & Audit
IC – Investment Consultant FA – Fund Actuary IA – Independent Adviser

| **Function delegated to PC** | **Delegation to Officer(s)** | **Delegated Officer(s)** | **Communication and Monitoring of Use of Delegation** |
|---|---|---|---|
| Investment strategy - approving the Fund's investment strategy, Investment Strategy Statement and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite.<br><br>Monitoring the implementation of these policies and strategies on an ongoing basis. | Rebalancing and cash management<br><br>Implementation of strategic allocation including use of ranges<br>To formally review the Scheme's asset allocation at least every three year's taking account of any changes in the profile of Scheme liabilities and will assess any guidance regarding tolerance of risk. It will recommend changes in asset allocation to the Pensions Committee | CDR, DDoFPA & PIM (having regard to ongoing advice of the IC, IA, FA and OAP) | High level monitoring at PC with more detailed monitoring by OAP and or PIM |

| Function delegated to PC | Delegation to Officer(s) | Delegated Officer(s) | Communication and Monitoring of Use of Delegation |
|---|---|---|---|
| | New mandates / emerging opportunities<br>To consider the Scheme's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism and recommend revisions to the Pensions Committee. | CDR, DDoFPA and PIM (having regard to ongoing advice of the IC & IA) | High level monitoring at PC with more detailed monitoring by OAP & PIM |
| Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers. | Ongoing monitoring of Fund Managers | CDR, DDoFPA and PIM (having regard to ongoing advice of the IA & IC) and subject to ratification by PC | High level monitoring at PC with more detailed monitoring by OAP & PIM |
| | Selection, appointment, addition, replacement and dismissal of Fund Managers<br>To evaluate the credentials of potential managers and make recommendations to the Pensions Committee<br>To review the Scheme's AVC arrangements annually. If it considers a change is appropriate, it will make recommendations to the Pensions Committee. | OAP, CDR and PIM (having regard to ongoing advice of the IA & IC) and subject to ratification by PC | Notified to PC via ratification process. |

| Function delegated to PC | Delegation to Officer(s) | Delegated Officer(s) | Communication and Monitoring of Use of Delegation |
|---|---|---|---|
| Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders. | Agreeing the Administering Authority responses where the consultation timescale does not provide sufficient time for a draft response to be approved by PC. | CDR, DDoFPA and PIM, subject to agreement with Chairman and Vice Chairman (or either, if only one available in timescale) | PC advised of consultation via e-mail (if not already raised previously at PC) to provide opportunity for other views to be fed in. Copy of consultation response provided at following PC for noting. |
| Agreeing the Fund's Knowledge and Skills Policy for all Pensions Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy. | Implementation of the requirements of the CIPFA Code of Practice[2] | CDR & DDoFPA | Regular reports provided to PC and included in Annual Report and Accounts. |
| The Committee may delegate a limited range of its functions to one or more officers of the Authority. The Pensions Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pensions Committee. | Other urgent matters as they arise | CDR, DDoFPA and PIM subject to agreement with Chairman and Vice Chairman (or either, if only one is available in timescale) | PC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PC. |
| | Other non-urgent matters as they arise | Decided on a case by case basis | As agreed at PC and subject to monitoring agreed at that time. |

[2] **CIPFA Code of Practice recommends each administering authority delegates responsibility for implementation to a senior officer.**

**Appendix B**

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

| PRINCIPLE | REQUIREMENT | COMPLIANCE | COMMENT |
|---|---|---|---|
| | • expert advisors (on an ad-hoc basis). | | |
| | That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights. | Compliant | Papers for Committee and the Pensions Committee are made available to all members of both bodies at the same time and are published well in advance of the meetings in line with the council's committee agenda publication framework. |
| **SELECTION & ROLE OF LAY MEMBERS** | That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. | Compliant | Members of the Pensions Committee/ Pensions Committee have access to the terms of reference of each body and are aware of their roles and responsibilities as members of these bodies/ Panel. |
| **VOTING** | The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees. | Compliant | Members of the Pensions Committee/ Pensions Committee does not currently confer voting rights on non-Councillors in line with common practice across the local government sector. |
| **TRAINING/FACILITY TIME/EXPENSES** | That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. | Compliant | Regular training is arranged for members of the Pensions Committee. In addition members are encouraged to attend external training courses. The cost of any such courses attended will be met by the Fund. |
| | That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. | Compliant | The rule on training provision is applied equally across all members of the Pensions Committee. |

| PRINCIPLE | REQUIREMENT | COMPLIANCE | COMMENT |
|---|---|---|---|
| | | | |
| **MEETINGS (FREQUENCY/ QUORUM)** | That an administering authority's main committee or committees meet at least quarterly. | Compliant | Meetings of the Pensions Committee are arranged to take place quarterly. |
| | That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. | Compliant | Meetings of the Pensions Committee are arranged to take place quarterly. |
| | That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. | Compliant | Union representatives on the Pensions Committee are lay members. Other stakeholders of the Fund are able to make representations at the Annual General Meeting of the Pension Fund. |
| **ACCESS** | Subject to any rules in the Council's Constitution, all members of the main and secondary committees or panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee. | Compliant | Panel meeting papers are circulated at the same time to all members of the Pensions Committee/ Pensions Committee. |
| **SCOPE** | That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. | Compliant | Pensions Committee considers are range of issues at its meetings and therefore has taken steps to bring wider scheme issues within the scope of the governance arrangements. |
| **PUBLICITY** | That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements. | Compliant | This Governance Compliance Statement is a public document that is attached as an appendix to the annual pension fund report. |

# London Borough of Tower Hamlets Pension Fund Appendix 6 Training & Development Policy

## Introduction

This is the Training & Development Policy of the London Borough of Tower Hamlets Pension Fund in relation to the Local Government Pension Scheme (LGPS), which is managed and administered by Tower Hamlets Council. The Policy details the training strategy for members of the Pensions Committee and Pension Board, and senior officers responsible for the management of the Fund.

This Training & Development Policy is established to assist Pensions Committee and Pensions Board members and senior officers in developing their knowledge and capabilities in their individual roles, with the ultimate aim of ensuring that the London Borough of Tower Hamlets Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills.
Tower Hamlets Council has delegated responsibility for the implementation of this Training & Development Policy to the Corporate Director, Resources.

## Aims and Objectives

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

- over 22,000 current and former members of the Fund, and their dependants
- over 30 employers within the Tower Hamlets Council area or with close links to Tower Hamlets Council
- the local taxpayers within the London Borough of Tower Hamlets.

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

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

This Policy has been put in place to assist the Fund in achieving these objectives and all Pensions Committee Members, Pension Board members and senior officers to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and to ensuring that these objectives are met.

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

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

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

This Training & Development Policy applies to all Members of the Pensions Committee, Pensions Board, including scheme member and employer representatives. It also applies to all managers in the Tower Hamlets Council Pension Fund Management Team and the Chief Finance Officer (Section 151 Officer) (from here on in collectively referred to as the senior officers of the Fund).

Other officers involved in the daily management of the Pension Fund will also be required to have appropriate knowledge and skills relating to their roles, which will be determined and managed by the Pensions & Investment Manager and his/her team.
The advisers to the Fund that provides the day to day and strategic advice to the London Borough of Tower Hamlets Pension Fund are also expected to be able to meet the objectives of this Policy, as are all other officers of employers participating in the London Borough of Tower Hamlets Pension Fund who are responsible for pension matters are also encouraged to maintain a high level of knowledge and understanding in relation to LGPS matters, and Tower Hamlets Council will provide appropriate training for them.
This is considered separately in the London Borough of Tower Hamlets Pension Fund Administration Strategy.

## CIPFA and TPR Knowledge and Skills Requirements - *(CIPFA Knowledge and Skills Framework and Code of Practice)*

In January 2010 CIPFA launched technical guidance for Representatives on Pensions Committees and non-executives in the public sector within a knowledge and skills framework. The Framework details the knowledge and skills required by those responsible for pension scheme financial management and decision making.

In July 2015 CIPFA launched technical guidance for Local Pension Board members by extending the existing knowledge and skills frameworks in place. This Framework details the knowledge and skills required by Pension Board members to enable them to properly exercise their functions under Section 248a of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013.

The Framework covers eight areas of knowledge and skills identified as the core requirements (which include all those covered in the existing Committee and nonexecutives' framework):

- i) Pensions legislation
- ii) Public sector pensions governance
- iii) Pension accounting and auditing standards
- iv) Pensions administration
- v) Financial services procurement and relationship management
- vi) Investment performance and risk management
- vii) Financial markets and products knowledge
- viii) Actuarial methods, standards and practice

CIPFA's Code of Practice recommends (amongst other things) that Local Government Pension Scheme administering authorities -

- formally adopt the CIPFA Knowledge and Skills Frameworks (or an alternative training programme)

- ensure that the appropriate policies and procedures are put in place to meet the requirements of the Frameworks (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

### The Pensions Act 2004 and the Pension Regulator's Code of Practice

Section 248a of the Pensions Act 2004, as amended by The Public Service Pensions Act 2013 (PSPA13) requires Pension Board members to:

- be conversant with the rules of the scheme and any document recording policy about the administration of the scheme, and
- have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Pension Board.

These requirements are incorporated and expanded on within the TPR Code of Practice which came into force on 1 April 2015. It is expected that guidance will also be issued by the Local Government Pension Scheme Advisory Board which will explain further how these requirements will relate to LGPS administering authorities.

### Application to the London Borough of Tower Hamlets Pension Fund

Tower Hamlets Council recognises that effective financial administration, scheme governance and decision-making can only be achieved where those involved have the requisite knowledge and skills. Accordingly it fully supports the use of the CIPFA Knowledge and Skills Frameworks, and TPR's Code of Practice. Tower Hamlets Council adopts the principles contained in these publications in relation to the London Borough of Tower Hamlets Pension Fund, and this Training and Development Policy highlights how the Council will strive to achieve those principles through use of a Training Plan together with regular monitoring and reporting.

## The London Borough of Tower Hamlets Pension Fund Training and Development Plan

Tower Hamlets Council recognises that attaining, and then maintaining, relevant knowledge and skills is a continual process for Pensions Committee members, Pension Board members and senior officers, and that training is a key element of this process. Tower Hamlets Council will develop a rolling Training Plan based on the following key elements:

1) **Individual Training Needs**: A training needs analysis will be developed for the main roles of Pensions Committee members, Pension Board members and senior officers customised appropriately to the key areas in which they should be proficient. Training will be required in relation to each of these areas as part of any induction and on an ongoing refresher basis.

2) **Hot Topic Training**: The Training Plan will be developed to ensure appropriately timed training is provided in relation to hot topic areas, such as a high risk area or a specific area where decisions need to be made. This training may be targeted at specific roles.

3) **General Awareness**: Pensions Committee members, Pension Board members and senior officers are expected to maintain a reasonable knowledge of ongoing developments and current issues, which will allow them to have a good level of general awareness of pension related matters appropriate for their roles and which may not be specific to the London Borough of Tower Hamlets Pension Fund.

Each of these training requirements will be focussed on the role of the individual i.e. a Pensions Committee member, a Pension Board member or the specific role of the officer.
The Pensions Committee agrees a training plan on an annual basis at the first meeting of the Municipal Year. The training plan is developed taking into consideration the needs of the Committee, the Board and officers to both enhance existing knowledge and skills and to develop new areas of understanding. This ensures that training is accessible to all Committee and Board members and key officers involved in the management of the Pension Fund.

Training will be delivered through a variety of methods including:
- In-house training days provided by officers and/or external providers
- Training as part of meetings (e.g. Pensions Committee) provided by officers and/or external advisers
- External training events
- Circulation of reading material
- Attendance at seminars and conferences offered by industry-wide bodies
- Attendance at meetings and events with the London Borough of Tower Hamlets Pension Fund's investment managers and advisors
- Links to on-line training
- Access to the London Borough of Tower Hamlets Pension Fund website where useful London Borough of Tower Hamlets Pension Fund specific material is available.

In addition London Borough of Tower Hamlets Pension Fund officers and advisers are available to answer any queries on an ongoing basis including providing access to materials from previous training events.

## Initial Information and Induction Process

On joining the Pensions Committee, the Pension Board or the London Borough of Tower Hamlets Pension Fund Management Team, a new member or officer will be provided with the following documentation to assist in providing them with a basic understanding of London Borough of Tower Hamlets Pension Fund:

i) The members' guide to the Local Government Pension Scheme (LGPS)
ii) The latest Actuarial Valuation report
iii) The Annual Report and Accounts, which incorporate:
   a. The Funding Strategy Statement
   b. The Governance Policy and Compliance Statement
   c. The Statement of Investment Principles including the London Borough of Tower Hamlets Pension Fund's statement of compliance with the LGPS Myners Principles
   d. The Communications Policy

e. The Administration Strategy

iv) The administering authority's Discretionary Policies

v) The Training Policy

In addition, an individual training plan will be developed to assist each Pensions Committee member, Pension Board member or officer to achieve, within six months, their identified individual training requirements.

## Monitoring Knowledge and Skills

To identify if Pensions Committee members, Pension Board members and senior officers are meeting the objectives of this policy we will:

1) Compare and report on attendance at training based on the following:

i. Individual Training Needs – ensuring refresher training on the key elements takes place for each individual at least once every three years.

ii. Hot Topic Training – attendance by at least 80% of the required Pensions Committee members, Pension Board members and senior officers at planned hot topic training sessions. This target may be focussed at a particular group of Pensions Committee members, Pension Board members or senior officers depending on the subject matter.

iii. General Awareness – each Pensions Committee member, Pension Board member or officer attending at least one day each year of general awareness training or events.

iv. Induction training – ensuring areas of identified individual training are completed within six months.

2) Consider whether the objectives have been met as part of the annual self-assessment carried out each year which is completed by all Pensions Committee members, Pension Board members and senior officers.

The key risks to the delivery of this Policy are outlined below:

i. Changes in Pensions Committee and/or Pension Board membership and/or senior officers' potentially diminishing knowledge and understanding.

ii. Poor attendance and/or a lack of engagement at training and/or formal meetings by Pensions Committee Members, Pension Board Members and/or other senior officers resulting in a poor standard of decision making and/or monitoring.

iii. Insufficient resources being available to deliver or arrange the required training.

iv. The quality of advice or training provided not being to an acceptable standard.

The Pensions Committee members, with the assistance of London Borough of Tower Hamlets senior officers and Pension Board members will monitor these and other key risks and consider how to respond to them.

## Reporting

A report will be presented to the Pensions Committee on an annual basis setting out:

i. The training provided / attended in the previous year at an individual level

ii. Attendance at Pensions Committee and Pension Board meetings

iii. The results of the measurements identified above.

This information will also be included in the London Borough of Tower Hamlets Pension Fund's Annual Report and Accounts.
At each Pensions Committee and Pensions Board meeting, members will be provided with details of forthcoming seminars, conferences and other relevant training events as well as a summary of the events attended since the previous meeting.

## Costs

All training costs related to this Training and Development Policy are met directly by the London Borough of Tower Hamlets Pension Fund.

## Approval, Review and Consultation

This Training and Development Policy was originally approved at the London Borough of Tower Hamlets Pensions Committee meeting of September 2015 and amendments to incorporate the requirements of the CIPFA Local Pension Boards Framework would be approved on $9^{th}$ March 2016. This Training and Development Policy was also adopted by the London Borough of Tower Hamlets Pension Board at its first meeting. It will be formally reviewed and updated at least every year or sooner if the training arrangements or other matters included within it worth re-evaluation.

## Further Information

If you require further information about anything in or related to this Training and Development Policy, please contact:
Miriam Adams
Pensions & Investments Manager
London Borough of Tower Hamlets Pension Fund
London Borough of Tower Hamlets
Town Hall
160 Whitechapel Road
London
E1 1BJ
E-mail miriam.adams@towerhamlets.gov.uk
Telephone 020 7364 4248

# LONDON BOROUGH OF TOWER HAMLETS

## Administering Authority for Tower Hamlets Pension Fund

## Appendix 7

## Procedure for Recording and Reporting Breaches of the Law

## 1. Introduction

1.1 This document sets out the procedures to be followed by certain persons involved with the Tower Hamlets Pension Fund, the Local Government Pension Scheme managed and administered by Tower Hamlets Council, in relation to reporting breaches of the law to the Pensions Regulator.

1.2 Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions.

1.3 This Procedure document applies, in the main, to:

- all members of the Tower Hamlets Pensions Committee and Board;
- all officers involved in the management of the Pension Fund;
- personnel of the shared service pensions administrator providing day to day administration services to the Fund, and any professional advisers including auditors, actuaries, legal advisers and fund managers; and
- officers of employers participating in the Tower Hamlets Pension Fund who are responsible for pension matters.

## 2. Requirements

2.1 This section clarifies the full extent of the legal requirements and to whom they apply.

2.2 ***Pensions Act 2004***
Section 70 of the Pensions Act 2004 (the Act) imposes a requirement on the following persons:

- a trustee or manager of an occupational or personal pension scheme;
- a member of the pension board of a public service pension scheme;
- a person who is otherwise involved in the administration of such a scheme an occupational or personal pension scheme;
- the employer in relation to an occupational pension scheme;
- a professional adviser in relation to such a scheme; and
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme, to report a matter to The Pensions Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that:
  (a) a legal duty relating to the administration of the scheme has not been or is not being complied with, and
  (b) the failure to comply is likely to be of material significance to The Pensions Regulator.

The Act states that a person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse. The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

### 2.3 *The Pension Regulator's Code of Practice*

Practical guidance in relation to this legal requirement is included in The Pension Regulator's Code of Practice including in the following areas:

- implementing adequate procedures.
- judging whether a breach must be reported.
- submitting a report to The Pensions Regulator.
- whistleblowing protection and confidentiality.

### 2.4 *Application to the Tower Hamlets Pension Fund*

This procedure has been developed to reflect the guidance contained in The Pension Regulator's Code of Practice in relation to the Tower Hamlets Pension Fund and this document sets out how the Board will strive to achieve best practice through use of a formal reporting breaches procedure.

## 3 The Tower Hamlets Pension Fund Reporting Breaches Procedure

The following procedure details how individuals responsible for reporting and whistleblowing can identify, assess and report (or record if not reported) a breach of law relating to the Tower Hamlets Pension Fund. It aims to ensure individuals responsible are able to meet their legal obligations, avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk.

### 3.1 *Clarification of the law*

Individuals may need to refer to regulations and guidance when considering whether or not to report a possible breach. Some of the key provisions are shown below:

- Section 70(1) and 70(2) of the Pensions Act 2004:
  www.legislation.gov.uk/ukpga/2004/35/contents
- Employment Rights Act 1996:
  www.legislation.gov.uk/ukpga/1996/18/contents
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations):
  www.legislation.gov.uk/uksi/2013/2734/contents/made
- Public Service Pension Schemes Act 2013:
  www.legislation.gov.uk/ukpga/2013/25/contents
- Local Government Pension Scheme Regulations (various):
  http://www.lgpsregs.org/timelineregs/Default.html (pre 2014 schemes)
  http://www.lgpsregs.org/index.php/regs-legislation (2014 scheme)

- The Pensions Regulator's Code of Practice: http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-publicservice-pension-schemes.aspx
  In particular, individuals should refer to the section on 'Reporting breaches of the law', and for information about reporting late payments of employee or employer contributions, the section of the code on 'Maintaining contributions'.

Further guidance and assistance can be provided by the Council Monitoring Officer and the Corporate Director, Resources, provided that requesting this assistance will not result in alerting those responsible for any serious offence (where the breach is in relation to such an offence).

3.2 ***Clarification when a breach is suspected***

Individuals need to have reasonable cause to believe that a breach has occurred, not just a suspicion. Where a breach is suspected the individual should carry out further checks to confirm the breach has occurred. Where the individual does not know the facts or events, it will usually be appropriate to check with the Council Monitoring Officer and the Corporate Director, Resources, a member of the Pensions Committee or Pension Board or others who are able to explain what has happened. However there are some instances where it would not be appropriate to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases The Pensions Regulator should be contacted without delay.

3.3 ***Determining whether the breach is likely to be of material significance***

To decide whether a breach is likely to be of material significance an individual should consider the following, both separately and collectively:

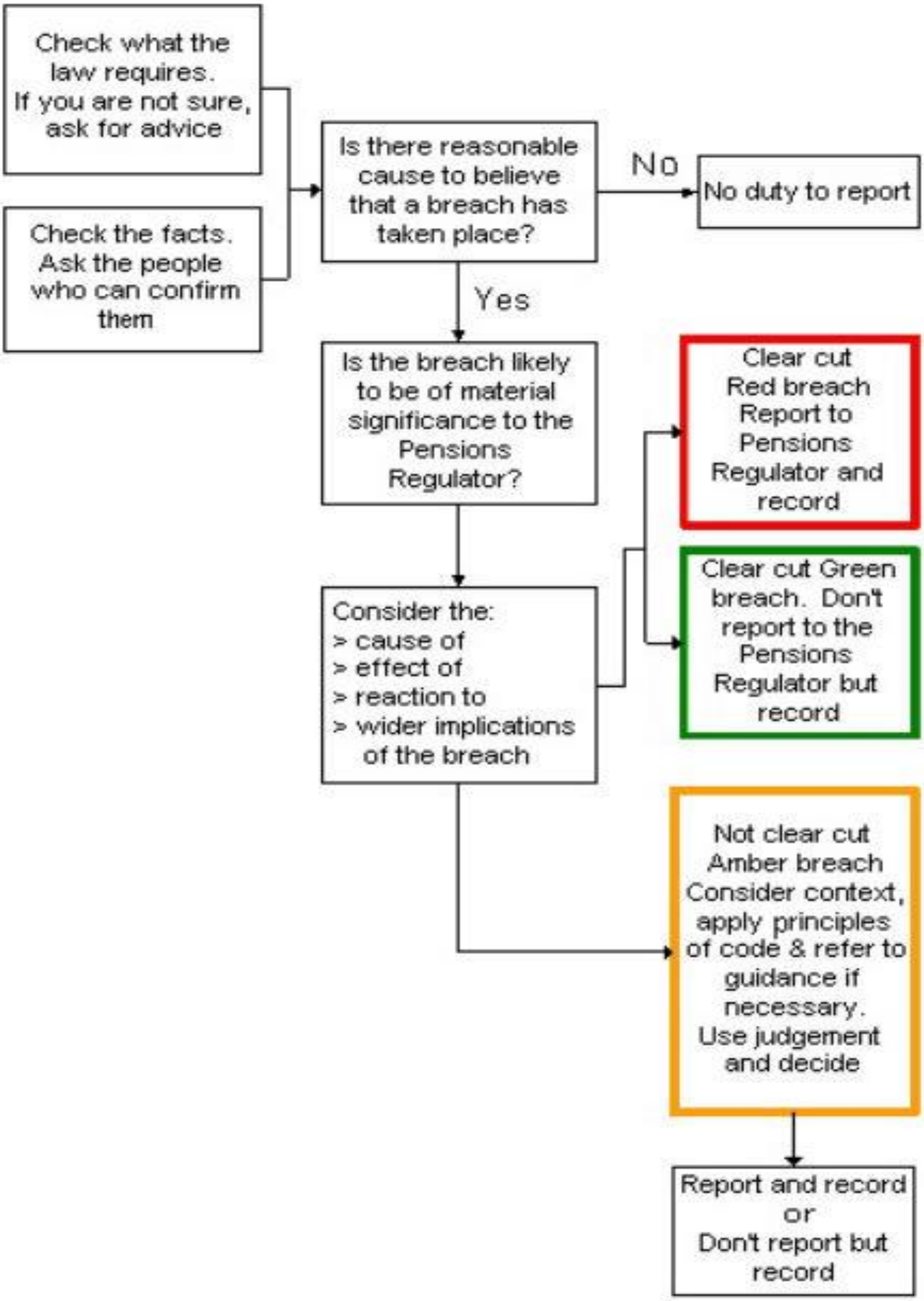
- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

Further details on the above four considerations are provided in Appendix A to this procedure.

The individual should use the traffic light framework described in Appendix B to help assess the material significance of each breach and to formally support and document their decision.

3.4 A decision tree is provided below to show the process for deciding whether or not a breach has taken place and whether it is materially significant and therefore requires to be reported.

# Decision-tree: deciding whether to report



3.5 ***Referral to a level of seniority for a decision to be made on whether to report***

Tower Hamlets Council has a designated Monitoring Officer to ensure the Council acts and operates within the law. They are considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred, to check the law and facts of the case, to maintain records of all breaches and to assist in any reporting to The Pensions Regulator, where appropriate. If breaches relate to late or incorrect payment of contributions or pension benefits, the matter should be highlighted to the Council Service Head of Finance & Procurement and the Corporate Director, Resources, at the earliest opportunity to ensure the matter is resolved as a matter of urgency. Individuals must bear in mind, however, that the involvement of the Monitoring Officer is to help clarify the potential reporter's thought process and to ensure this procedure is followed. The reporter remains responsible for the final decision as to whether a matter should be reported to The Pensions Regulator.

The matter should not be referred to any of these officers if doing so will alert any person responsible for a possible serious offence to the investigation (as highlighted in section 2). If that is the case, the individual should report the matter to The Pensions Regulator setting out the reasons for reporting, including any uncertainty – a telephone call to the Regulator before the submission may be appropriate, particularly in more serious breaches.

3.6 ***Dealing with complex cases***

The Council Service Head of Finance & Procurement and the Corporate Director, Resources, may be able to provide guidance on particularly complex cases. Information may also be available from national resources such as the Scheme Advisory Board or the LGPC Secretariat (part of the LG Group - http://www.lgpsregs.org/). If timescales allow, legal advice or other professional advice can be sought and the case can be discussed at the next Board meeting.

3.7. ***Timescales for reporting***

The Pensions Act and Pension Regulators Code require that if an individual decides to report a breach, the report must be made in writing as soon as reasonably practicable. Individuals should not rely on waiting for others to report and nor is it necessary for a reporter to gather all the evidence which The Pensions Regulator may require before taking action. A delay in reporting may exacerbate or increase the risk of the breach. The time taken to reach the judgements on "reasonable cause to believe" and on "material significance" should be consistent with the speed implied by 'as soon as reasonably practicable'. In particular, the time taken should reflect the seriousness of the suspected breach.

3.8 ***Early identification of very serious breaches***

In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, The Pensions Regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert The Pensions Regulator to the breach.

3.9 ***Recording all breaches even if they are not reported***

The record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). Tower Hamlets Council will maintain a record of all breaches identified by individuals and reporters should therefore provide copies of reports to the Council Monitoring Officer and the Corporate Director, Resources. Records of unreported breaches should also be provided as soon as reasonably practicable and certainly no later than within 20 working days of the decision made not to report. These will be recorded alongside all reported breaches. The record of all breaches (reported or otherwise) will be included in the quarterly Monitoring Report at each Pension Committee, and this will also be shared with the Pension Board.

3.10 ***Reporting a breach***

Reports must be submitted in writing via The Pensions Regulator's online system at www.tpr.gov.uk/exchange, or by post, email or fax, and should be marked urgent if appropriate. If necessary, a written report can be preceded by a telephone call. Reporters should ensure they receive an acknowledgement for any report they send to The Pensions Regulator. The Pensions Regulator will acknowledge receipt of all reports within five working days and may contact reporters to request further information. Reporters will not usually be informed of any actions taken by The Pensions Regulator due to restrictions on the disclosure of information.

As a minimum, individuals reporting should provide:

- full scheme name (Tower Hamlets Pension Fund);
- description of breach(es);
- any relevant dates;
- name, position and contact details;
- role in connection to the scheme; and
- employer name or name of scheme manager (the latter is Tower Hamlets Council).

If possible, reporters should also indicate:

- the reason why the breach is thought to be of material significance to The Pensions Regulator;
- scheme address (provided at the end of this procedures document);
- scheme manager contact details (provided at the end of this procedures document);
- pension scheme registry number (PSR – 00330180RT); and
- whether the breach has been reported before.

The reporter should provide further information or reports of further breaches if this may help The Pensions Regulator in the exercise of its functions. The Pensions Regulator may make contact to request further information.

3.11 ***Confidentiality***

If requested, The Pensions Regulator will do its best to protect a reporter's identity and will not disclose information except where it is lawfully required to do so. If an individual's employer decides not to report and the individual employed by them disagrees with this and decides to report a breach themselves, they may have protection under the Employment Rights Act 1996 if they make an individual report in good faith.

3.12 ***Reporting to Pensions Committee and Pensions Board***

A report will be presented to the Pensions Committee and the Pensions Board on a quarterly basis setting out:

- all breaches, including those reported to The Pensions Regulator and those unreported, with the associated dates;
- in relation to each breach, details of what action was taken and the result of any action (where not confidential);
- any future actions for the prevention of the breach in question being repeated; and
- highlighting new breaches which have arisen in the last year/since the previous meeting.

This information will also be provided upon request by any other individual or organisation (excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings). An example of the information to be included in the quarterly reports is provided in Appendix C to this procedure.

3.13 ***Review***

This Reporting Breaches Procedure was originally developed in June 2016. It will be kept under review and updated as considered appropriate by the Corporate Director, Resources. It may be changed as a result of legal or regulatory changes, evolving best practice and ongoing review of the effectiveness of the procedure.

***Further Information***

If you require further information about reporting breaches or this procedure, please contact:

Miriam Adams – Pensions & Investments Manager
Email: Miriam.adams@towerhamlets.gov.uk
Telephone: 020 7364 4248
Tower Hamlets Pension Fund
London Borough of Tower Hamlets, London E1 1BJ

**Designated officer contact details:**

1) Divisional Director Finance and Procurement – Kevin Bartle
Email: kevin.bartle@towerhamlets.gov.uk

2) Corporate Director, Resources – Neville Murton
Email: Neville.Murton@towerhamlets.gov.uk

3) Monitoring Officer/Corporate Director, Governance – Asmat Hussain
Email: Asmat.Hussain@towerhamlets.gov.uk

**Appendix A**

## Determining whether a breach is likely to be of material significance

To decide whether a breach is likely to be of material significance individuals should consider the following elements, both separately and collectively:

- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

### The cause of the breach

Examples of causes which are likely to be of concern to The Pensions Regulator are provided below:

- acting, or failing to act, in deliberate contravention of the law;
- dishonesty;
- incomplete or inaccurate advice;
- poor administration, i.e. failure to implement adequate administration procedures;
- poor governance; or
- slow or inappropriate decision-making practices.

When deciding whether a cause is likely to be of material significance individuals should also consider:

- whether the breach has been caused by an isolated incident such as a power outage, fire, flood or a genuine one-off mistake.
- whether there have been any other breaches (reported to The Pensions Regulator or not) which when taken together may become materially significant.

### The effect of the breach

Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to The Pensions Regulator in the context of the LGPS are given below:

- Committee/Board members not having enough knowledge and understanding, resulting in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements.
- Conflicts of interest of Committee or Board members, resulting in them being prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements.
- Poor internal controls, leading to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the scheme at the right time.

- Inaccurate or incomplete information about benefits and scheme information provided to members, resulting in members not being able to effectively plan or make decisions about their retirement.
- Poor member records held, resulting in member benefits being calculated incorrectly and/or not being paid to the right person at the right time.
- Misappropriation of assets, resulting in scheme assets not being safeguarded.
- Other breaches which result in the scheme being poorly governed, managed or administered.

**The reaction to the breach**

A breach is likely to be of concern and material significance to The Pensions Regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence;
- are not pursuing corrective action to a proper conclusion; or
- fail to notify affected scheme members where it would have been appropriate to do so.

**The wider implications of the breach**

Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to The Pensions Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

**Appendix B**

## Traffic light framework for deciding whether or not to report

It is recommended that those responsible for reporting use the traffic light framework when deciding whether to report to The Pensions Regulator. This is illustrated below:

RED

This where the cause, effect, reaction and wider implications of a breach, when considered together, are likely to be of material significance.

These must be reported to The Pensions Regulator.
Example: Several members' benefits have been calculated incorrectly. The errors have not been recognised and no action has been taken to identify and tackle the cause or to correct the errors.

AMBER

This where the cause, effect, reaction and wider implications of a breach, when considered together, may be of material significance. They might consist of several failures of administration that, although not significant in themselves, have a cumulative significance because steps have not been taken to put things right. You will need to exercise your own judgement to determine whether the breach is likely to be of material significance and should be reported.

Example: Several members' benefits have been calculated incorrectly. The errors have been corrected, with no financial detriment to the members. However the breach was caused by a system error which may have wider implications for other public service schemes using the same system.

GREEN

This where the cause, effect, reaction and wider implications of a breach, when considered together, are not likely to be of material significance. These should be recorded but do not need to be reported.

Example: A member's benefits have been calculated incorrectly. This was an isolated incident, which has been promptly identified and corrected, with no financial detriment to the member. Procedures have been put in place to mitigate against this happening again.

**All breaches should be recorded even if the decision is not to report.**

When using the traffic light framework individuals should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together. Some useful examples of this framework is provided by The Pensions Regulator at the following link: http://www.thepensionsregulator.gov.uk/codes/code-related-report-reaches.aspx

**Appendix C**

## Example Record of Breaches

| Date | Category (e.g. administration, contributions, funding, investment, criminal activity) | Description and cause of breach | Possible effect of breach and wider implications | Reaction of relevant parties to breach | Reported / Not reported (with justification if not reported and dates) | Outcome of report and/or investigations | Outstanding actions |
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*New breaches since the previous meeting should be highlighted

# LONDON BOROUGH OF TOWER HAMLETS

## Administering Authority for Tower Hamlets Pension Fund

## Appendix 8
## CONFLICTS OF INTEREST POLICY

June 2016

# CONFLICTS OF INTEREST POLICY

## Introduction

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy, such as this, how any such conflicts or potential conflicts are to be managed.

This is the Conflicts of Interest Policy of the Tower Hamlets Pension Fund, which is managed by London Borough of Tower Hamlets. The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Tower Hamlets Pension Fund whether directly or in an advisory capacity.

This Conflicts of Interest Policy is established to guide the Pensions Committee members, Pension Board members, officers and advisers. Along with other constitutional documents, including the various Codes of Conduct, it aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

**In relation to the governance of the Fund, the Administering Authority's objectives are to:**

- Act in the best interests of the Fund's members and employers
- Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
- Act with integrity and be accountable to stakeholders for all decisions, ensuring they are robust and well based
- Understand and monitor risk
- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Clearly articulate its objectives and how it intends to achieve those objectives through business planning, and continually measure and monitor success

The identification and management of potential and actual conflicts of interest is integral to the Administering Authority achieving its governance objectives.

## To whom this Policy Applies

This Conflicts of Interest Policy applies to all members of the Pensions Committee and the Pension Board, including scheme member and employer representatives, whether voting members or not. It applies to all managers in the management of London Borough of Tower Hamlets Pension Fund, the Chief Finance Officer (Section 151 Officer), Corporate Directors, and the Service Heads (from here on in collectively referred to as the senior officers of the Fund).

The Pensions & Investments Manager will monitor potential conflicts for less senior officers involved in the daily management of the Pension Fund and highlight this Policy to them as he/she considers appropriate.

This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role, whether this is a management, advisory or assisting role.

The Policy also applies to all advisers and suppliers to the Fund, whether advising the Pension Board, Pensions Committee or Fund officers.

In this Policy, reference to advisers includes all advisers, suppliers and other parties providing advice and services to the Administering Authority in relation to pension fund matters. This includes but is not limited to actuaries, investment consultants, independent advisers, benefits consultants, third party administrators, fund managers, lawyers, custodians and AVC providers. Where an advisory appointment is with a firm rather than an individual, reference to "advisers" is to the lead adviser(s) responsible for the delivery of advice and services to the Administering Authority rather than the firm as a whole.

In accepting any role covered by this Policy, those individuals agree that they must:

- acknowledge any potential conflict of interest they may have;
- be open with the Administering Authority on any conflicts of interest they may have;
- adopt practical solutions to managing those conflicts; and
- plan ahead and agree with the Administering Authority how they will manage any conflicts of interest which arise in future.

The procedures outlined later in this Policy provide a framework for each individual to meet these requirements.

## Legislative and related context

The overriding requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance. These are considered further below.

*The Public Service Pensions Act 2013*

Section 5 of this Act requires that the scheme manager (in the case of the LGPS, this is the administering authority) must be satisfied that a Pension Board member does not have a conflict of interest at the point of appointment and from time to time thereafter. It also requires Pension Board members (or nominated members) to provide reasonable information to the scheme manager for this purpose.

The Act defines a conflict of interest as “a financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).”

Further, the Act requires that scheme managers must have regard to any such guidance that the national scheme advisory board issue (see below).

*The Local Government Pension Scheme Regulations 2013*

Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act (as outlined above) to the LGPS, placing a duty on each Administering Authority to satisfy itself that Pension Board members do not have conflicts of interest on appointment or whilst they are members of the board. It also requires those pension board members to provide reasonable information to the administering authority in this regard.

Regulation 109 states that each Administering Authority must have regard to guidance issued by the Secretary of State in relation to Pension Boards. Further, regulation 110 provides that the national scheme advisory board has a function of providing advice to Administering Authorities and Pension Boards. At the point of writing this Policy, the shadow LGPS national scheme advisory board has issued guidance relating to the creation of Pension Boards including a section on conflicts of interest. It is expected that this guidance will be adopted by the scheme advisory board when it is created by statute and possibly also by the Secretary of State. This Conflicts of Interest Policy has been developed having regard to that guidance.

*The Pensions Act 2004*

The Public Service Pensions Act 2013 also added a number of provisions to the Pensions Act 2004 related to the governance of public service pension schemes and, in particular, conflicts of interest.

Section 90A requires the Pensions Regulator to issue a code of practice relating to conflicts of interest for pension board members. The Pensions Regulator has issued such a code and this Conflicts of Interest Policy has been developed having regard to that code.

Further, under section 13, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for Pension Board members are not being adhered to.

*Local Government Act 2000*

All members and co-opted members of the Tower Hamlets Pensions Committee are required by the Local Government Act 2000 to abide by Flintshire's Members' Code of Conduct. Part 3 of that Code contains provisions relating to personal interests, personal and prejudicial interests, their disclosure and limitations on members' participation where they have any such interest.

*The Public Services Ombudsman for Wales' Ten Guiding Principles*

The Local Government Act 2000 empowered the National Assembly to issue principles to which local authority elected members must have regard in undertaking their role as a member. These principles draw on the 7 Principles of Public Life which were set out in the Nolan Report "Standards of Conduct in Local Government in England, Scotland and Wales". Three more were added to these; a duty to uphold the law, proper stewardship of the Council's resources and equality and respect for others.

The current principles were set out in a statutory instrument and are detailed below. Many of the principles are integral to the successful implementation of this Policy.

**CODE OF CONDUCT & CONFLICT OF INTEREST POLICY**

1. **Code of conduct**

1.1 As members of a publicly funded body with a responsibility to discharge public business, members of the Tower Hamlets Pension Board should have the highest standards of conduct.

1.2 Pension Board members should have regard to the Seven Principles of Public life:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

1.3 All Tower Hamlets Pension Board members must:

- Act solely in the public interest and should never improperly confer an advantage or disadvantage on any person or act to gain financial or other material benefits for yourself, your family, a friend or close associate.

- Not place yourself under a financial or other obligation to outside individuals or organisations that might seek to influence you in the performance of your official duties.

- Make all choices on merit and must be impartial and seen to be impartial, when carrying out your public duties.

- Co-operate fully with whatever scrutiny is appropriate to your role.

- Not, without proper authority, reveal any confidential and sensitive information that is provided to you, such as personal information about someone, or commercially sensitive information which, if disclosed, might harm the commercial interests of the Council or another person or organisation.

- Ensure when using or authorising the use by others of the resources of the authority that such resources are not used improperly for political purposes (including party political purposes) and you must have regard to any applicable Local Authority Code of Publicity made under the Local Government Act 1986.

- Promote and support high standards of conduct when serving in your public post, in particular as characterised by the above requirements, by leadership and example.

- Sign the Conflict of Interest Declaration and declare any further potential conflicts of interest that may arise once appointed as a member.

- Comply with the Tower Hamlets Pension Fund Code in addition to all other existing Codes of Conduct or Protocols (e.g. The Member Code of Conduct).

## 2. Conflict of interest

2.1 The Public Service Pensions Act 2013, Section 5(4) requires that any member of a Pension Board must not have a “conflict of interest”, which is defined in Section 5(5) as a “financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme.”

2.2 A conflict of interest exists where a decision on a matter might reasonably be regarded as affecting (to a greater extent than other persons who may be affected by the decision) the well-being or financial position of the Councillor, a relative or a friend or

- the employment or business carried out by those persons, or in which they might be investors (above a certain level),
- any of the bodies with which the decision maker is associated, and which decision maker will have registered in the appropriate register of interests.

It does not need to be shown that a conflict of interest actually exists. It is sufficient if it appears to a fair and informed observer that there was a real possibility of conflict.

2.3 Examples of potential conflicts of interest, not only for the Board but also for all those involved in managing the Pension Fund, are listed at appendix 1.

2.4 All prospective Pension Board members are required to complete the Tower Hamlets Pension Fund Conflict of interest declaration before they are appointed to the Pension Board, attached at appendix 2.

2.5 All appointments to the Pension Board should be kept under review by the Corporate Director, Resources.

2.5 It is the duty of any appointed Pension Board member to declare any potential conflict of interest. This declaration should be made to the Chair of the Pension Board in the first instance or to the Scheme Manager and recorded in a register of interests.

2.7 The Pension Board shall identify and monitor any potential conflict of interests in a register of interests (attached at appendix 3). The register of interests should be circulated to the Tower Hamlets Pension Board and Scheme Manager for review and publication.

2.8 If the Pension Board suspects any conflict of interest it should report its concerns to the Scheme Manager.

2.9 When seeking to prevent a potential conflict of interest becoming detrimental to the conduct and decisions of the Pension Board, the Tower Hamlets Pension Board must consider obtaining legal advice when assessing its course of action and response. The Tower Hamlets Pension Board should consult the Monitoring Officer or the Service Head, Legal Services in the first instance.

2.10 Education on identifying and dealing with conflicts of interest will be included as part of the training requirement in the Knowledge and Understanding policy.

## 3. Operational procedure for officers, Pensions Committee members and Pension Board members

3.1 The following procedures must be followed by all individuals to whom this policy applies.

| **What is required** | **How this will be done** |
|---|---|
| *Step 1 - Initial identification of interests which do or could give rise to a conflict* | On appointment to their role or on the commencement of this Policy if later, all individuals will be provided with a copy of this Policy and be required to complete a Declaration of Interest the same or similar to that included in Appendix 2. This is in addition to the requirement to register disclosable pecuniary interests and other registerable interests.<br><br>The information contained in these declarations will be collated into the Pension Fund Register of conflicts of interest in a format the same or similar to that included in Appendix 3. |

| What is required | How this will be done |
|---|---|
| *Step 2 - Ongoing notification and management of potential or actual conflicts of interest* | At the commencement of any Pensions Committee, Pension Board or other formal meeting where pension fund matters are to be discussed, the Chairman will ask all those present who are covered by this Policy to declare any new potential conflicts. These will be recorded in the Fund's Register of conflicts of interest. In addition, the latest version of the Register will be made available by the Governance Officer to the Chairman of every meeting prior to that meeting.<br><br>At Tower Hamlets Pensions Committee meetings there will also, at the start of the meeting, be an agenda item for Members to declare any interests under the Members' Code in relation to any items on that agenda.<br><br>Any individual, who considers that they or another individual has a potential or actual conflict of interest, as defined by this Policy, which relates to an item of business at a meeting, must advise the Chairman and the Governance Officer prior to the meeting, where possible, or state this clearly at the meeting at the earliest possible opportunity. The Chairman, in consultation with the Officers, should then decide whether the conflicted or potentially conflicted individual needs to leave the meeting during the discussion on the relevant matter or to withdraw from voting on the matter.<br><br>If such a conflict is identified outside of a meeting the notification must be made to the Governance Officer and where it relates to the business of any meeting, also to the Chairman of that meeting. The Officers, in consultation with the Chairman where relevant, will consider any necessary action to manage the potential or actual conflict.<br><br>Where information relating to any potential or actual conflict has been provided, the Pensions & Investment Manager may seek such professional advice as he or she thinks fit (such as legal advice from the Monitoring Officer) on to how to address any identified conflicts.<br><br>Any such potential or actual conflicts of interest and the action taken must be recorded on the Fund's Register of conflicts of interest. |
| *Step 3 - Periodic review of potential and actual conflicts* | At least once every 12 months, the Officers will provide to all individuals to whom this Policy applies a copy of the Fund's Register of conflicts of interest. All individuals will complete a new Declaration of Interest (see Appendix 2) confirming that their information contained in the Register is correct or highlighting any changes that need to be made to the declaration. Following this exercise, the updated Register will then be circulated by the Officers to all individuals to whom it relates. |

## 4. Operational procedure for advisers

4.1 All of the key advisers are expected to have their own policies on how conflicts of interest will be managed in their relationships with their clients, and these should have been shared with London Borough of Tower Hamlets.

4.2 Although this Policy applies to all advisers, the operational procedures outlined in steps 1 and 3 above relating to completing ongoing declarations are not expected to apply to advisers. Instead all advisers must:

- be provided with a copy of this Policy on appointment and whenever it is updated
- adhere to the principles of this Policy
- provide, on request, information to the Pensions & Investments Manager in relation to how they will manage and monitor actual or potential conflicts of interests relating to the provision of advice or services to London Borough of Tower Hamlets
- notify the Pensions & investments Manager immediately should a potential or actual conflict of interest arise.

4.3 All potential or actual conflicts notified by advisers will be recorded in the Fund's Register of conflicts of interest.

4.4 London Borough of Tower Hamlets will encourage a culture of openness and transparency and will encourage individuals to be vigilant, have a clear understanding of their role and the circumstances in which they may have a conflict of interest, and of how potential conflicts should be managed.

4.5 London Borough of Tower Hamlets will evaluate the nature of any dual interests or responsibilities that are highlighted and assess the impact on pension fund operations and good governance were an actual conflict of interest to materialise.

4.6 Ways in which conflicts of interest may be managed include:

- the individual concerned abstaining from discussion, decision-making or providing advice relating to the relevant issue
- the individual being excluded from the meeting(s) and any related correspondence or material in connection with the relevant issue (for example, a report for a Pensions Committee meeting)
- a working group or sub-committee being established, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference permit this to happen)

4.7 Provided that the Administering Authority, (having taken any professional advice deemed to be required) is satisfied that the method of management is satisfactory, London Borough of Tower Hamlets shall endeavour to avoid the need for an individual to have to resign due to a conflict of interest. However, where the conflict is considered to be so fundamental that it cannot be effectively managed, or where a Pension Board member has an actual conflict of interest as defined in the Public Service Pensions Act 2013, the individual will be required to resign from the Committee, Board or appointment.

4.8 *Minor Gifts*
For the purposes of this Policy, gifts such as t-shirts, pens, trade show bags and other promotional items (subject to a notional maximum value of £10 per item and an overall maximum value of £20 from an individual company per event) obtained at events such as conferences, training events, seminars, and trade shows, that are offered equally to all members of the public attending the event do not need to be declared. Pensions Committee members should, however, be aware that they may be subject to lower limits and a separate notification procedure in the London Borough of Tower Hamlets Members' Code of Conduct.

## 5. Monitoring and Reporting

5.1 The Fund's Register of conflicts of interest may be viewed by any interested party at any point in time. It will be made available on request by the Governance Officer for the Fund. In addition, it will be published in the annual report and accounts

5.2 In order to identify whether the objectives of this Policy are being met the Administering Authority will:

- Review the Register of conflicts of interest on an annual basis and consider whether there have been any potential or actual conflicts of interest that were not declared at the earliest opportunity
- Provide its findings to the Administering Authority's Independent Adviser and ask him or her to include comment on the management of conflicts of interest in his or her annual report on the governance of the Fund each year.

## 6. Key Risks

6.1 The key risks to the delivery of this Policy are outlined below. All of these could result in an actual conflict of interest arising and not being properly managed. The Pensions & Investments Manager will monitor these and other key risks and consider how to respond to them.

- Insufficient training or poor understanding in relation to individuals' roles on pension fund matters
- Insufficient training or failure to communicate the requirements of this Policy
- Absence of the individual nominated to manage the operational aspects of this Policy and no one deputising, or failure of that individual to carry out the operational aspects in accordance with this Policy
- Failure by a chairperson to take appropriate action when a conflict is highlighted at a meeting.

## 7. Costs

7.1 All costs related to the operation and implementation of this Policy will be met directly by Tower Hamlets Pension Fund. However, no payments will be made to any individuals in relation to any time spent or expenses incurred in the disclosure or management of any potential or actual conflicts of interest under this Policy.

## 8. Approval, Review and Consultation

8.1 This Conflicts of Interest Policy is to be approved using delegated responsibilities on 30 June 2016. It will be formally reviewed and updated at least every three years or sooner if the conflict management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

## Further Information

If you require further information about anything in or related to this Conflicts of Interest Policy, please contact:

Miriam Adams,
Tower Hamlets Pension Fund Manager,
London Borough of Tower Hamlets
E-mail – Miriam.adams@towerhamlets.gov.uk
Telephone – 020 7364 4248

**Appendix 1**

## Examples of Potential Conflicts of Interest

a) An elected member on the Pension Committee is asked to provide views on a funding strategy which could result in an increase in the employer contributions required from the employer he or she represents.

b) A member of the Pension Committee is on the board of a Fund Manager that the Committee is considering appointing.

c) An officer of the Fund or member of the Pension Committee accepts a dinner invitation from a Fund Manager who has submitted a bid as part of a tender process.

d) An employer representative on the Pension Board is employed by a company to which the administering authority has outsourced its pension administration services and the Local Pension Board is reviewing the standards of service provided by that company.

e) The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.

f) An officer of the Fund is asked to provide guidance to the Local Pension Board on the background to an item considered at the Pension Committee. This could be a potential conflict as the officer could consciously or sub-consciously avoid providing full details, resulting in the Board not having full information and not being able to provide a complete view on the appropriateness or otherwise of that Pension Committee item.

g) The administering authority is considering buying its own payroll system for paying pensioners, rather than using the payroll system used for all employees of the Council. The Executive Director of Finance and Public Protection, who has responsibility for the Council budget, is expected to approve the report to go to the Pension Committee, which, if agreed, would result in a material reduction in the recharges to the Council from the Fund.

h) Officers of the Fund are asked to provide a report to the Pension Board or Pension Committee on whether the administration services should be outsourced which, if it were to happen, could result in a change of employer or job insecurity for the officers.

i) An employer representative employed by the administering authority and appointed to the Pension Board to represent employers generally could be conflicted if he or she only acts in the interests of the administering authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the pension board to represent the entire scheme membership could be conflicted if he or she only acts in the interests of their union and union membership, rather than all scheme members.

j) A Fund adviser is party to the development of a strategy which could result in additional work for their firm, for example, delegated consulting of fund monies or providing assistance with monitoring the covenant of employers.

k) An employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the Pension Committee or Local Pension Board. He or she has to consider whether to share this information in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pension Board.

**Appendix 2**

# Declaration of Interests relating to the management of Tower Hamlets Pension Fund administered by London Borough of Tower Hamlets

*Tick as appropriate*

I, [insert full name], am:

- an officer involved in the management ☐
- Pensions Committee Member ☐
- Pension Board Member ☐

of Tower Hamlets Pension Fund and I set out below under the appropriate headings my interests, which I am required to declare under Tower Hamlets Pension Fund Conflicts of Interest Policy. I have put "none" where I have no such interests under any heading.

**Responsibilities or other interests that could result in a conflict of interest** (please list and continue overleaf if necessary):

*A) Relating to me*

*B) Relating to family members or close colleagues*

**Undertaking:**

I declare that I understand my responsibilities under the Tower Hamlets Pension Fund Conflicts of Interest Policy. I undertake to notify the Pensions & Investments Manager of any changes in the information set out above.

Signed ________________________________________ Date ____________________

Name (CAPITAL LETTERS) ________________________________________________

## Appendix 3

# Tower Hamlets Pension Fund - Register of Potential and Actual Conflicts of Interest

All reported conflicts of interest will be recorded in the minutes and a register of conflicts will be maintained and reviewed annually by London Borough of Tower Hamlets, the Administering Authority.

| Date Identified | Name of Person | Role of Person | Details of conflict | Actual or potential conflict | How notified(1) | Action taken(2) | Follow up required | Date resolved |
|---|---|---|---|---|---|---|---|---|
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(1) E.g. verbal declaration at meeting, written conflicts declaration, etc.
(2) E.g. withdrawing from a decision making process, left meeting

# The London Borough of Tower Hamlets Pension Fund
# Appendix 9
# Pension Administration Strategy Statement
# April 2017

## Introduction

This is the pension administration strategy of London Borough of Tower Hamlets Pension Fund (the Fund) in relation to the Local Government Pension Scheme (LGPS), which is administered by the London Borough of Tower Hamlets (the administering authority).

This document sets out a framework by way of outlining the policies and performance standards to be achieved when providing a cost-effective inclusive and high quality pensions administration service. The pension administration strategy is kept under review and revised to reflect changes to LGPS regulations and Fund policies. It has been developed following consultation with employers who participate in the Fund and schools who employ their own payroll providers.

The Fund comprises 17 employers and approximately 19,600 scheme members. The efficient delivery of the benefits of the LGPS is dependent on reliable administrative procedures being in place between the administering authority and scheme employers.

The effective date is 1st April 2017.

Any enquires in relation to the pension administration strategy should be sent to the Pensions & Investment, London Borough of Tower Hamlets at:

Pensions.LBTH@towerhamlets.gov.uk

This strategy when approved (and any significant amendments thereafter) will be sent to all scheme employers and the Secretary of State.

Regulatory context

The LGPS is a statutory scheme, established by an Act of Parliament and governed by regulations. The most recent of such regulations, appertaining to administration are the LGPS (Administration) Regulations 2014. Regulation 59(1) of the (Administration) Regulations 2014 covers the requirement for an administering authority to prepare a written statement of policies as it considers appropriate in the form of a Pensions Administration Strategy. This regulation outlines the primary matters which should be covered to include:

- administration standards
- performance measures
- communication with scheme employers

In addition, Regulation 70 of the (Administration) Regulations 2014 covers the ability of an administering authority to recover additional costs arising from scheme employers' level of performance. Furthermore, Regulation 71 of the same regulations allows the administering authority to apply interest on late payments by scheme employers.

The administering authority and scheme employers must have regard to the pension administration strategy when carrying out their functions under the LGPS Regulations

Aims

The aim of this pension administration strategy is to set out the quality and performance standards expected of the Fund, its scheme employers and payroll providers. It seeks to promote good working relationships and improve efficiency between the Fund, scheme employers and payroll providers.

The efficient delivery of the benefits of the scheme is reliant upon sound administrative procedures being in place between stakeholders, including the Fund and scheme employers. This administration strategy sets out the expected levels of performance of the Fund and the scheme employers and provides details about the monitoring of performance levels and the action(s) that might be taken where persistent non-compliance occurs.

Implementation

The administration strategy is effective from 1 April 2017 and is kept under review and revised to keep abreast of changes in scheme and Fund regulations.

## London Borough of Tower Hamlets Pension Administration

Responsibility

The London Borough of Tower Hamlets, as administering authority, is responsible for administering the Council's LGPS fund. The administering authority has delegated this responsibility to the Pensions Committee (the Committee). The Committee monitors the activity and performance of the administration function on a quarterly basis. The Committee will monitor and review this administration strategy on a regular basis.

Objective

The Fund's objective in relation to administration is to deliver an efficient and value for money service to its scheme employers and scheme members. Operationally, the administration of the Fund is carried out by staff employed by the administering authority.

Communications

The Fund has published a Communication Policy Statement, which details the way the Fund communicates with Committee, scheme members, prospective scheme members, scheme employers and other stakeholders. The latest version is accessible from the Fund website:

http://towernet/staff_services/hr_workforce_development/pensions/

Telephone: 020 7364 4251

## Performance Standards

Administration of the LGPS is maintained at local level by a number of regional pension funds and, as such, certain decisions must be made by either the Fund or the scheme employer, in relation to the rights and entitlements of individual scheme members. In order to meet these obligations in a timely and accurate manner, and also to comply with overriding disclosure requirements, the Fund has service level agreements between itself and scheme employers which are set out below.

Overriding legislation

In carrying out their roles and responsibilities in relation to the administration of the LGPS, the Fund and scheme employers will, as a minimum, comply with overriding legislation.

Internal quality standards

The Fund and scheme employers will ensure that all functions and tasks are carried out to agreed quality standards. In this respect, the standards to be met are:

- information to be legible and accurate
- communications to be in a plain language style
- information provided to be checked for accuracy by an appropriately qualified member of staff
- information provided to be authorised by an appropriate officer
- actions carried out, or information provided, within the timescales set out in this Administration strategy

Punctuality

Overriding legislation dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the LGPS. The LGPS itself sets out a number of requirements for the Fund and scheme employers to provide information to each other, scheme members and prospective scheme members, dependants, other pension arrangements or other regulatory bodies. The following sections on responsibilities set out the locally agreed timescales for these requirements.

## Fund Responsibilities

This section outlines the key responsibilities of the Fund and the performance standards scheme employers and scheme members should expect. It is focussed on the key activities which scheme employers and scheme members are involved in and should not be viewed as an exhaustive list.

Fund administration

This details the functions which relate to the whole Fund, rather than individual scheme members' benefits.

| Ref | Function / Task | Performance Target |
|---|---|---|
| 1 | Publish and keep under review the pensions administration strategy. | Within three months of any changes being agreed with scheme employers. |
| 2 | Publish and keep up to date all forms required for completion by scheme members, prospective scheme members or scheme employers. | 30 days from any revision. New employers to receive within three months of admission. |
| 3 | Host meetings for all scheme employers. | Twice per annum (usually June/July and November/December each year). |
| 4 | Organise coaching sessions for scheme employers. | Upon request from scheme employers or as required. |
| 5 | Provide bespoke meetings for scheme employers. | As required. |
| 6 | Notify scheme employers and scheme members of changes to the scheme rules | Within one month of the change(s) coming into effect. |

| | | |
|---|---|---|
| 7 | Issue scheme member / employer bulletin. | At least once a year. |
| 8 | Notify a scheme employer of issues relating to the scheme employer's non-compliance with performance standards. | Within ten days of a performance issue becoming apparent. |
| 9 | Notify a scheme employer of decisions to recover additional costs associated with the scheme employer's poor performance (including any interest that may be due). | Within ten days of scheme employer failure to improve performance, as agreed. |
| 10 | Issue annual benefit statements to active and deferred members as at 31 March each year. | By 31 August following the year-end. |
| 11 | Issue formal valuation results (including individual employer details). | No later than 1 March following the valuation date. |
| 12 | Carry out valuation assessments on cessation of admission agreements or a scheme employer ceasing participation in the Fund. | Upon each cessation or occasion where a scheme employer ceases participation on the Fund. |
| 13 | New admission agreement, where required (including the allocation of assets and notification to the Secretary of State). | Within three months of agreement to set up provided prospective employer adheres to certain prescribed timescales |
| 14 | Publish, and keep under review, the Fund's governance compliance statement. | By 30 September, following the year-end as part of the Fund's annual report and accounts, or within 30 days of the policy being agreed by the Pensions Committee. |
| 15 | Publish, and keep under review the Fund's funding strategy statement | To be reviewed at each triennial valuation, following consultation with scheme employers and the Fund's actuary. Revised statement to be published by 31 March following valuation date or as required. |
| 16 | Publish the Fund's annual statement of accounts. | By 30 September following the year-end or following the issue of the auditor's opinion. |
| 17 | Publish the Fund's annual report | By 30 September following the year-end |
| 18 | Publish, and keep under review, the Fund's communication policy statement. | By 30 September, following the year-end, as part of the Fund's annual report and accounts, or within 30 days of the policy being agreed by the Pensions Committee. |
| 19 | Publish, and keep under review, the Fund's termination policy statement. | Within 30 days of any changes being made to the policy |
| 20 | Publish, and keep under review, the Fund's charging policy. | Within 30 days of any changes being made to the policy. |

<u>Scheme administration</u>

This details the functions which relate to scheme member benefits from the LGPS.

| Ref | Function / Task | Performance Target |
|---|---|---|
| 21 | Provide an answer or acknowledgement to scheme members/scheme employers/ personal representatives/ dependents and other authorised persons. | Five days from receipt of enquiry. |

| | | |
|---|---|---|
| 22 | Set up a new starter and provide statutory notification to the member. | Twenty days from receipt of correctly completed starter form from a scheme employer. |
| 23 | Non-LGPS inward transfers processed. | Ten days of receipt of request from scheme member. |
| 24 | Non-LGPS transfer out quotations processed. | Ten days of receipt of request. |
| 25 | Non-LGPS transfer out payments processed. | Ten days of receipt of completed forms. |
| 26 | Internal and concurrent transfers processed. | Ten days of receipt of request. |
| 27 | Estimates for divorce purposes. | Ten days of receipt of request. |
| 28 | Notify the scheme employer of any scheme member's election to pay additional pension contributions, including all required information to enable deductions to commence. | Ten days of receipt of election from scheme member. |
| 29 | Process scheme member requests to pay/amend/ cease additional voluntary contributions. | Five days of receipt of request from scheme member. |
| 30 | Provide requested estimates of benefits to employees/employers including any additional fund costs in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency. | 15 days from date of request. Note: bulk requests of more than 20 estimates per month will be subject to further agreement. |
| 31 | Deferred benefits calculated. | Fifteen days from receipt of all necessary information. |
| 32 | Deferred benefits processed for payment following receipt of election | Five days from receipt of all necessary information. |
| 33 | Refund payments | Five days from receipt of all necessary information. |
| 34 | Provision of new retirement letters detailing member options. | Fifteen days from receipt of all necessary information. |
| 35 | Payment of retirement benefits following receipt of election | Lump-sum payment within five days of receipt of all necessary documentation. First pension payment on next available payroll run. |
| 36 | Notification of death processed | Within ten days of receipt of all necessary documentation. |
| 37 | Calculate and pay death grant. | Within ten days of receipt of all necessary documentation. |
| 38 | Processing of dependants' pensions for payment. | Within ten days of receipt of all necessary documentation. |
| 39 | Calculate and pay transfer out payments to receiving fund and notify scheme member. | Ten days following receipt of election form from scheme member. |
| 40 | Provide payslips to scheme members in receipt of a pension. | Twice a year in paper format unless specifically requested, otherwise available online. |
| 41 | Process all stage 2 pension internal dispute resolution applications | Within two months of receipt of the application, or such longer time as is required to process the application where |

| | | |
|---|---|---|
| | | further information or clarification is required. |
| 42 | Answer all calls to pensions during office hours. | 85%. |
| 43 | Answer calls to pensions in office hours at first point of contact. | 95%. |
| 44 | Formulate and publish policies in relation to areas where the administering authority may exercise a discretion within the scheme and keep under review. | Any changes to be published within one month. |

## Scheme Employer Responsibilities

This section outlines the responsibilities of all scheme employers in the Fund and the performance standards scheme employers are expected to meet to enable the Fund to deliver an efficient, quality and value for money service. All information must be provided in the format prescribed by the Fund within the prescribed timescales.

Fund administration

This details the functions which relate to the whole Fund, rather than individual events.

| | | |
|---|---|---|
| 45 | Confirm a nominated representative to receive information from the Fund and to take responsibility for disseminating it within the organisation. | 30 days of employer joining fund or change to nominated representative. |
| 46 | Formulate and publish policies in relation to all areas where the employer may exercise a discretion within the LGPS (including providing a copy of the policy document to the Fund). | To be kept under review and a revised statement published within one month of any changes. |
| 47 | Respond to enquiries from the Fund / Administering Authority. | Ten days from receipt of enquiry |
| 48 | Remit employer and employee contributions to the Fund and provide schedule of payments in the format stipulated by the Fund. | Schedules by the 19th calendar day of the month after deduction. Cleared funds to be received by 22nd calendar day of the month after deduction or 19th if by cheque. |
| 49 | Implement changes to employer contribution rates as instructed by the Fund. | At date specified on the actuarial advice received by the Fund. |
| 50 | Provide year-end information required by the Fund in the format stipulated in the instructions issued March each year. | By 30 April following the year-end. |
| 51 | To ensure optimum accuracy of year-end information | With no less than 98% accuracy across all members. |
| 52 | Distribute any information provided by the Fund to scheme members/potential scheme members | Within 10 days of its receipt. |
| 53 | Notify the Fund if contracting out services which will involve a TUPE transfer of staff to another organisation. | At the time of deciding to tender so that information can be provided to assist in the decision. |

| | | |
|---|---|---|
| 54 | Work with the Fund to arrange for an admission agreement to be put in place when contracting out a service and assist in ensuring it is complied with. | Agreement to be in place no later than date of contract |
| 55 | Notify the Fund if the employer ceases to admit new scheme members or is considering terminating membership of the Fund. | As soon as the decision is made, so that the Fund can instruct the actuary to carry out calculations, if applicable. |
| 56 | Refer new/prospective scheme members to the Fund's website. | Ten days of commencement of employment or change in contractual conditions. |
| 57 | Make additional fund payments in relation to early payment of benefits from flexible retirement, redundancy or business efficiency retirement or where a member retires early with employer's consent. | Within 30 days of receipt of invoice from the Fund. |
| 58 | Make payment of additional costs to the Fund associated with non-compliance with performance standards of the scheme employer. | Within 30 days of receipt of invoice from the Fund. |
| 59 | All new prospective admitted bodies to undertake, to the satisfaction of the administering authority and the scheme employer, a risk assessment of the level of the bond required in order to protect other scheme employers. | To be completed before the body can be admitted to the Fund. |
| 60 | All admitted bodies to undertake a review of the level of the bond or indemnity required to protect the other scheme employers. | Annually, or such other period as may be agreed with the administering authority. |

Scheme administration

This section details the functions which relate to scheme member benefits from the LGPS.

| | | |
|---|---|---|
| 61 | Use online forms or web portal for all relevant scheme administration tasks as required by the administering authority. | Within one month of employer being set up to use the online system. |
| 62 | Notify the Fund of new starters. | Six weeks of member joining or such shorter periods as required by auto-enrolment obligations under the Pensions Act 2008. |
| 63 | Arrange for the correct deduction of employee contributions from a member's pensionable pay. | Immediately on joining the scheme, opting in or out or change in circumstances. |
| 64 | Ensure correct employee contribution rate is applied. | Immediately upon commencing scheme membership and in line with the employer's policy and as a minimum in each April payroll thereafter. |
| 65 | Ensure correct deduction of pension contributions during any period of child related leave, strike absence or other forms of leave or absence from duty. | Immediately, following receipt of election from scheme member to make the necessary pension contributions |

| | | |
|---|---|---|
| 66 | Commence deduction of additional regular contributions or amend such deductions, as appropriate. | Month following election to pay contributions or notification received from the Fund. |
| 67 | Cease deduction of additional regular contributions. | Immediately following receipt of election from scheme member. |
| 68 | Arrange for the deduction of AVCs and payment over of contributions to AVC provider(s). | Commence deduction of AVCs in month following the month of election. Pay over contributions to the AVC provider(s) by the 22nd of the month following the month of election or 19th if by cheque. |
| 69 | Provide the Fund with details of all changes to members' working hours using the method stipulated by the Fund. | Six weeks of change for protected members only. |
| 70 | Notify the Fund of other material changes in employees' circumstances (e.g., marital or civil partnership status) using the method stipulated by the Fund. | Immediately, following notification by the scheme member of a change in circumstances |
| 71 | Notify the Fund of leaves of absence with permission (maternity, paternity, career break, etc) using the method stipulated by the Fund. | Within 20 days of notice from employee for protected members only. |
| 72 | Notify the Fund when a member leaves employment including an accurate assessment of final pay using the method stipulated by the Fund. | Six weeks of month end of leaving where payroll service not provided by the London Borough of Tower Hamlets. |
| 73 | Notify the Fund when a member is due to retire including an accurate assessment of final pay and authorisation of reason for retirement using the method stipulated by the Fund. | At least one month before retirement date. |
| 74 | Notify the Fund of the death of a scheme member using the method stipulated by the Fund. | As soon as practicable, but within ten days. |
| 75 | Appoint person for stage 1 of the pension dispute process and provide full details to the Fund | Within 30 days of becoming a scheme employer or following the resignation of the current adjudicator. |
| 76 | Review 3rd tier ill-health retirement cases. | Notify administering authority immediately a member retired with a third tier ill-health benefits returns to paid employment or outcome of the 18 month review, whichever is earlier. |

## Monitoring Performance and Compliance

Ensuring compliance with the LGPS regulations and this administration strategy is the responsibility of the Fund and scheme employers. This section describes the ways in which performance and compliance will be monitored.

Audit

The Fund is subject to an annual external audit of the accounts by extension the processes employed in calculating the figures for the accounts. The key findings of their work are presented to the Pension Committee in an annual report, and the Committee / Administering Authority is provided with an action plan of recommendations to implement. In addition the Fund is subject to internal audits by the LB Tower Hamlets internal auditors of its processes and internal controls. Any subsequent recommendations made are considered by the Fund and, where appropriate, duly implemented.

Both the Administering Authority and Scheme Employers will be expected to comply with requests for information from internal and external audit in a timely manner.

Performance monitoring

The Fund monitors its performance utilising its own internal key performance indicators. Monitoring occurs on a monthly basis and the key performance indicators are reported to Committee via a quarterly report on administration of the Fund allowing them to monitor the performance of the Fund's in-house staff. A high level overview of performance is provided to Committee on an annual basis. The performance of Scheme Employers against the standards set out in this document will be incorporated into the reporting to the Committee, as appropriate, to include data quality.

Feedback from employers

Employers who wish to provide feedback on the performance of the Fund against the standards in this administration strategy should email comments to Pensions.LBTH@towerhamlets.gov.uk This feedback will be incorporated into the quarterly reports to the Committee.

Annual report on the strategy

The scheme regulations require the Fund to undertake a formal review of performance against the administration strategy on an annual basis. This report will be produced annually and incorporated within the annual report and accounts.

## Policy on Charging Employers for Poor Performance

The scheme regulations provide pension funds with the ability to recover from a scheme employer any additional costs associated with the administration of the scheme incurred as a result of the poor level of performance of that scheme employer. Where a fund wishes to recover any such additional costs, they must give written notice stating:

- the reasons in their opinion that the scheme employer's poor performance contributed to the additional cost
- the amount of the additional cost incurred
- the basis on how the additional cost was calculated
- the provisions of the administration strategy relevant to the decision to give notice.

Circumstances where costs might be recovered

It is the policy of the Fund to recover additional costs incurred in the administration of the scheme as a direct result of the poor performance of any scheme employer (including the administering authority). The circumstances where such additional costs will be recovered from the scheme employer are:

- failure to provide relevant information to the Fund, scheme member or other interested party in accordance with specified performance targets in this administration strategy (either as a result of punctuality of delivery or quality of information)
- failure to pass relevant information to the scheme member or potential members, either due to poor quality of information or not meeting the agreed timescales outlined in the performance targets in this administration strategy
- failure to deduct and pay over correct employee and employer contributions to the Fund within the stated timescales
- instances where the performance of the scheme employer results in fines being levied against the Fund by the Pension Regulator, Pensions Ombudsman or other regulatory body.

Approach to be taken by the Fund

The Fund will seek, at the earliest opportunity, to work closely with scheme employers in identifying any areas of poor performance, provide the necessary support or training and put in place appropriate processes to improve the level of service delivery in the future. Therefore, scheme employers will be afforded the time to address the causes of non-compliance with performance standards in order that they do not become persistent, before any fines are levied. Employers should be aware that in the case of late payment of contributions and non-submission of monthly contribution forms, penalties will be incurred for persistent instances of non-compliance with performance standards.

The process for engagement with scheme employers will be as follows:

1) Write to the scheme employer, setting out area(s) of non-compliance with performance standards and offer support and, where applicable, further training.

2) If no improvement is seen within one month of the support or training or no response is received to the initial letter, the scheme employer will be asked to attend a conference call/meeting with representatives of the Fund to discuss area(s) of non-compliance with performance standards and to agree an action plan to address them. Where appropriate, the originating employer will be informed and expected to work with the Fund to resolve the issues.

3) If no improvement is seen within one month or a scheme employer is unwilling to attend a meeting to resolve the issue, the Fund will issue a formal written notice, setting out the area(s) of non-compliance with performance standards that have been identified, the steps taken to resolve those area(s) and notice that the additional costs will now be reclaimed.

4) An invoice will then be issued to the scheme employer clearly setting out the calculations of any loss resulting to the Fund, or additional cost, taking account of time and resources in resolving the specific area(s) of poor performance, in accordance with the charging scale set out in this document.

A report will be presented to the quarterly Committee meeting detailing charges levied against scheme employers and outstanding payments.

Charging scales for administration

The table below sets out the charges which the Fund will levy on a scheme employer whose performance falls short of the standards set out in this document. Each item is referenced to the 'Scheme Employer Responsibilities' section.

| Item | Charge | Ref |
|---|---|---|
| Late payment of employee and employer contributions | £50 plus interest* | 48 |
| Non-provision of the correct schedule accompanying the contributions | £50 per occasion. | 48 |
| Underpayment of employee or employer contributions. | £50 plus interest* | 49, 63, 64. |
| Late or non-provision of year-end information or the poor quality of year-end information. | £250 plus £100 for every month the information is late. | 50 |
| Failure to use the notified process to provide member amendment and earnings information to the administration authority. | Recharge of the additional costs incurred by the administering authority. | 60 |
| Late or non-provision of starter forms. | £100 per month for forms not received or late. | 62 |
| Late or non-provision leaver forms. | £100 per month for forms not received or late. | 72, 73, 74. |

*Interest will be charged in accordance with Regulation 44 of the LGPS administration regulations, which states interest should be charged at Bank of England base rate plus one per cent.

## Service and Communication Improvement Planning

As set out earlier in this administration strategy, the Fund's objective in relation to administration is to deliver an efficient, quality and value for money service to its scheme employers and scheme members. This can only be achieved through continuously reviewing and improving the service. Communication between the Fund and scheme employers is key to providing the service and is, therefore, an important aspect of service improvement planning.

The Fund's staffs work together on a programme of continuous improvement to the service and meet quarterly to review progress against the action plan agreed.

The monitoring of the performance standards set out in this document will inform the programme going forward, and feedback from scheme employers on the service and the way in which the Fund communicates is welcomed in developing plans. Feedback should be emailed to Pensions.LBTH@towerhamlets.gov.uk

The Fund will take responsibility for improving the service and determining the balance between implementing service improvements and the goal of providing a value for money service for the Fund.

Employers will be informed of any changes to the service provision which affect the way they interact with the Fund through the monthly briefing note.

## Consultation and Review Process

In preparing this administration strategy, the Fund will place it upon its website and open up consultation with scheme employers with a closing date of 28 February 2017. The strategy will be reviewed every year and more frequently if there are changes to the scheme regulations or Fund policies. All scheme employers will be consulted before any changes are made to this document.
The latest version of this document can be accessed from the Fund website at:
http://towernet/staff_services/hr_workforce_development/pensions/

**LONDON BOROUGH OF TOWER HAMLETS**

**Administering Authority for
Tower Hamlets Pension Fund**

**Appendix 10**

# RISK POLICY

# RISK POLICY

## Introduction

This is the Risk Policy of the Tower Hamlets Pension Fund, which is managed and administered by London Borough of Tower Hamlets. The Policy details the risk management strategy for the Tower Hamlets Pension Fund, including

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the risk management process.

London Borough of Tower Hamlets ("we") recognise that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, we can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

We adopt best practice risk management, which will support a structured and focused approach to managing risks and ensuring risk management is an integral part in the governance of the Tower Hamlets Pension Fund at a strategic and operational level.

## To whom this Policy Applies

This Risk Policy applies to all members of the Pension Fund Committee and the local Pension Board, including scheme member and employer representatives. It also applies to all managers in the London Borough of Tower Hamlets Pension Fund Management Team, the Chief Finance Officer (Section 151 Officer) and the Chief Officer, People and Resources (from here on in collectively referred to as the senior officers of the Fund).

Less senior officers involved in the daily management of the Pension Fund are also integral to managing risk for the Tower Hamlets Pension Fund and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Pension Fund Manager and his/her team.

Advisers to the Tower Hamlets Pension Fund are also expected to be aware of this Policy, and assist senior officers, Committee members and Board members as required, in meeting the objectives of this Policy.

## Aims and Objectives

We recognise the significance of our role as Administering Authority to the Tower Hamlets Pension Fund on behalf of its stakeholders which include:

- around 20,000 current and former members of the Fund, and their dependants;
- around 20 employers; and
- the local taxpayers.

Our Fund's Mission Statement is:

- We will be known as forward thinking, responsive, proactive and professional providing excellent customer focused, reputable and credible service to all our customers.
- We will have instilled a corporate culture of risk awareness, financial governance, and will be providing the highest quality, distinctive services within our resources.
- We will work effectively with partners, being solution focused with a can do approach.

One of our key governance objectives is to understand and monitor risk. In doing so, we will aim to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Pension Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Tower Hamlets Pension Fund we will aim to comply with:

- the CIPFA Managing Risk publication and
- the managing risk elements of the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes.

## Our Philosophy about Risk Management

We recognise that it is not possible or even desirable, to eliminate all risks. Accepting and actively managing risk is therefore a key part of our risk management strategy for Tower Hamlets Pension Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund’s objectives in the light of our risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, we will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained;
- adopt a system that will enable us to anticipate and respond positively to change;
- minimise loss and damage to the Tower Hamlets Pension Fund and us, and to other stakeholders who are dependent on the benefits and services provided;
- make sure that when we embark upon new areas of activity (new investment strategies, joint-working, framework agreements etc), the risks they present are fully understood and taken into account in making decisions.

We also recognise that risk management is not an end in itself; nor will it remove risk from the Fund or us as the Administering Authority. However it is a sound management technique that is an essential part of how we manage the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

## CIPFA and the Pensions Regulator Requirements

*CIPFA Managing Risk Publication*

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

*The Pension Regulator's Code of Practice*

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 related to the requirement to have internal controls in public service pension schemes.

> ***"249B Requirement for internal controls: public service pension schemes***
> *(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—*
> *(a) in accordance with the scheme rules, and*
> *(b) in accordance with the requirements of the law.*
> *(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.*
> *(3) In this section, "enactment" and "internal controls" have the same meanings as in section 249A."*

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which he encourages scheme managers to employ a risk based approach to assess the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator's code of practice guidance on internal controls require scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme;
- determining the various functions and activities carried out in the running of the scheme; and
- identifying the main risks associated with those objectives, functions and activities.

Schemes should then consider the likelihood of risks arising and the effect if they do arise as well as what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them

The code states risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that scheme should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

*Application to the Tower Hamlets Pension Fund*
We adopt the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator’s code of practice in relation to Tower Hamlets Pension Fund, and this Risk Policy highlights how we will strive to achieve those principles through use of risk management processes incorporating regular monitoring and reporting.

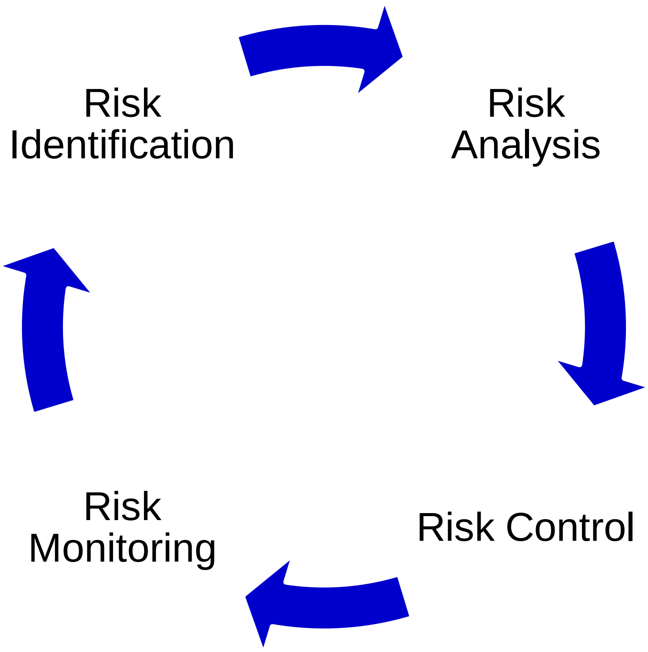
## Responsibility

As the Administering Authority for the Tower Hamlets Pension Fund, we must be satisfied that risks are appropriately managed. For this purpose, the Pension Fund Manager is the designated individual for ensuring the process outlined below is carried out subject to the oversight of the Pensions Committee.

However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

## The Tower Hamlets Pension Fund Risk Management Process

Our risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund’s past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections.



### *Risk identification*

Our risk identification process is both proactive and reactive one, looking forward i.e. horizon scanning for potential risks and looking back, by learning lessons from reviewing how existing controls have manifested in risks to the organisation.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Tower Hamlets Pension Fund Officers and Advisers Panel;
- performance measurement against agreed objectives;
- monitoring against the Fund's business plan;
- findings of internal and external audit and other adviser reports;
- feedback from the local Pension Board, employers and other stakeholders;
- informal meetings of senior officers or other staff involved in the management of the Pension Fund; and
- liaison with other organisations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

### *Risk analysis*

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed against the following where the score for likelihood will be multiplied by the score for impact to determine the current risk rating.

| | | | | | | |
|---|---|---|---|---|---|---|
| **Potential impact if risk occurred** | 5 Catastrophic | 5 | 10 | 15 | 20 | 25 |
| | 4 Major | 4 | 8 | 12 | 16 | 20 |
| | 3 Moderate | 3 | 6 | 9 | 12 | 15 |
| | 2 Minor | 2 | 4 | 6 | 8 | 10 |
| | 1 Insignificant | 1 | 2 | 3 | 4 | 5 |
| | | 1 Rare | 2 Unlikely | 3 Possible | 4 Likely | 5 Almost certain |

**Likelihood of risk occurring**

When considering the risk rating, we will have regard to the existing controls in place and these will be summarised on the risk register.

### *Risk control*

The Pension Fund Manager will then determine whether any further action is required to control the risk which in turn may reduce the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can proceed, it may require

Pensions Committee approval where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- Risk elimination – for example, ceasing an activity or course of action that would give rise to the risk.
- Risk reduction – for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.
- Risk transfer – for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action. Where necessary we will update the Fund's business plan in relation to any agreed action as a result of an identified risk.

### *Risk monitoring*

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Tower Hamlets Pension Fund Advisory Panel. In monitoring risk management activity, we will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- there are any lessons to learn for the future assessment and management of risks.

### Reporting

Progress in managing risks will be monitored and recorded on the risk register and key information will be provided on a quarterly basis to the Tower Hamlets Pensions Committee and the Pensions Board as part of the regular update reports on governance, investments and funding, and administration and communications. This reporting information will include:

- a summary of the Fund's key risks (ranked 15 or above in the above matrix);
- a summary of any new risks or risks that have changed (by a score of 3 or more) or risks that have been removed since the previous report;
- the Fund's risk dashboard showing the score of all existing risks and any changes in a pictorial fashion; and
- a summary of any changes to the previously agreed actions.

### Monitoring of this Policy

In order to identify whether we are meeting the objectives of this policy the Independent Governance Adviser will be commissioned to provide an annual report on the governance of the Fund each year, a key part of which will focus on the delivery of the requirements of this Policy

## Key risks to the effective delivery of this Policy

The key risks to the delivery of this Policy are outlined below. The Pensions Committee members, with the assistance of the Tower Hamlets Pension Fund Officers and Advisers Panel, will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pensions Committee and/or Pensions Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources being available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.
- Conflicts of interest or other factors leading to a failure to identify or assess risks appropriately

## Costs

All training costs related to this Risk Policy are met directly by Tower Hamlets Pension Fund

## Approval, Review and Consultation

This Risk Policy tabled at the September 2017 Pensions Committee meeting for approval. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

## Further Information

If you require further information about anything in or related to this Risk Policy, please contact:
Miriam Adams – Pensions & Investments Manager,
London Borough of Tower Hamlets
E-mail – Miriam.adams@towerhamlets.gov.uk
Telephone – 020 7364 4248

# LONDON BOROUGH OF TOWER HAMLETS

## Administering Authority for
## Tower Hamlets Pension Fund

### APPENDIX 11

## PENSIONS BOARD
## ANNUAL REPORT FOR 2019/20

# ANNUAL REPORT OF THE PENSIONS BOARD 2019-20

**Purpose of the Report**
To provide an update on the work undertaken by the Local Pensions Board during 2019-2020 and to meet the legislative requirement to produce an annual report.

**Constitution, Representation Meetings and Attendance**
The Board was constituted under the Public Service Pensions Act 2013 and held its first meeting on the 28 July 2015 before the recommended Scheme Advisory Board (SAB) deadline of 31 July 2015.
The Board consists of three representatives of the scheme employers, three representing of the scheme members and an Independent Chair.

**Membership**

**Tower Hamlets Pension Board Membership 2019 /20**

| Member Representatives | Designation | Employer Representatives | Designation |
|---|---|---|---|
| David Thompson | Pensioners Representative | Councillor Asma Islam | Member Representative |
| John Gray | Admitted Bodies Representative | Roger Jones*/Steve Hill | Administering Authority Representative |
| Nneka Oroge | Active Members Representative | Annette McKenna | Admitted Bodies Representative |

*Substitute

**The Independent Chair of the Board is John Jones.**

The Corporate Director, Resources wishes to thank the Board members for their work over the last year.

**Functions and Operation of the Board**
The two primary functions of a Local Pension Board are to assist the Administering Authority to:
- Ensure effective and efficient governance and administration of the LGPS
- Ensure compliance with relevant laws and regulation

It therefore has a monitor/assist /review purpose, rather than being a decision making body. It could be seen as being a critical friend. As such, the general approach of the Board is to seek assurances with evidence from the Fund that it is meeting its objectives set out above.
The Board is not a Committee of the Council, but is established under the Public Service Pensions Act 2013. The Board operates under Terms of Reference which were approved at inception.

The Board recognises the need to prioritise and differentiates in its agenda between items for detailed discussion, and those for awareness or noting, and prioritises its time budget accordingly.

**Costs**

There is a financial budget for the Board of £12.5k. The costs of running the Board are borne by the Pension Fund as part of its overall budget. The costs have in fact minimal as forming and running the board have been incorporated within existing workloads.

**Detailed Work of the Board by the Independent Chair:**

1. This is my fourth annual report as Chair of the Tower Hamlets Pension Board since my appointment in January 2016. The Board was set up with effect from April 2015 under new arrangements for the governance of Local Authority Pension Funds. The purpose of the Board to assist Tower Hamlets Council (as the scheme manager) in the management of the Local Authority Pension Scheme (LGPS), and to provide oversight and challenge. The terms of reference for the Board were set out and agreed by Tower Hamlets Council prior to the establishment of the Board. These terms of reference are available on the Fund website.

2. The Board is comprised of 3 employee and 3 employer representatives together with an Independent Chair. This is line with the regulations requiring equal employee and employer representation. Details of the members of the Board are shown in the appendix to this report. The Board is not a decision making body and can only provide advice and comment on the management of the LGPS by Tower Hamlets Council. For this arrangement to be successful it is important that the Board carries out its responsibilities in a positive and constructive way.

3. The Board met on 4 occasions during 2019/20 in June, September and November 2019 and March 2020. The March meeting took place shortly before the lockdown arising from the Covid epidemic. There have been full agendas for the meetings and the issues discussed during the year included:

   - The development of an annual work plan for the Board.
   - Briefings and discussion on the performance of the pension administration service
   - Briefing and discussion on the Investment performance on the Fund
   - Consideration of the Fund's policies on Conflicts of Interest and Breaches.
   - Review and discussion of the decisions of the Pensions Investment Committee
   - Review of compliance with the Pensions Regulator's Code of practice
   - Consideration of developments affecting the LGPS including progress with the London CIV.
   - Audit and risk management issues affecting the Fund
   - Consideration and discussion on the Fund's Investment Strategy and Funding Strategy Statements, Governance compliance and Risk policy.

4. The main area of concern for the Board during the year was the performance of the pensions administration team. For some time, the Board had been expressing concern over the quality of monitoring information and the resources available to deliver the service. During the year it became clear that there are fundamental problems in the service that require urgent action to address work backlogs and resourcing issues. Reports to the Board and Committee subsequently identified the scale of work backlogs, breaches in regulations and weaknesses in data quality. The Board supported the proposed recovery plan and planned action to address these issues and continues to monitor performance and the action being taken at each Board meeting.

5. The Pensions Regulator has identified data quality and record keeping as a key area of performance as it impacts directly on member benefits. Because of the seriousness of the problems in the pensions administration team, it was necessary for the Council to send a report to the Regulator highlighting the issues and setting out an action plan to resolve the situation. This is a high priority for action during 2020/21.

6. Councillor Asma Islam, representing Pension Fund employers, joined the Board in May 2019 thereby maintaining membership of the Board at its full complement of seven. Attendance over the 4 meetings increased to 82% compared with 64% in the previous year. The detailed attendance information is set out in the appendix to this report. The Board continued to focus on the key issues affecting the Fund and its beneficiaries. The Board agrees a forward work plan at the start of the year to ensure that it best placed to support the Council in the delivery of the LGPS in Tower Hamlets.

7. At the end of March 2020, the Tower Hamlets Pension Fund had total assets of £1.520 billion and a membership of over 22,000 , comprising pensioners, deferred pensioners and current contributors.

8. In my role as Chair, I am invited to attend the Council’s Pension Committee to present and report on behalf of the Board to the Pensions Committee on Governance matters, and on issues arising from our consideration of policy and administration reports. This is a positive and welcome arrangement to ensure that the Board’s views are considered by the Pensions Committee and helps to strengthen the overall governance of the Fund.

9. The management of Pension Fund Investment and administration is becoming ever more complex so a structured programme of training and development is essential for individual members, and the Board collectively, to discharge its responsibilities. With this in mind, members of the Board have attended various training sessions over the past year. This has included:

    - A presentation by the Fund’s Actuarial Adviser on the 2019 Actuarial valuation and implications for the Fund.
    - Presentations on the opportunities and challenges in investing in infrastructure and in renewable energy.

- A presentation on Investment covering asset allocation, key asset classes and the role of the Board.

In previous reports I have highlighted the importance of training and development for Members of the Pensions Committee and Board as an essential support to good governance. As new members are appointed to the Committee and Board, it is particularly important that training and development is arranged and supported so that new members are able to make informed decisions on issues affecting the Fund. Regular training sessions are arranged and incorporated as part of Board meetings and similar arrangements are also in place for the Committee. In addition, members also undertake training and development on an individual basis outside of Board meetings

10. In previous reports I have commented on the establishment of asset pools to manage local authority pension fund investments. The rationale behind pooling is to reduce costs and provide scale to access illiquid asset classes and thereby help diversification and improve investment returns. The London Collective Investment Vehicle (LCIV) has been established for this purpose and the assets of the Tower Hamlets Fund are now being invested through this pool rather than directly as is the case at present. Approximately 80% of the Tower Hamlets Fund is now invested collectively, one of the highest percentages across the London Boroughs. One issue identified during the investment training session was the importance of the future arrangements for the performance monitoring on investments held by the LCIV. The Board are updated on developments with the LCIV and will continue to monitor this process working alongside the Council in delivering the best outcome for the Fund and its beneficiaries.

John Jones
Independent Chair
October 2020

**BOARD MEMBER ATTENDANCE 2019-20**

| | 17th June 2019 | 19th September 2019 | 25th November 2019 | 16th March 2020 |
|---|---|---|---|---|
| John Jones | ✓ | ✓ | ✓ | ✓ |
| David Thompson | ✓ | ✓ | ✓ | ✓ |
| Nneke Oroge | ✓ | ✓ | ✓ | x |
| John Gray | ✓ | x | ✓ | ✓ |
| Steve Hill/Roger Jones | ✓ | ✓ | ✓ | ✓ |
| Annette McKenna | ✓ | x | ✓ | x |
| Cllr. Asma Islam | ✓ | ✓ | ✓ | x |

Deloitte.

TOWER HAMLETS



# London Borough of Tower Hamlets Pension Fund

## Final Report to the Audit Committee on the 2018/19 audit

Issued on [ ] November 2021 for the meeting on 25 November 2021

Deloitte Confidential: Government and Public Services

# Contents

## 01 Status Report



## 02 Appendices

# 1. Key messages

# Introduction

## The key messages in this report:

We have pleasure in presenting our Final Report to the Audit Committee for the 2018/19 audit of the London Borough of Tower Hamlets Pension Fund (the "Fund"). We would like to draw your attention to the key messages of this report:

**Audit scope**

Our reporting responsibilities as auditor of the Fund are to:

- Form an opinion on the financial statements of the Fund as included in the Statement of Accounts of the London Borough of Tower Hamlets, which are prepared under the Code of Practice on Local Authority Accounting 2018/19 ("the Code") issued by CIPFA;
- Form an opinion on the consistency of those financial statements of the Fund, included within the Authority's Statement of Accounts, with those included in the Pension Fund's Annual Report;
- Report to "those charged with governance" on certain additional matters, including any unadjusted errors over our reporting threshold ("RT"), our independence and any other issues we consider should be brought to their attention; and
- Report to the main authority audit team to in relation to their IAS 19 audit procedures.



**Audit status and findings to date**

The audit timetable as presented in our planning report has not been met as a result of delays experienced in receiving complete draft financial statements and supporting documentation as a result of staff pressures within the Fund administration team. This led to challenges in rescheduling the audit from a Deloitte staffing perspective. The audit process was further delayed by the impact of the Covid-19 pandemic on the staff at both the Council and Deloitte.

Our audit is nearing completion and the current list of open matters required to compete the audit are noted in Appendix 5. Subject to the satisfactory receipt and the completion of the items in Appendix 5, we expect to issue an unqualified audit opinion on the financial statements of the Fund.

**Significant audit risk**

Our significant audit risk is unchanged from that identified in our planning report which is management override of controls.

Please refer to page 8 for further details in respect of our testing of the significant risk.

# Introduction

## The key messages in this report (continued):

### Audit Quality

We have committed to delivering a robust challenge of the key judgements taken in the preparation of the financial statements; to gain a strong understanding of your internal control environment; and to deliver a well-planned audit that raises findings early with those charged with governance.

We have supplemented our core pension audit team with the following specialists:

1. *Actuarial specialists*, who assessed the IAS 26 liability; and
2. *IT specialists* who documented our understanding of the IT environment and reviewed the general access and change management controls associated with the administration system. This work is still in progress and forms part of the list of outstanding items within Appendix 5.

### Going concern

We are required to comment on the going concern basis of preparation of the financial statements in our audit report. As part of this process, details of the work we perform around the going concern assessment are detailed below:

- considered the statutory basis of the Fund;
- considered the results of the triennial valuation; and
- considered the value and liquidity of the investment assets within the fund and its ability to continue to meet benefit payments without further contributions.

We have concluded that there are no material uncertainties to report in respect of going concern.

### Our conclusion

The current list of open matters required to compete the audit are noted in Appendix 5. Subject to the satisfactory receipt and the completion of the items in Appendix 5, we expect to issue an unqualified audit opinion on the financial statements of the Fund.

In reaching our conclusions we considered the results from our testing on pages 7 to 10. In addition, we noted that the significant accounting judgements and estimates appear reasonable.

**Jonathan Gooding, Audit Partner**

# Materiality

## Our approach to materiality

### Basis of our materiality benchmark

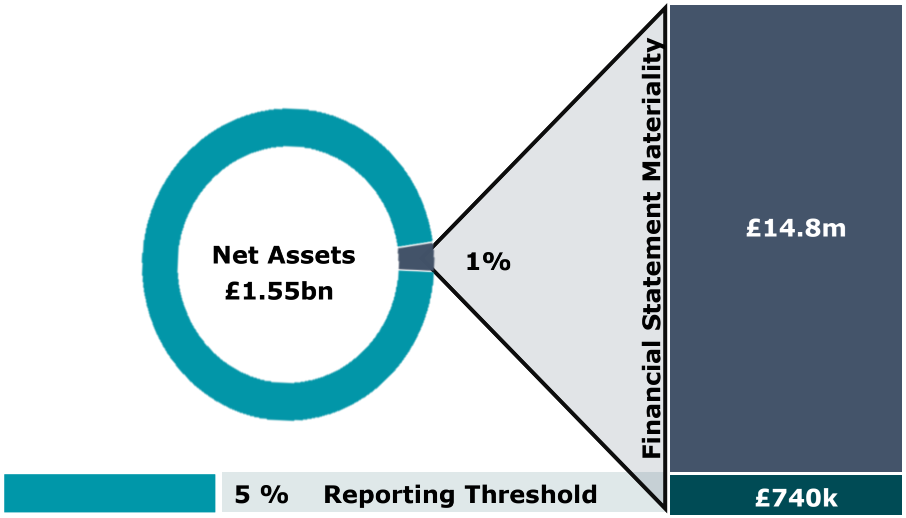
- We set materiality for our opinion on the financial statements at 1% of the net assets of the Fund.
- For the year ended 31 March 2019, we determined financial statement materiality to be £14.8m. This was determined using the first draft of the financial statements which reported a lower net assets figure than that in the current version. Following updates to the investment valuations to reflect stale prices the net assets increased. We elected to retain our original materiality figure, rather than recalculating using the updated net assets.

### Reporting to those charged with governance

- We report to you all misstatements found in excess of 5% of financial statement materiality. We report to you misstatements below this threshold if we consider them to be material by nature.
- For the year ended 31 March 2019, we determined the reporting threshold for the financial statements to be £740k.
- Auditing standards also require us to highlight any corrected and uncorrected misstatements and disclosure deficiencies to enable the Audit Committee to evaluate the impact thereof.

### Materiality calculation

Although materiality is the judgement of the audit partner, the Audit Committee must be satisfied the level of materiality chosen is appropriate for the scope of the audit.



# 2. Significant Risks

# Significant risk

## Management override of controls

### Risk identified

In accordance with ISA 240 (UK) management override is always a significant risk for financial statement audits. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

### Response of those charged with governance

The Audit Committee does not have access to the Fund accounting system and does not process any journals in respect of the Fund.

The financial reporting process in place has an adequate level of segregation of duties.

### Deloitte comment

During our walkthrough of the journal review process, we noted that one journal was reviewed 13 months after it was raised. We note that this was a result of the Head of Pensions and Treasury position being vacant during the reporting period, this post has subsequently been filled. No other matters noted.

### Deloitte response to significant risk identified

In order to address this significant risk, our audit procedures consisted of the following:

- Used Spotlight, our data analytics software, in our journals testing to interrogate 100% of journals posted across the Fund. This uses intelligent algorithms that identify higher risk and unusual items;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Reviewed related party transactions and balances to identify if any inappropriate transactions had taken place;
- Reviewed the accounting estimates for bias, such as the valuation of unlisted investments, that could result in material misstatement due to fraud;
- Performed a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- Assessed whether there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year; and
- Tested the design and implementation of controls around the journals process during the year.

# 3. Audit Focus Area

# Audit focus area

## Completeness, valuation and presentation of investments

**Risk identified**

The Fund holds a highly material portfolio of investments. Within the portfolio, there are a number of holdings in alternative investment funds. These funds do not have publicly available prices and are infrequently priced, increasing the risk of stale pricing.

**Response of those charged with governance**

The Fund appoints various investment managers and Northern Trust as custodian for these investments who have sufficient resources to value and safeguard the Fund's investment assets.



**Deloitte comment**

Our testing over the valuation of all investment assets was undertaken satisfactorily, with no issues noted.

All investment holdings were reconciled to both the year end custodian and investment manager independent confirmations, with a £1.18m overstatement noted in relation to the Bespoke Schroders Fund. As this is below our materiality, this has been included in our schedule of uncorrected misstatements per Appendix 1.

**Deloitte response to focus area identified**

In order to address this focus area, our audit procedures consisted of the following:

- Tested the design and implementation, and the operating effectiveness where applicable, of key controls over the completeness and valuation of investments by obtaining the investment manager internal control reports (where applicable) and evaluating the implications for our audit of any exceptions noted;
- Agreed the year end valuations and sales and purchases totals in the accounts to the reports received directly from the investment managers and Northern Trust as custodian, and reconciled these to the individual confirmations received from the investment managers;
- Agreed holdings in unit linked insurance policies to confirmations from the policy providers;
- Performed independent valuation testing for a sample of year-end alternative investment holdings by rolling forward the valuation as per the latest audited accounts using cash flows and an appropriate index as a benchmark;
- Ensured appropriate stale price adjustments have been posted to the financial statements;
- On a sample basis, tested cash reconciliations for investments – including tracing the source of the cash;
- Performed a unit reconciliation in which the opening investment balances and unit quantities are reconciled to the closing investment balances and unit quantities by taking into account the movement that occurred during the year (i.e. purchases, sales, change in market value); and
- Reviewed the classifications of investments throughout the investment notes to ensure these were accurately presented.

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Audit Committee discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations.
- Our internal control observations.
- Other insights we have identified from our audit.

### What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and Fund risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the Fund accounts and the other procedures performed in fulfilling our audit plan.

### The scope of our work

Our observations are developed in the context of our audit of the Fund accounts.

We described the scope of our work in our proposed audit plan circulated to you.

The audit insights and other control findings of this report provide details of additional work we have performed alongside the audit of the Fund accounts.

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

**Deloitte LLP**

Statutory Auditor

St Albans| XX November 2021

# 4 Appendices

# Appendix 1: Audit adjustments and observations

## Current year and prior year audit adjustments

| Detail | Debit/ (credit) Fund Account £'000 | Debit/ (credit) Net Asset Statement £'000 |
|---|---|---|
| **Uncorrected misstatements identified in current year** | | |
| Investment Valuation - Stale prices have been used by the custodian to value the Schroder Bespoke Matching Plus fund held by the Fund, resulting in a total difference of £1.18m in the valuation of this asset. | **1,180** | **(1,180)** |
| In calculating the actuarial liability of the plan in accordance with IAS 26, the actuary has not allowed for the membership experience since 2016 or the effect of the McCloud / Sargeant rulings. Incorporating these factors would result in a decrease of £7m of the actuarial liability. | **N/A – impacts disclosure in note 20** | **N/A – impacts disclosure in note 20** |
| **Corrected misstatements identified in current year – none** | - | - |



**Disclosure deficiencies**

2017/18 Comparative Figures - The Fund Account 2017/18 comparative amounts for investment income and accrued investment income as an investment asset do not reconcile to our records and subsequent notes to the financial statements to the value of £0.8m. We recommend that a robust review of the draft financial statements is performed to avoid this recurring in the future.

# Appendix 1: Audit adjustments and observations
Continued

**Observations**

We are required to communicate the matters below to the audit committee as per ISA 260:

- Funding – Based on the work of our in-house actuarial team the funding level has been reported as £7m lower than their estimates. £8M of this is driven by experience since 2016 not being considered. -£1m relates to an allowance for the McCloud/Sargeant ruling.

- Timeliness of Journal Review - During our walkthrough of the journal review process we noted that one journal was reviewed 13 months after it was raised. We note that this was a result of the Head of Pensions and Treasury position being vacant during the reporting period, this post has subsequently been filled.

- Use of Council bank account in relation to the pension fund - Whilst having a separate account for the Fund as per applicable regulations, the Fund has also used the bank account of the Council itself for transactions. This is not in line with regulations which require that only the Fund bank account is used. We note that this practice ceased in May 2019. We recommend that this breach of the regulations is reported to the Pension Regulator (TPR).

- Monthly Salary Exceptions Report - The salary thresholds have not been updated since they were first introduced and as a result they are not reflective of the current salaries in place. As a result similar employees are selected every time the exception report is run, while not being actual exceptions. This has led to basic "tick-off" exercise and could potentially distract from relevant issues.

- Delay in the production of the audited financial statements – Due to the matters discussed earlier in this report the audited financial statements of the Fund have been prepared outside of the timelines required by the regulations. We recommend that this breach of the regulations is reported to the Pension Regulator (TPR).

# Appendix 2: ISA 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Fund and management. It is important that management, with the oversight of those charged with governance, places a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behaviour which can be reinforced by an active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process.

## Auditor’s Responsibility

An auditor conducting an audit in accordance with ISAs (UK) is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs.

As part of our partner-led planning process, as an audit team we have considered the possible avenues of fraud within the Fund and have outlined our approach to each consideration below.

| Consideration | Approach and result of our testing |
|---|---|
| Fraudulent posting of journal entries – the purposeful misstatement of the financial statements | We have outlined our approach to the mitigation of this risk on page 8. |
| Fraudulent valuation of investment assets - incentive to overstate asset values | We have outlined our approach to the mitigation of this risk on page 10. |
| Misappropriation of cash or Fund holdings from the investment portfolio | In response to this risk, we performed a unit reconciliation and a cash reconciliation for the Fund’s investments. |
| Creation of fictional pensioner records and payments to non Fund members | In response to this risk, we assessed the design and implementation of controls around pensioner set up and amendments to existing Altair records to ensure there are appropriate controls and enforced segregation of duties. |
| Circumvention of the review process within Altair | In response to this risk, we assessed the design and implementation of controls around the processing of retirement and transfers out cases to ensure there is segregation of duties. We also evaluated the controls around user access level reviews to ensure there is appropriate segregation between those performing a process and those reviewing the process and ensured that the same process cannot be performed and reviewed by the same person. |
| Pensioner existence – payment of pensions to deceased members | In response to this risk, assessed the design and implementation of controls around the existence of pensioners to ensure the timely suspension of pensions to deceased members. |

# Appendix 3: Fraud responsibilities and representations

## Responsibilities explained

**Your responsibilities:**

The primary responsibility for the prevention and detection of fraud rests with management and the AC, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

**Our responsibilities:**

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified management override of controls as a key audit risk for the Fund.

**Fraud characteristics:**

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

**We will request the following to be stated in the representation letter signed on behalf of the AC:**

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

# Appendix 3: Fraud responsibilities and representations (continued)

## Inquiries

We have made the following inquiries regarding fraud:

**Management:**

- Management’s assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management’s process for identifying and responding to the risks of fraud in the Fund.
- Management’s communication, if any, to the Audit Committee (‘AC’) regarding its processes for identifying and responding to the risks of fraud in the Fund.
- Management’s communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the Fund.
- We plan to involve management from outside the finance function in our inquiries.



**Internal audit**

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the Fund, and to obtain its views about the risks of fraud.

**The Audit Committee**

- How the AC exercises oversight of management’s processes for identifying and responding to the risks of fraud in the Fund and the internal control that management has established to mitigate these risks.
- Whether the AC has knowledge of any actual, suspected or alleged fraud affecting the Fund.
- The views of the AC on the most significant fraud risk factors affecting the Fund.

# Appendix 4: Independence and fees

## Agreed fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

| | |
|---|---|
| **Independence confirmation** | We confirm that the audit engagement team and others in the firm (as appropriate), Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund. |
| **Fees** | The original 2018/19 scale fee set by PSAA was £16,170. The above fee excludes VAT.<br><br>Due to the issues encountered during the course of the audit we anticipate charging additional fees. This will need to be approved by PSAA. |
| **Non audit services** | No non-audit fees have been charged by Deloitte in the period in respect of services to the Fund.<br><br>We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary. |

# Appendix 5: Outstanding items

## Items outstanding at the date of this report

Our final opinion is subject to completion of these items:

- Receipt of final version of the full annual report and financial statements for our review;
- Completion of our IT specialists' review of the general access and change management controls associated with the administration system and the wider council IT systems, as well as testing of IT elements of relevant controls;
- Completion of our testing on the membership statistics, including the opening membership figures;
- Completion of our reporting to the Council audit team regarding testing of the IAS 19 disclosures;
- Completion of our fraud enquiries as part of the Council audit;
- Completion of our enquiries regarding any legal advice sought by the Fund;
- Finalisation of our internal quality control procedures;
- Partner and technical review clearance;
- Receipt of signed representation letter; and
- Satisfactory completion of our post year-end events review.

# London Borough of Tower Hamlets Pension Fund
## Status Report to the Audit Committee on the 2019/20 audit

Issued on [ ] November 2021 for the meeting on 25 November 2021

# Contents

# 1. Key messages

# Introduction

## The key messages in this report:

We have pleasure in presenting our Status Report to the Audit Committee for the 2019/20 audit of the London Borough of Tower Hamlets Pension Fund (the "Fund"). We would like to draw your attention to the key messages of this report:

### Audit scope

Our reporting responsibilities as auditor of the Fund are to:

- Form an opinion on the financial statements of the Fund as included in the Statement of Accounts of the London Borough of Tower Hamlets, which are prepared under the Code of Practice on Local Authority Accounting 2019/20 ("the Code") issued by CIPFA;
- Form an opinion on the consistency of those financial statements of the Fund, included within the Authority's Statement of Accounts, with those included in the Pension Fund's Annual Report;
- Report to "those charged with governance" on certain additional matters, including any unadjusted errors over our reporting threshold ("RT"), our independence and any other issues we consider should be brought to their attention; and
- Report to the main authority audit team to in relation to their IAS 19 audit procedures.



### Audit status and findings to date

The audit timetable as presented in our planning report has not been met as a result of delays experienced in receiving complete draft financial statements and supporting documentation as a result of staff pressures within the Fund administration team. This led to challenges in rescheduling the audit from a Deloitte staffing perspective. The audit process was further delayed by the impact of the Covid-19 pandemic on the staff at both the Council and Deloitte.

Our audit is nearing completion and the current list of open matters required to compete the audit are noted in Appendix 4. Subject to the satisfactory receipt and the completion of the items in Appendix 4, we expect to issue an unqualified audit opinion on the financial statements of the Fund.

### Significant audit risk

Our significant audit risk is unchanged from that identified in our planning report which is management override of controls.

Please refer to page 8 for further details in respect of our testing of the significant risk.

# Introduction

## The key messages in this report (continued):

**Audit Quality**

We have committed to delivering a robust challenge of the key judgements taken in the preparation of the financial statements; to gain a strong understanding of your internal control environment; and to deliver a well-planned audit that raises findings early with those charged with governance.

We have supplemented our core pension audit team with the following specialists:

1. *Actuarial specialists*, who assessed the IAS 26 liability;
2. *Real estate valuation specialists*, who assisted in assessing the valuation of the property funds within the investment portfolio; and
3. *IT specialists* who reviewed the general access and change management controls associated with the administration system. This work is still in progress and forms part of the list of outstanding items within Appendix 4.

**COVID-19**

We have considered the impact of COVID-19 throughout the audit, including the impact on operations, going concern, resourcing, and valuation of the investments. Other than the disclosure regarding the material valuation uncertainty clause relating to the property fund, as detailed in Appendix 1, we have noted no concerns regarding the impact of COVID-19 on the Fund.

**Going concern**

We are required to comment on the going concern basis of preparation of the financial statements in our audit report. As part of this process, details of the work we perform around the going concern assessment are detailed below:

- considered the statutory basis of the Fund;
- considered the results of the triennial valuation; and
- considered the value and liquidity of the investment assets within the fund and its ability to continue to meet benefit payments without further contributions.

We have concluded that there are no material uncertainties to report in respect of going concern.

**Jonathan Gooding, Audit Partner**

# Materiality

## Our approach to materiality

### Basis of our materiality benchmark

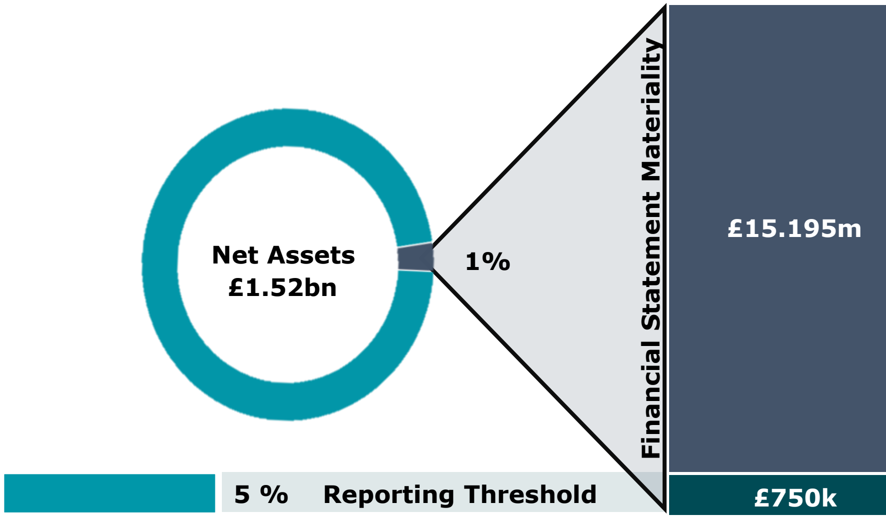
- We set materiality for our opinion on the financial statements at 1% of the net assets of the Fund.
- For the year ended 31 March 2020, we determined financial statement materiality to be £15.2m. This was determined using the first draft of the financial statements which reported a lower net assets figure than that in the current version. Following updates to the investment valuations to reflect stale prices the net assets increased. We elected to retain our original materiality figure, rather than recalculating using the updated net assets.

### Reporting to those charged with governance

- We report to you all misstatements found in excess of 5% of financial statement materiality. We report to you misstatements below this threshold if we consider them to be material by nature.
- For the year ended 31 March 2020, we determined the reporting threshold for the financial statements to be £750k.
- Auditing standards also require us to highlight any corrected and uncorrected misstatements and disclosure deficiencies to enable the Audit Committee to evaluate the impact thereof. These items are included within Appendix 1 of this report.

### Materiality calculation

Although materiality is the judgement of the audit partner, the Audit Committee must be satisfied the level of materiality chosen is appropriate for the scope of the audit.




### Impact of the prior year audit

We have incorporated our findings raised to date from the ongoing 2018/19 audit in our scoping and risk assessment process for this audit. As the prior year audit is ongoing we have kept our risk assessment under constant review to ensure that any relevant matters are captured and considered for the 2019/20 audit.

# 2. Significant Risks

# Significant risk

## Management override of controls

### Risk identified

In accordance with ISA 240 (UK) management override is always a significant risk for financial statement audits. The primary risk areas surrounding the management override of internal controls are over the processing of journal entries and the key assumptions and estimates made by management.

### Response of those charged with governance

The Audit Committee does not have access to the Fund accounting system and does not process any journals in respect of the Fund.

The financial reporting process in place has an adequate level of segregation of duties.

### Deloitte comment

We are finalising our testing of the journals identified by our analytics software, and await receipt of evidence of the implementation of the financial reporting controls before we can conclude on this matter.

### Deloitte response to significant risk identified

In order to address this significant risk, our audit procedures consisted of the following:

- Used Spotlight, our data analytics software, in our journals testing to interrogate 100% of journals posted across the Fund. This uses intelligent algorithms that identify higher risk and unusual items;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Reviewed the accounting estimates for bias, such as the valuation of unlisted investments, that could result in material misstatement due to fraud;
- Performed a walkthrough of the financial reporting process to identify the controls over journal entries and other adjustments posted in the preparation of the financial statements;
- Assessed whether there is an appropriate level of segregation of duties over processing journal entries to the financial statements throughout the year; and
- Tested the design and implementation of controls around the journals process during the year.

# 3. Audit Focus Area

# Audit focus area

## Completeness, valuation and presentation of investments

**Risk identified**

The Fund holds a highly material portfolio of investments. Within the portfolio, there are a number of holdings in alternative investment funds. These funds do not have publicly available prices and are infrequently priced, increasing the risk of stale pricing.

**Response of those charged with governance**

The Fund appoints various investment managers and Northern Trust as custodian for these investments who have sufficient resources to value and safeguard the Fund's investment assets.



**Deloitte comment**

Our testing over the valuation of all investment assets was undertaken satisfactorily, with no issues noted.

All investment holdings were reconciled to both the year end custodian and investment manager independent confirmations, with a £4.15m understatement noted in relation to the indirect property portfolio. As this is below our materiality, this has been included in our schedule of uncorrected misstatements per Appendix 1.

We are awaiting receipt of two investment manager confirmations in order to complete the unit reconciliations for those holdings.

**Deloitte response to focus area identified**

In order to address this focus area, our audit procedures consisted of the following:

- Tested the design and implementation, and the operating effectiveness where applicable, of key controls over the completeness and valuation of investments by obtaining the investment manager internal control reports (where applicable) and evaluating the implications for our audit of any exceptions noted;
- Agreed the year end valuations in the accounts to the reports received directly from the investment managers and Northern Trust as custodian, and reconciled these to the individual confirmations received from the investment managers;
- Agreed holdings in unit linked insurance policies to confirmations from the policy providers;
- Performed independent valuation testing for a sample of year-end alternative investment holdings by rolling forward the valuation as per the latest audited accounts using cash flows and an appropriate index as a benchmark;
- On a sample basis, tested cash reconciliations for investments, including tracing the source of the cash;
- Performed a unit reconciliation in which the opening, purchases sales and closing investment balances and unit quantities to independent investment confirmations; and
- Reviewed the classifications of investments throughout the investment notes to ensure these were accurately presented.

# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Audit Committee discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations.
- Our internal control observations.
- Other insights we have identified from our audit.

### What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Audit Committee.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and Fund risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the Fund accounts and the other procedures performed in fulfilling our audit plan.

### The scope of our work

Our observations are developed in the context of our audit of the Fund accounts.

We described the scope of our work in our proposed audit plan circulated to you.

The audit insights and other control findings of this report provide details of additional work we have performed alongside the audit of the Fund accounts.

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

We welcome the opportunity to discuss our report with you and receive your feedback.

**Deloitte LLP**

Statutory Auditor

St Albans| XX November 2021

# 4 Appendices

# Appendix 1: Audit adjustments and observations

## Current year and prior year audit adjustments

| Detail | Debit/ (credit) Fund Account £'000 | Debit/ (credit) Net Asset Statement £'000 |
|---|---|---|
| **Uncorrected misstatements identified in current year** | | |
| Investment Valuation - Stale prices have been used by the custodian to value the indirect property portfolio held by the Fund, resulting in a total difference of £4.15m in the valuation of this asset. | **(4,150)** | **4,150** |
| In calculating the actuarial liability of the plan in accordance with IAS 26, the actuary has not allowed for the Goodwin ruling. Incorporating this factor would result in an increase of £4m (0.2%) of the actuarial liability. | **N/A – impacts disclosure in note 20** | **N/A – impacts disclosure in note 20** |
| **Corrected misstatements identified in current year – none** | - | - |



**Disclosure deficiencies**

The material valuation uncertainty clause included within the valuation statement for the Nuveen Retail Warehouse Fund as at the year-end should be disclosed in the financial statements. The fund value at the year-end is c.£2.1m, which is not material.

# Appendix 1: Audit adjustments and observations
## Continued

### Observations

We are required to communicate the matters below to the audit committee as per ISA 260:

- IAS 26 liability – Based on the work of our in-house actuarial team, when calculating the actuarial liability of the plan in accordance with IAS 26 the Fund actuary has not allowed for the Goodwin ruling. Incorporating this factor would result in an increase of £4m of the actuarial liability.

- Underpayment of contributions due to employer payroll system error – The council payroll system launched in June 2019 caused any newly enrolled active members using that system to have their 3rd party deductions omitted from the BACS report on the first month upon their enrolment and therefore not paid into the bank for this month. This has caused an underpayment in the contributions for the year of £750k. We recommend that the contributions which have been deducted but that have not been paid across to the Fund are transferred to the Fund as soon as is practical. We further recommend that this breach of the regulations is reported to the Pension Regulator (TPR).

# Appendix 2: ISA 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Fund and management. It is important that management, with the oversight of those charged with governance, places a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behaviour which can be reinforced by an active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process.

## Auditor’s Responsibility

An auditor conducting an audit in accordance with ISAs (UK) is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs.

As part of our partner-led planning process, as an audit team we have considered the possible avenues of fraud within the Fund and have outlined our approach to each consideration below.



| Consideration | Approach and result of our testing |
|---|---|
| Fraudulent posting of journal entries – the purposeful misstatement of the financial statements | We have outlined our approach to the mitigation of this risk on page 8. |
| Fraudulent valuation of investment assets - incentive to overstate asset values | We have outlined our approach to the mitigation of this risk on page 10. |
| Misappropriation of cash or Fund holdings from the investment portfolio | In response to this risk, we performed a unit reconciliation and a cash reconciliation for the Fund’s investments. |
| Creation of fictional pensioner records and payments to non Fund members | In response to this risk, we assessed the design and implementation of controls around pensioner set up and amendments to existing Altair records to ensure there are appropriate controls and enforced segregation of duties. |
| Circumvention of the review process within Altair | In response to this risk, we assessed the design and implementation of controls around the processing of retirement and transfers out cases to ensure there is segregation of duties. We also evaluated the controls around user access level reviews to ensure there is appropriate segregation between those performing a process and those reviewing the process and ensured that the same process cannot be performed and reviewed by the same person. |
| Pensioner existence – payment of pensions to deceased members | In response to this risk, we assessed the design and implementation of controls around the existence of pensioners to ensure the timely suspension of pensions to deceased members. |

# Appendix 3: Fraud responsibilities and representations

## Responsibilities explained



**Your responsibilities:**

The primary responsibility for the prevention and detection of fraud rests with management and the AC, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

**Our responsibilities:**

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risk section of this document, we have identified management override of controls as a key audit risk for the Fund.

**Fraud characteristics:**

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

**We will request the following to be stated in the representation letter signed on behalf of the AC:**

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

# Appendix 3: Fraud responsibilities and representations (continued)

## Inquiries

We have made the following inquiries regarding fraud:

**Management:**

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the Fund.
- Management's communication, if any, to the Audit Committee ('AC') regarding its processes for identifying and responding to the risks of fraud in the Fund.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the Fund.
- We plan to involve management from outside the finance function in our inquiries.



**Internal audit**

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the Fund, and to obtain its views about the risks of fraud.

**The Audit Committee**

- How the AC exercises oversight of management's processes for identifying and responding to the risks of fraud in the Fund and the internal control that management has established to mitigate these risks.
- Whether the AC has knowledge of any actual, suspected or alleged fraud affecting the Fund.
- The views of the AC on the most significant fraud risk factors affecting the Fund.

# Appendix 4: Outstanding items

## Items outstanding at the date of this report

Our final opinion is subject to completion of these items:

- Receipt of evidence of implementation for financial reporting controls and completion of our testing on journal entries;
- Receipt of several independent investment confirmations;
- Resolution of a number of queries in relation to a sample of lump sums on retirement payments;
- Resolution of queries regarding pensioner member numbers at year-end;
- Receipt of final version of the full annual report and financial statements for our review;
- Completion of our IT specialists’ review of the general access and change management controls associated with the administration system and the wider council IT systems, as well as testing of IT elements of relevant controls;
- Completion of our testing on the membership statistics;
- Completion of our testing of the split of contributions and benefits by employer in notes 7 and 9;
- Completion of our reporting to the Council audit team regarding testing of the IAS 19 disclosures;
- Completion of our fraud enquiries as part of the Council audit;
- Completion of our enquiries regarding any legal advice sought by the Fund;
- Finalisation of our internal quality control procedures;
- Partner and technical review clearance;
- Receipt of signed representation letter; and
- Satisfactory completion of our post year-end events review.

# Appendix 5: Independence and fees

## Agreed fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

| | |
|---|---|
| **Independence confirmation** | We confirm that the audit engagement team and others in the firm (as appropriate), Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Fund. |
| **Fees** | The original 2019/20 scale fee set by PSAA was £16,170. The fee excludes VAT.<br><br>Due to the issues encountered during the course of the audit we anticipate charging additional fees. This will need to be approved by PSAA. |
| **Non audit services** | No non-audit fees have been charged by Deloitte in the period in respect of services to the Fund.<br><br>We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary. |

Deloitte.

| | |
|---|---|
| Non-Executive Report of the:<br>**Pensions Committee**<br>**Monday, 11 December 2023** | TOWER HAMLETS |
| **Report of:** Julie Lorraine Corporate Director, Resources | **Classification:**<br>Restricted |
| **LGPS Consultation (England and Wales) Next Steps on Investments: Government Response** | |

| | |
|---|---|
| **Originating Officer(s)** | Miriam Adams, Interim Head of Pensions and Treasury |
| **Wards affected** | |
| | |


**Executive Summary**

The Government has published the results of its consultation on LGPS Next Steps on Investments Consultation which closed 2nd October 2023. This report summarises the key points from the Consultation response and confirms the Governments vision for the future of LGPS investments.


**Recommendations:**

The Pensions Committee is recommended to:

1. Note the Government's response to the consultation.
2. Note Tower Hamlets Pension Fund position as applicable.

## 1. REASONS FOR THE DECISIONS

1.1 It is good practice to keep the Committee updated with key LGPS updates. This report highlights the key points coming out of the Consultation response.

## 2. ALTERNATIVE OPTIONS

2.1 There is no alternative to this report. The Fund is directly impacted by LGPS legislations and regulations.

## 3. DETAILS OF THE REPORT

Governance

3.1 Funds will be required to formally publish a training policy for Pension Committee Members and to report on training undertaken.
The Fund reports on training undertaken and its training policy is included in the annual report.

3.2 Funds must provide an annual update on pooling progress in their annual reports.
Tower Hamlets Pension has significant proportion of its assets invested via pools.

3.3 Funds will need to set out a plan in their investment strategy for investing up to 5% of assets in Levelling Up projects and in annual reports they must report on their progress.

3.4 Amendments to the definition of investments in the 2016 LGPS Regulations 3(1)(b) and 3(4) to be amended to correct an inconstancy in the definition of investment that the Joint Committee on Statutory Investments identified. The government proposes to add the word 'partnership' to regulation 3(1)(b) as follows:

- Reg 3(1)(b) a contribution to a limited partnership in an unquoted securities investment partnership.

The proposed amendment would ensure consistency with the language used in regulation 3(4), where unquoted securities investment partnerships are defined. It is also anticipated that this will eliminate any ambiguity in regard to regulation 3(1) b.

Pooling

3.5 2025 stays as the pooling transition deadline for transition of liquid assets to the pool on a 'comply or explain' basis. LGPS funds will be required to pool all listed assets by 31 March 2025 on a comply or explain basis with an explanation taking into account value-for-money considerations.

Tower Hamlets Fund currently invests all its listed assets either directly through the pool or via pooling fee structures in place for Legal and General Low Carbon funds.

3.6 The government intends fewer pools of at least £50bn, with scale achieved by pool merger where required. The government has confirmed its intention to proceed with this but stated there is no intention to force any mergers in the medium term.
The Government Actuary Department estimate that the LGPS could reach around £950 billion in assets by 2040, the government is therefore looking towards a smaller number of pools with assets under management averaging £200bn.
Tower Hamlets Fund is a partner fund of London CIV.

3.7 Revised guidance will focus on and include a preferred model of pooling which is expected to be adopted over time on “characteristics and outcomes” rather specifying single or prescribed structures.

3.8 Investment in other pools should only be done via a Fund’s existing pool. The government will set out in legislation under what circumstances it will be appropriate to invest through your own pool in another pool’s product. Funds will not be permitted to invest in other pools’ product directly, as the government wishes to prevent competition between pools.

3.9 The government will produce strengthened guidance on increased levels of delegations to pools to support greater delegation of manager selection and strategy implementation at pool level. The government remains in favour of pools providing advice to Funds.

3.10 Greater transparency on reporting to be developed in conjunction with the LGPS Scheme Advisory Board (SAB). The government will work with the SAB to create more transparent and consistent reporting on fund assets allocation and returns. The use of single standardised benchmarks for asset classes has been dropped by the government.

Levelling Up

3.11 Up to 5% investment un levelling up remains an ambition. Funds can invest more or less if they cannot find sufficient investment opportunities. The government recognises it is not a separate asset class. The broad definition suggested in the consultation will remain to provide flexibility for funds in finding investments that meet this definition.

The government states that investments are expected to provide good returns, but lower-returning investments can also be made under existing guidance on non-financial factors. The government acknowledges that funds may choose to invest these opportunities outside of the pool, but encourages as much pool involvement as possible, such as in conducting due diligence and to help manage conflict of interest.

The Tower Hamlets Fund strategic asset allocation currently includes allocation to UK Housing and Renewable Infrastructure which may count toward levelling up. Some investments in Schroder Real Estate may count towards levelling.

3.12 The government made clear in the response to consultation that it does not see these requirements as going against fiduciary duties of the Fund and Funds should consider investments in Levelling Up as they do any other investment.

Private Equity

3.13 Government remains committed to unlocking capital to support growth businesses. The government will continue to encourage funds to invest 10% of assets in private equity and venture capital investments. This will not be mandatory, but funds are required to set up allocation ambition. Investments in the UK is welcomed by the government does not propose to restrict this ambition to investments in private equity and venture capital in the UK.

The consultation response recognises that 10% investments in private equity and venture capital investments remains and ambition and would not be mandated on LGPS funds. Funds can include other investments in private equity outside of this where appropriate on risk and return grounds.

Pools will be encouraged to work with and strengthen partnerships with British Business Bank to explore investment opportunities in venture capital and growth equity. A government-led investment vehicle to support pension fund investment in these areas is being expected.

Competitive and Markets Authority (CMA)

3.14 The government will also amend regulations and associated guidance to require funds to set objectives for investment consultants. Pool companies owned by the LGPS will also be required to set objectives for all investment consultancies including pools. Guidance is required to make clear that all providers of investment consultancy services are covered including independent advisers and that such services include advice on investments, investment strategy statements, strategic asset allocation and manager selection.
All Fund investment advisers, independent advisers and actuary have set objectives which may require review once the regulations are in place.

## 4. EQUALITIES IMPLICATIONS

4.1 There are no equalities implications arising from 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.

Environmental Implications

5.2 Tower Hamlets Pension Fund is making progress on monitoring climate risk by reporting appropriate carbon metrices, reports on TCFD on a voluntary basis as an early adopter and has regard to climate risk in making investment decisions.

Risk Management

5.3 The risks associated with the pension fund's investments are assessed in detail and considered as part of the strategic asset allocation, The pension fund's Investment Strategy Statement requires all external investment managers and London CIV to consider and manage all financially material risks.

## 6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 The Local Government Pension Scheme (LGPS) is a national pension scheme administered locally. Tower Hamlets Council is the administering authority for the LGPS which provides pensions and other benefits for employees of the Council, Tower Hamlets Homes, Academies, various catering and cleaning contractors and a range of employers within the Fund.

6.2 The LGPS is a 'defined benefit' scheme which means that members benefits are not calculated based on investment performance. Contribution levels for scheme members are set nationally, and contribution levels for scheme employers including the council are set locally by the scheme actuary.

6.3 Increasing the level of investments in the UK and in private equity may increase fees because the nature of investments means they are more expensive to manage than for example listed passively managed equity tracking funds. However, different types of funds provide diversification may enable the Fund to adopt the correct risk/return profile to meet its liabilities and for this reason a mix of investments that includes some asset types with higher costs may be appropriate.

## 7. COMMENTS OF LEGAL SERVICES

7.1 There are no direct legal implications arising from this report.

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**Linked Reports, Appendices and Background Documents**

**Linked Report**

- List any linked reports
- NONE

**Appendices**

- NONE.

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

- https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments

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

| | |
|---|---|
| Non-Executive Report of the:<br><br>**Pensions Committee**<br><br>**Monday, 11 December 2023** | TOWER HAMLETS |
| **Report of:** Julie Lorraine Corporate Director, Resources | **Classification:**<br>Open (Unrestricted) |
| **Communications Strategy and Policy Statement** | |

| | |
|---|---|
| **Originating Officer(s)** | Miriam Adams, Interim Head of Pensions and Treasury |
| **Wards affected** | (All Wards); |


**Executive Summary**

This Policy Statement outlines the way in which the Administering Authority communicates with key stakeholders.


**Recommendations:**

The Pensions Committee is recommended to:

1. Consider and approve the revised Communication Strategy and Policy Statement.

## 1. REASONS FOR THE DECISIONS

1.1 In September 2021, the Pensions Committee approved the Communication Strategy and Policy Statement. The Pension Fund maintains a Communication Policy Statement which reflects:

- The Local Government Pension Scheme (LGPS) Regulatory requirement to maintain a Statement concerning how the Pension Fund communicates with its broad range of stakeholders (members, representatives of members, prospective members, and Scheme employers).

- The Pensions Regulator's (tPR) Code of Practice 14 which refers to necessary communications and their content. The Pensions Regulator has also issued a draft new Single Code of Practice (the New Code), which sets out proposed new governance standards for pension schemes. The New Code which is both a consolidation of 10 out of 15 existing codes of practice as well as a significant update and extension of the existing code also recommends that Governing bodies regularly review member communications.

1.2 By reviewing communications on a regular basis, the Committee and Board will be fulfilling their role in considering the effectiveness of communications with employers and members and any future activities, compliance with the Communication Policy Statement, Regulations, Guidance, or best practice and assisting with its knowledge and understanding of the Scheme.

## 2. ALTERNATIVE OPTIONS

2.1 There are no alternatives to this report. Not producing and reviewing the Communication Policy for the Pension Fund potentially exposes the Fund and Council to action by the Pensions Regulator.

## 3. DETAILS OF THE REPORT

3.1 The Fund has many stakeholders each with different communication needs. This report identifies the main means of communication with our key stakeholders which includes making the best use of technology where appropriate, to provide quicker and more efficient communication. The Fund will ensure that they provide communication methods that are accessible to all.

3.2 At National level, the LGPS Communications Working Group (CWG) a collaborative forum made up of representatives from 20 administering authorities in England and Wales. This group meets quarterly to develop communication for scheme members in the LGPS along with the Local Government Pension Committee (LGPC) who provide technical advice and information on the LGPS and related compensation matters.

3.3 The CWG priorities include the identification of best practice within pensions communications generally and the LGPS specifically, exploring the areas where centrally produced communications would save individual LGPS funds financial resources and staff time.

3.4 Documents produced by the CWG can be found on the LGPC's website for administering authorities and employers.

3.5 In September 2021, the Pensions Committee approved the Communication Strategy and Policy Statement.

3.6 The revised Communication Strategy and Policy Statement included as Appendix A outlines the Fund's planned communication activities and how the communication referred to within the Communications Policy Statement have been delivered in practice.

3.7 The Communications Policy is one of the four statutory statements that the Fund is required to have in place. It sets out the Fund's policies of information and publicity about the Scheme to members, representatives of members and scheme employers.

3.8 Officers are looking to update policy in future to ensure scheme documents are readily accessible to scheme members with impaired vision, cognitive impairments or learning disabilities.

## 4. EQUALITIES IMPLICATIONS

4.1 There are no direct equalities implications arising from 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 The administering authority is required by legislation to prepare, maintain, and publish a written statement setting out its policy concerning communications with members and scheme employers.

5.3 Mitigating risks associated with this report has been captured in the Fund’s risk register as G3 – appropriate objectives are not agreed or monitored. Causes of this risk is as a result of policies not being in place or not being monitored.

## 6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 There are no direct financial and resourcing implications arising of this report and appendix. Ongoing communication costs will be contained within the administration budget.

## 7. COMMENTS OF LEGAL SERVICES

7.1 Section Regulation 61 of the Local Government Pension Scheme Regulations 2013 requires the administrating authority to have a communication policy and strategy for communicating with its members and scheme employers. The attached strategy shows compliance with the law.

**Linked Reports, Appendices and Background Documents**

**Linked Report**

- List any linked reports
- NONE

**Appendices**

- Communications Policy and Strategy (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 and Treasury
Email: Miriam.Adams@towerhamlets.gov.uk

# The London Borough of Tower Hamlets Pension Fund

## Communications Strategy Statement

## Introduction

This is the communication strategy for the Tower Hamlets Pension Fund administered by London Borough of Tower Hamlets (the Administering Authority). Communication is at the heart of everything the Fund does and has a dedicated communication team in place to help the Fund meet its current and future communication challenges.
This Policy provides an overview of how the Tower Hamlets Pension Fund will communicate with its full range of stakeholders. An effective communication strategy is vital for the Fund to meet its objective of providing a high quality and consistent service to the stakeholders.

The Fund has over 34 employers (March 2023) with contributing members and a total membership of over 23,000 scheme members, which are split into the categories below and with the approximate numbers of members in each category:

| Type of membership | Type of Membership |
|---|---|
| Active scheme members | 7,757 |
| Deferred scheme members | 8,398 |
| Pensioner members | 7,186 |

The policy outlines the Fund's strategic approach to communications. This Policy should be read in conjunction with the Communication Plan which is detailed in Appendix A of this document.

### Vision

Everyone with any interest in the Fund should have readily available access to all information that they require.

### Regulatory framework

The policy has been produced in accordance with regulation 61 of the Local Government Pension Scheme (Administration) Regulations 2013. The regulation requires that:

1. An administering authority must prepare, maintain, and publish a written statement setting out its policy concerning communications with:
   a) scheme members (active, deferred, retired and dependant)
   b) representatives of scheme members
   c) prospective scheme members
   d) scheme employers

2. The statement must set out its policy on:
   a) the provision of information and publicity about the scheme
   b) the format, frequency, and method of distributing such information or publicity

c) the promotion of the scheme to prospective scheme members and their employers.

The strategy must be revised and published by the administering authority following a material change in their policy on any matters referred to in paragraph (2).

## Stakeholders of the Fund

The Fund has a varied audience of stakeholders with whom it communicates, including:

- Scheme members (active, deferred, pensioner and dependant members)
- Prospective scheme members
- Scheme employers
- Pension Fund staff
- Pension Fund Committee
- Local Pension Board
- London Collective Investment Vehicle (LCIV)
- External bodies:
    - Her Majesty's Revenue & Customs (HMRC)
    - Department of Levelling Up Housing and Communities (DLUHC)
    - Trades Unions
    - Pension Fund Investment Managers, Advisers and Actuaries
    - Pension Fund Custodian
    - The Pensions Regulator (tPR)
    - The Scheme Advisory Board (SAB)
    - The Local Government Association (LGA)
    - Department of Work and Pensions (DWP)
    - Pension Officers Groups
    - Pensions and Lifetime Savings Association (PLSA)
    - Chartered Institute of Public Finance and Accountancy (CIPFA)
    - The Local Authority Pension Fund Forum (LAPFF)
    - Council Taxpayers, members of the public and other cohorts not directly linked to the scheme.

## Key objectives

To ensure that Fund delivers clear, timely and accessible communication with a broad range of stakeholders. To achieve this, the Fund will:

- Communicate information about the Scheme's rules and regulations in an effective, friendly, and timely manner to the different groups of stakeholders.
- Communicate information about the investment decision made by the Fund.
- Inform customers and stake holders to enable them to make the decisions regarding pension matters.
- Inform customers and stakeholders about the management and administration of the Fund.
- Consult with key stakeholders on changes to policies and procedures that affect the Fund and its stakeholders;

- Support employers to enable them to fulfil their responsibility to communicate and share information with members in relation to the scheme.
- Seek continuous improvement in the way the Fund communicates.

## Accessibility

The Fund is committed to ensuring communications are accessible to all stakeholders and is committed to develop further use of electronic means of communicating through e-mail and internet site (including a Member Self Service Portal). Wherever possible, responses are sent to stakeholders by electronic means. However, more traditional methods of communications will continue to be offered as required.

The Fund also make sure that communications are easy to understand through use of Plain English accreditation and readability scores in line with Council policy.

## Investment Communication

The Fund has seen an increase interest in its investments from Scheme Members, Scheme Employers and the wider public. The Fund maintains a large portfolio of assets, which it uses to pay out LGPS benefits when they become due. This is made up of pension contributions paid in by Scheme Members and Scheme Employers, and any investment income and capital growth. To reduce risk, the Fund diversifies its investments across a wide range of assets both in the UK and Global market.

## Responsible Investment

As a responsible investor the Fund Environmental, Social and Governance (ESG) issues are fundamental to the Fund's investment strategy. The Fund has focused communications to stakeholders about its investments. The Fund will regularly report to Scheme Employers and Scheme Members about its investments and the Fund's approach to ESG issues.

## Freedom of Information

Anyone has a right under the Freedom of Information (FOI) Act to request any information held by the Fund which is not already made available. FOI requests will be dealt with openly and swiftly. Requests should be made in writing to the Freedom of Information Officer at the address at the end of this document.

A fee may be charged, and the Fund reserves the right to refuse if the cost of providing the information is disproportionately high.

## Communication Channel

The table below shows the Fund main method of communication with different stakeholders.

| Stakeholder | Communication | Key message /Objectives |
|---|---|---|
| **Active members** | • Annual benefit statements<br>• Biannual Newsletters<br>• Member self service<br>• Website<br>• Pensions team telephone line<br>• Scheme Literature<br>• Calculation and costings (e.g., estimates)<br>• Presentations – face to face / online via Microsoft Teams<br>• Promotion on internal systems, e.g., the Bridge<br>• Active Member surveys | • Your pension is a valuable benefit.<br>• Your employer contributes to help you save for your retirement.<br>• You need to make sure you're saving enough for retirement.<br>• To improve your understanding of how the LGPS works.<br>• You understand the impact of any changes in legislation.<br>• To advise scheme members of their rights and benefits.<br>• To make pensions information more readily available.<br>• To answer member's queries regarding their benefits<br>• To give you more ways that you can contact us or get information.<br>• To provide a method for members to give feedback. |
| **Deferred members** | • Annual benefit statements<br>• Annual Newsletter<br>• Member self service<br>• Website<br>• Telephone helpline<br>• Scheme Literature<br>• Calculation and costings (e.g., estimates) | • Your pension is a valuable benefit<br>• You are saving enough for retirement<br>• You keep in touch with the Fund e.g. provide us with address changes<br>• How the LGPS works now, and the impact of any changes in legislation<br>• Understand the implication of transferring out of the scheme<br>• To improve understanding of how the LGPS works<br>• We will update you of any changes |
| **Pensioner members** | • Member self service<br>• Pensions Increase letters<br>• P60 | • You keep in touch with the Fund e.g., provide us with address<br>• changes |

| | | |
|---|---|---|
| | • Calculation and costings (e.g., estimates)<br>• Website<br>• Telephone helpline<br>• Annual newsletter<br>• Pensioner member Survey | • We are here to help with any questions you might have.<br>• The LGPS is still a valuable part of your retirement package.<br>• How your funds are invested.<br>• To improve understanding of how the LGPS works.<br>• The impact of any changes in legislation.<br>• The impact in the larger pension community (e.g., Brexit.) |
| **Dependent members** | • Member self service<br>• Payslip<br>• P60<br>• Calculation and costings (e.g., estimates)<br>• Website<br>• Telephone helpline | • You keep in touch with the Fund e.g., provide us with address and bank changes.<br>• We are here to help with any questions you might have.<br>• The LGPS is still a valuable part of your retirement package.<br>• The impact of any changes in legislation. |
| **Scheme employers** | •Ad hoc email alerts<br>•Quarterly newsletters<br>•Website<br>•Webinars<br>•Telephone helpline<br>•Scheme information and guides<br>•Annual Employer survey | •You need to be aware of your responsibilities regarding the LGPS.<br>•Your employer contributes to help you save for your retirement.<br>•You understand the impact of any changes in legislation.<br>•To improve relationships<br>•Continue to improve the accuracy of data being provided to us. |
| **Potential Scheme Members including Opt Outs** | •Website<br>•Telephone helpline<br>•Scheme information and guides | •You understand the impact of any changes in legislation<br>•Your employer contributes to help you save for your retirement.<br>•The LGPS is still one of the best pension arrangements available<br>•Increase understanding of how the scheme works and what benefits are provided |

| | | |
|---|---|---|
| | | •To improve take up of the LGPS |
| **Pension Fund Staff** | •Team meeting<br>•1:1 / Appraisals<br>•Training & development<br>•Training Matrix<br>•Ad hoc meetings<br>•Monthly newsletter | •Ensure staff are kept up to date with important information<br>•regarding the service, the employing authority, and the wider world of pensions as a whole<br>•Management to feedback to staff regarding their individual<br>•progress<br>•For staff to feel a fully integrated member of the team |
| **Pension Fund Committee and Local Pension Board** | •Committee/Board Papers<br>•Trainings<br>•Minutes<br>•Presentations | •Ensure members are kept up to date with important information regarding the Fund.<br>•Monitor success against the agreed measures |
| **External bodies** | •Response to enquiries and consultations | • Respond to enquiries/statutory requirements |

## Communicating with members

There are 3 categories of scheme member:

- Active members who are contributing to the Scheme.
- Deferred members who have left the Scheme but have not yet accessed their pension benefits.
- Pensioner members who are in receipt of their LGPS benefits from the Fund.

The Fund recognises that communication with each category requires a different, specific approach and therefore uses a variety of methods to communicate with members.

To ensure members can access services easily, we employ a range of media to educate them about the LGPS and their pension benefits, delivered in a clear and easily understood way to ensure that members can make informed decisions about their benefits.

- Website - The Fund has a dedicated Pensions website www.towerhamletspensionfund.org/,
  which has general information about Tower Hamlets Pension Fund and about being a member of the LGPS. There are also scheme forms and guides available to copy or print.

- Telephone Helpline - We provide a helpline service for all our members to use if they need to contact us by telephone or email. There is a dedicated helpline for members to call 0207 364 4251.

- General Correspondence – The Fund provide a generic email address which enables members to email their queries. The emails are picked up and passed to the relevant member of staff.
  pensions@towerhamlets.gov.uk

- Member Self Service - Members can access their pension account using the My Pension Portal. This is a secure area that allows members to see the personal details Fund holds about them. They can also update personal information. Contributing and deferred members can view their annual pension statements. There are also scheme forms and guides available to copy or print.

- Visits to our office - Members are welcome to visit our offices if they prefer to speak to us face to face. Ideally, members should make an appointment in advance so we can make sure that someone is available to see them. The Fund remains in operation during this time and members can contact us at the address at the end of this document.

- Annual Benefit Statements – The Fund issues an Annual Benefit Statement (ABS) to all active members, showing the pension they have built up to the previous 31st March. They are subject to the members Scheme Employer providing timely year end information to the Pensions Administration Team. The ABS are available for members to view on Member Self Service Pension Portal.

- Presentations / Roadshows / Drop-in Sessions available to active scheme members.

- Newsletters - The Fund issues periodic newsletters to Members to update them on topical Pensions matters and changes.

- Pay advice, Pension Increase letters and P60s - We issue paper pay advice to pensioner members every March, April, and May. Members can also access their pay advice monthly via My View.

## Communicating with Pension Fund Staff

The Fund recognises that its staff are its greatest resource and that they are kept informed about the Fund's aims to deliver a quality and accurate service as well Administering Authorities updates. This is achieved via use of email, Council newsletters, internal meetings, as well as internal and external training events on specific topics.

The Fund communicates with staff in several ways.

- LBTH Internal Communications bulletins – TH Now Weekly Update.

- Performance conversations– the Fund managers ensure that Fund staff have performance conversations at least twice yearly, these establish clear objectives and any necessary support that staff members and the team need. Staff members also meet with managers monthly (1-2-1).

- Training - Staff regularly attend LGA and CIPFA training as appropriate, and receive inhouse training from actuary, fund managers, on the job training via line manager or colleagues and via Team Leaders.
  Professional courses are also offered on request. These are recorded via a staff skills matrix. Ad hoc training courses are produced as the LGPS regulations change. Each member of staff is required to keep record of training.

- Staff Feedback on Fund Communications - Staff are encouraged to report back on any feedback given to them by other stakeholders.

- Weekly update – senior managers send weekly emails to keep staff updated on current issues.

- LGA bulletins - senior managers circulate monthly LGA bulletins to all staff to ensure staff are kept up to date with current LGPS issues.

- Team meetings – the Head of Pensions & Treasury meets with all staff monthly to keep staff updated on current issues including legislative issues.

- Administering Authority Internal Communications - keep all staff updated on current LGPS legislation changes, new staff and those leaving and upcoming training courses, etc.

## Communicating with the Pension Fund Committee and Local Pension Board

The administering authority, London Borough of Tower Hamlets, has established a Pensions Committee including elected Councillors to discharge the functions of the Council in governing and administering The Tower Hamlets Pension Fund. The Pensions Committee is the decision-making body for the Fund, and this includes responsibility for setting the Fund's investment strategy, appointing investment managers, and approving Fund budget, business plan and policies.

The Council also established Local Pension Board in 2015 to assist the Committee in securing compliance with the scheme regulations and the effective and efficient governance and administration of the LGPS.

The Pension Fund Committee and Local Pension Board communicate by:

- Committee and Board meetings - Members of the Pensions Committee and Local Board meet at least quarterly to discuss Pensions issues, following which the Local Board may make suggestions and recommendations, and the Pensions Committee may make decisions.

- Fund officer reports - Members of the Pensions Committee and Local Board receive monitoring reports from Fund staff. This includes the Fund's internal managers delivering reports and presentations to members at Committee and Board meetings.

- Investment Manager Reports – Members receive quarterly investment reports from the Fund officers, investment adviser and independent investment adviser on the performance of the Fund's investment.

- Training – An annual training plan is presented to Pensions Committee and Local Board to approve. Members receive regular training to ensure they have the knowledge and capacity to carry out their roles.

- All Pensions Committee and Local Board members have access to Hymans Aspire LGPS Online training portal. The online training course mirrors the topics of the National Knowledge Assessment, and covers all key areas needed to successfully manage the running of a fund: Committee Role and Pensions Legislation, Pensions Governance, Pensions Administration, Pensions Accounting and Audit Standards, Procurement and Relationship Management.

- Quarterly Update - Members of the Pensions Committee and the Local Board receive update from Interim Head of Pensions & Treasury on London CIV and Pension Administration.

## Communicating with external bodies

The Fund engages proactively communicates with a number of external bodies. These include:

- London Collective Investment Vehicle Pool, Pension Fund Investment Managers, Advisers and Actuaries – The Fund has regular meetings with:
    - London Collective Investment Vehicle (LCIV) and Independent Fund managers who make investments on behalf of the Fund.
    - Investment Advisers who provide help and advice on the investment strategy of the Fund.
    - Fund Actuary to discuss Funding levels, employers' contributions, and valuation of the liabilities of the Fund.

- Pension Fund Custodian - The Fund's Custodian is Northern Trust, who ensures the safekeeping of the Funds investment transactions.

- Pensions and Lifetime Savings Association (PLSA) - The Fund is a member of PLSA, which provides an opportunity for administering authorities to discuss issues of common interest and share best practice.

- Local Authority Pension Fund Forum (LAPFF) - LAPFF is a collaborative shareholder engagement group representing most of the Local Government Pension Scheme Funds and UK Pension Pools, including London CIV Pool. Its aim is to engage with companies to promote the highest standards of corporate governance and corporate responsibility amongst investee companies.

- Mercer - The Fund had also Mercer as its Investment adviser.

- The Fund has appointed – Colin Robertson as its Independent Investment adviser.

## Data Protection

The Pension Fund has a duty to protect personal information and will process personal data in accordance with the Data Protection Act 1998 and any amendments to the act. The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example the Fund's Actuary or AVC provider.

## Review

The policy will be reviewed annually and updated sooner if the communications arrangements or other matters included within it merit reconsideration.

## Further Information

If you have any queries about this Communications Policy, please get in touch:

Pension Services
3rd Floor
Town Hall

160 Whitechapel Road
London, E1 1BJ
0207 364 4251
pensions@towerhamlets.gov.uk

If you have any Freedom of Information requests, please send them to:

Freedom of Information Officer
Information Governance
Town Hall
160 Whitechapel Road
London, E1 1BJ
020 7364 4161
foi@towerhamlets.gov.uk

## Appendix A – Communication Plan

| Method of Communication | Media | Scheme Target Frequency of Issue | Frequency of Issue in Accordance with Legislative Requirement | Method of Distribution | Audience Group |
|---|---|---|---|---|---|
| Send a notification of joining the LGPS to a Scheme Member – Contractual Enrolment | Electronic | Within 40 working days of receiving new starter information from employer | 2 months from date of joining the scheme | E-mail or Letter to Home Address where email not known. | New Members |
| Send a notification of joining the LGPS to a scheme member – Automatic Enrolment/Re-Enrolment | Various | Within 1 month of receiving jobholder information where the individual is being automatically enrolled/re-enrolled | Within 1 month of receiving jobholder information were the individual is being automatically enrolled/re-enrolled | Employer | New Members |
| Inform a member who left the Scheme of their leaver rights and options | Paper Based or Electronic | Within 40 working days from receipt of leaver information. | As soon as practicable and no more than 2 months from date of notification (from employer or from scheme member) | E-mail or letter to Home Address where email not known | Members leaving the scheme |
| Obtain transfer details for transfer in, and calculate and provide quotation to member | Paper Based or Electronic | Within 10 workings days from date of request | 2 months from date of request | Letter to Home Address or Member Self Service | Active Member |
| Provide details of transfer value for transfer out, on request | Paper Based or Electronic | Within 10 workings days from date of request (CETV estimate or Divorce) unless there has already been a request in the last 12 months. | 3 months from date of request (CETV estimate) | Letter to Home Address, Member Self Service or IFA | Deferred Member |

| | | | | | |
|---|---|---|---|---|---|
| Provide a retirement quotation on request | Paper Based or Electronic | Within 15 working days from date of request | As soon as practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months | Letter to Home Address or Member Self Service | Active and Deferred Member |
| Notify the amount of retirement benefits | Paper Based or Electronic | Within 15 working days from receipt of all information | 1 month from date of retirement if on or after Normal Pension Age (NPA), or 2 months from date of retirement if before NPA | Letter to Home Address or Member Self Service | Active and Deferred Member |
| Calculate and notify dependant(s) of amount of death benefits | Paper Based or Electronic | Initial letter sent no more than 15 days from date of becoming aware of death, and notification of benefit letter sent no more than 15 days from receiving correctly completed forms. | As soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request by a third party (e.g., Personal representative) | Letter to Dependants Home Address | Dependant Member |
| Provide all Active and Deferred members with an Annual Benefit Statement (ABS) Member Self Service or Statement to Home Address | Paper Based or Electronic | By 31 August each year | By 31 August each year | Member Self Service or Statement to Home Address | Active and Deferred Member |
| Provide Pension Saving Statement to eligible members | Paper Based or Electronic | By 6 October each year | By 6 October each year | Letter to Home Address, email, or Member Self Service | Active Member |

| | | | | | |
|---|---|---|---|---|---|
| General Member Enquiries | Paper Based or Electronic | Within 15 working days | | Email or Letter to Home Address | All Members |
| Pensions Increase Letters | Paper Based or Electronic via My View | By 30 April each year | By 30 April each year | Member Self Service, My View Online Payslip Portal or Letter to Home Address | Pensioner Member |
| Pensioner P60s (HMRC requirement) | Paper Based or Electronic via My View Online payslip Portal | By 31 May each year | By 31 May each year | Member Self Service, My View Online Payslip Portal or Letter to Home Address | Pensioner Member |
| Member Scheme Guide | Paper Based or Electronic | Always Available Online (Link also in New Starter Pack) | Within 2 months of request | Fund Website or Member Self Service | All members |
| Active Member Newsletters | Paper Based or Electronic | Spring newsletter by 1 April (in line with Annual Updates) and Autumn newsletter by 31 August (in line with ABS) | | Member Self Service or Letter to Home Address | Active Member |
| Deferred Member Newsletters | Paper Based or Electronic | By 31 August in line with ABS | | Member Self Service or Letter to Home Address | Deferred Member |
| Pensioner Member Newsletters | Paper Based or Electronic | By 30 April in line with Pension Increase Letter | | Member Self Service or Letter to Home Address | Pensioner Member |

| | | | | | |
|---|---|---|---|---|---|
| | Paper Based or Electronic | | | | |
| Presentations/Roadshows | Paper Based or Electronic | Twice per year per or as required | | Via Fund | Active Member |
| Drop-In Sessions | Face to Face | As required by employers or scheme member | | Via Fund | Active Member |
| Material Alterations to Basic Scheme Information | Electronic | As soon as possible and within 3 months after the change takes effect | A soon as possible and within 3 months after the change takes effect | E-mail or letter to Home Address | All Members |
| Employer Training | Face to Face/Microsoft Teams | As requested | | Via Fund | Scheme Employer |
| Employer Guides | Electronic | Online/On request | | LGPS Regs Website | Scheme Employer |
| Employer Notifications | Electronic or Paper Based on Request | As required | | E-mail to Fund Contacts | Scheme Employer |
| Member, employer, or third-party enquiries | Incoming via post | Workflow cases created based on enquiry type and associated SLA | | Telephone Email | All Groups |
| Member Self Service | Electronic, Paper Based or Face to Face | Promotional events and campaigns to be discussed and agreed to promote sign up to Member Self Service. | | Various | Active and Deferred Members |
| ISA19/FRS102 Accounting Reports | Electronic | Annually | | E-mail or via actuary portal | Scheme Employer |

| | | | | | |
|---|---|---|---|---|---|
| Annual General Meeting | Microsoft Teams/Face to Face | Provie availability to promote MSS at the AGM | | Via Fund | All Groups |
| Pension Fund Report and Accounts | Electronic | Annually | | E-mail | All Groups |
| Website | | Always available and reviewed as and when required | | | All Groups |
| Pensions Team Helpline | | | | | All Groups |
| Pensions Administration Strategy | Electronic | Always available (reviewed at least every 3 years or in event of legislation change) | | E-mail | Scheme Employer |
| Pension Fund Valuation Report | Electronic | Triennially | | E-mail | Scheme Employer |

| Non-Executive Report of the:<br><br>**Pensions Board**<br><br>Monday, 20 November 2023 | TOWER HAMLETS |
|---|---|
| **Report of:** Julie Lorraine Corporate Director Resources | **Classification:**<br>Open (Unrestricted) |
| **Risk Management Policy and Quarterly Review of Risk Register** | |

| **Originating Officer(s)** | Miriam Adams |
|---|---|
| **Wards affected** | (All Wards) |

**Executive Summary**

This report updates the Board and Committee on changes to the Fund's Risk Register during the quarter.

Risk Management is the practice of identifying, analysing and controlling in the most effective manner all threats to the achievement of the strategic objectives and operational activities of the London Borough of Tower Hamlets Pension Fund ("the Fund").

A certain level of risk is inevitable in achieving the Fund objectives, but it must be controlled.

**Recommendations:**

The Board is recommended to:

1. Note the detailed Risk Register (Appendix 1)

## 1. REASONS FOR THE DECISIONS

1.1 The terms of reference of the Pensions Committee sets out its responsibilities regarding risk management, namely:

- *To review the risks inherent in the management of the Pension Fund.*

1.2 The Board is established by Public Sector Pensions Act 2013 and the first core function of the Board is to assist the Administering Authority in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator (TPR) in relation to the Scheme.

1.3 The consideration of the risks associated with administering the Pension Fund properly fall within the terms of reference of the Committee. Setting out of a policy recognises the importance that is placed in this area in accordance with the CIPFA guidance and recognise the increased role of the Pensions Regulator following the Public Service pensions Act 2013.

1.4 The risk register is presented in Appendix 1 for the Board to review and assist to demonstrate compliance with both regulations and guidance provided by CIPFA and TPR.

1.5 Not all risks can be eliminated, however with proper management and monitoring the impact to the Fund will be minimised. An example of this is economic downturn which the Fund has mitigated to an extent by having Equity protection in place to cover some of its equity investments from severe falls in the market.

## 2. ALTERNATIVE OPTIONS

2.1 Not reviewing the Risk Register for the Pension Fund potentially exposes the Fund and Council to action by the Pensions Regulator.

## 3. DETAILS OF THE REPORT

3.1 The Pensions Regulator’s Code of Practice recommends that a Pension Fund has a Risk Management Policy in place and that this is reviewed periodically. The risk management policy covers key areas such as:

- The Fund’s attitudes to, and appetite for risk
- Aims
- Risk measurement and management
- Responsibility

3.2 The Pensions Board undertakes quarterly detailed review of the identified risks and the process for maintaining the Risk Register and report back to the Pensions Committee on any areas of concern. The Pensions Committee carries out an annual review of the high level and emerging risks identified from the Fund’s Risk Register.

3.3 The Risk Register brings together all the Fund’s risks in a single document. It continues to be based on the 4 key areas of activity within the Fund: Governance, Funding and Investment, Administration and Communication and Employer Risk. It should be noted that some risks cannot be fully eliminated but managed.

Risk G2 - Key Person Risk and staff turnover

3.4 There are 47 system workflows which cover pension administration tasks embedded in the system to ensure all staff follow the same processes. This also allows for CIPFA Stats monitoring. The team also maintains a work plan and procedures are documented by tasking members of the team to champion changes.

Recently, Team Leaders suggested changes to method of working which commenced end of September 2023. This ends to a degree officer specialisations and distributing all tasks by alphabetical order to all officers in the team. This change will be watched closely and if changes creates backlog or inefficiencies, the team will revert to specialisms.

Risk G6 - Failure to comply with TPR Cyber requirements for Pension Schemes

3.5 Monitoring is changed to annual. The Fund is reliant on the Administering Authority's IT infrastructure.

Risk FI 2 - Investment targets are not achieved therefore materially reducing solvency / increasing contributions.

3.6 Fund performance and funding level has improved since the economic down fall of 2022; however, officers and advisers will continue to keep close watch. Funding level on 21 June 2023 was 155% on a 92% likelihood of achieving this return. Risk levels have therefore been reduced.

| 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% |

Risk AG 9 - Timely processing of Transfer in cases is reliant on members previous pension scheme/Fund providing transfer quote or payments promptly.

3.7 Officers continue to send remainders to schemes or members who are yet to respond with transfer values or quotes. Escalate as last resort.

Risk AG8 - Financial Irregularity

3.8 Risk levels reduced. A dedicated officer covers reconciliations. Some of which include transfers in, transfers out, refunds, death grants, retirement grants, monthly pensions payroll and investment manager/custodian reconciliations. Pension Overpayment policy was approved by Committee in September 2023.

Risk ER 2 - Failure to provide an Annual Benefit Statement to 100% of active members due to incorrect data provided by employers in the scheme.

3.9 This risk continues to be monitored annually in line with annual benefit statement deadlines to ensure that all statements are issued or sent off to print before 31 August deadlines. Risk levels downgraded. Concerns about LBTH payroll data is raised at the payroll pensions working group chaired by the Director Finance Procurement and Audit.

Risk F3 - Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions

3.10 Description of risk on the Risk Register updated to “Market expectations for inflation and gilt yields can change in a manner which has a significant adverse impact on the funding ratio. There is a risk that an increase in expectations for inflation is not accompanied by a corresponding increase in gilt yields which could impact employer contribution rates payable to the Fund”.

Previous description was “ Market factors impact on inflation and interest rates. There is a risk that increased inflation may impact on liabilities which could impact onto employer contribution rates payable to the Fund”.

3.11 Table below shows risk numbers at 30 September 2023.

| **TOTALS** | | | | | | | |
|---|---|---|---|---|---|---|---|
| Governance | | Funding & Investment | | Administration & Communication | | Employer | |
| Red | 1 | Red | 2 | Red | 3 | Red | 2 |
| Amber | 4 | Amber | 5 | Amber | 3 | Amber | 2 |
| Green | 2 | Green | 2 | Green | 3 | Green | 1 |

## 4. EQUALITIES IMPLICATIONS

4.1 There are no direct equalities implication arising from 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 Section 249A of the Pensions Act 2004 requires the administering authority to manage risk by establishing and operating internal controls which are adequate for the purpose of securing that the scheme is administered and managed:
(a) in accordance with the scheme rules
(b) in accordance with the requirements of the law

The Risk Register, Risk Management Policy which is the subject of this report is designed to ensure compliance with the Council's statutory duties regarding managing risk related to the administration and management of the Pension Fund.

## 6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 There are no direct financial implications arising as a result of this report, other than that by regularly reviewing the Risk Register, the Fund is trying to minimise the chance of financial and reputational loss occurring.

6.2 There are clearly some risks which would be difficult to transfer or manage, such as the impact that increased longevity will have on the liabilities of the Pension Fund, but the understanding of such risks could well impact on the other aspects of the decision-making process to lower risks elsewhere.

## 7. COMMENTS OF LEGAL SERVICES

7.1 Section 249A of the Pensions Act 2004 requires the administering authority to manage risk by establishing and operating internal controls which are adequate for the purpose of securing that the scheme is administered and managed: -
(a) in accordance with the scheme rules
(b) in accordance with the requirements of the law

7.2 The Risk Register, Risk Management Policy which is the subject of this report is designed to ensure compliance with the Council's statutory duties regarding managing risk related to the administration and management of the Pension Fund.

**Linked Reports, Appendices and Background Documents**

**Linked Report**

- NONE

**Appendices**

- Risk Register (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.

- NONE.

**Officer contact details for documents:**
Miriam Adams, Interim Head of Pensions and Treasury Ext 4248
Email: miriam.adams@towerhamlets.gov.uk

**RISK REGISTER SEPTEMBER 2023 UPDATE**

**Governance**

| Risk no: | Risk Overview (this will happen) | Risk Description (Causes) | Current Impact (see key) | Current Likelihood (see key) | Current Risk Status | Internal and external controls in place | Target Impact (see key) | Target Likelihood (see key) | Target Risk Status | Further Action and Additional Controls | Indicative Time Frame | Comments and update June 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| G1 | The Fund's objectives/legal responsibilities are not met or are compromised - external factors | Externally led influence and change such as scheme change, national reorganisation, cybercrime and asset pooling | Moderate | Possible | | 1 - Continued discussions at PC and PB regarding this risk<br>2 - Fund's consultants involved at national level/regularly reporting back to PC<br>3 - Key areas of potential change and expected tasks identified as part of business plan (ensuring ongoing monitoring)<br>4 - Asset pooling IAA in place<br>5 - Ongoing monitoring of cybercrime risk by Officers and PC<br>6.) Close working relationship between officers, investment consultant, scheme actuary and independent investment adviser.<br>7.) Officers keep abreast with regulatory changes and immediate reporting to Pensions Board 8.) Close monitoring of investment managers appointed by London CIV by Independent Investment Adviser and Investment Adviser<br>9.) Officers meetings with London CIV to raise concerns early. | Moderate | Possible | | Continue manager deep dive and performance monitoring. | quarterly review | This risk will remain amber. It is not possible to completely eliminate manager underperformance or cyber risk. 1) Officers continue to implement TPR recomendations on cyber risk and liaise with Tower Hamlets IT to understand mitigating factors.<br>2.) Officers work closely with scheme actuary<br>3.) Officers provide update on new legislative changes to Board and Committee quarterly<br>4.) Officers keep abreast with LGA communications to ensure new changes are picked up<br>5.) Officers work closely with Heywoods to assess impact on new changes.<br>6.) Cyber crime risk is now a stand alone risk in line with prioritisation by TPR and SAB |
| G2 | Key Person Risk and staff turnover<br>Risk of loss of key/senior staff resulting in lost knowledge and inability to meet service objectives | Impact of sickness, resignation, retirement, unable to recruit to posts that become vacant as a result. Local authority paygrades may be a barrier to recruiting highly skilled staff. | Moderate | Possible | | 1 - Business plan includes workforce matters<br>2 - Ensure quarterly update reports are roburst and include all matters of administration 3.) - Consider additional resources, such as outsourcing or use of external consultants as required<br>5 - Staff reviews implemented and vacant positions recruited to | Moderate | Possible | | 1 -Keep up to date with legislative changes via LGA, HMRC, Actuarial , investment manager, investment adviser newsletters, guidance and bulettins<br>'2.) Continue training of new and newly promoted staff (MA)<br>3.) Annual appraisals and target setting for all staff. 4.) Consider future sucession planning<br>5.) Consider use of agency staff in the interim | Mar-24 | This risk has been kept at amber. The team is small therefore long term sickness, retirements affect in the short term performance and turn around times .<br>1.) Monthly client meetings now take place between Heywoods and Pensions Team to ensure services issues are resolved<br>2.) Recruitment of permanent staff ito take place as soon as staff depart.<br>3.) Staff attend LGA organised training. This is not restricted to senior staff. Attendance is tailored to officers areas of work.<br>4.) As and when required, in house training is delivered during team meetings, regulatory changes are discussed during monthly team meetins and fund actuary is engaged to provide additional training as required. For example Annual Allowance.<br>5.) Pension admin tasks are now predominantly on workflows embedded in the altair system to ensure uniformity of process and reducing errors, |
| G3 | Appropriate objectives are not agreed or monitored - internal factors | Policies not in place or not being monitored | Moderate | Possible | | 1- Range of policies in place and all reviewed regularly (work in progress)<br>2 - Review of policy dates included in business plan<br>3 - Monitoring of all objectives at least annually (work in progress)<br>4 - Policies stipulate how monitoring is carried out and frequency<br>5 - Business plan in place and regularly monitored<br>6 - PC has approved a mission statement which summarises the overarching objectives of the Fund | Insignificant | Rare | | 1- Ensure objectives agreed for each policy (MA)<br>2- Ensure all policies are finalised, approved and regularly reviewed (MA)<br>3.) Procure governance review every 3 years<br>4 .) Fund compliance against TPR Code of Practice to be undertaken every 3 years or when Code is updated<br>5.) Review remidiation plan every 2/3 years to ensure continous improvement program | Quarterly | All key policies now in place (administrative strategy, breaches policy, Governance Compliance, IDRP, Investment Strategy Statement, Communications Policy, Cyber Risk Policy, Data Protection and 3 year rolling Buisness Plan. Maintain 3 year rolling work plan for team which includes all key duties |
| G4 | Inappropriate or no decisions are made | Governance (particularly at PC) is poor including due to:<br>- turnover of PC members<br>- lack of knowledge and appropriate skills at PC<br>- failure to take appropriate advice<br>- poor engagement /preparation / commitment<br>- poor oversight / lack of officer skills & knowledge<br>- PC members have undisclosed Conflicts of Interest<br>- PC decision making process is too rigid | Minor | Unlikely | | 1 - Renewed Officer focus on decision-making / governance including considering structure, behaviour and knowledge<br>2 - Oversight by Local Pension Board<br>3 - Training Policy, Plan and monitoring in place for PC and PB members. Training needs analysis undertaken annually<br>4 - Range of professional advisors covering Fund responsibilities guiding the PC, PB and officers in their responsibilities<br>5 - Induction training in place for new PC members covering CIPFA Knowledge and Skills requirements and TPR toolkit<br>6 - Training / improvement plans in place for all officers as part of the Council's performance appraisal programme<br>7 - Declaration of conflict of interest is standing item on agenda. PC members required to complete annual declaration of interest<br>8 - Process exists to allow urgent decisions outside of PC meetings<br>9. - PC flexible to arranging of additional training in relation to key matters<br>10. PC and PB signed up to the Hymans online knowledge portal. | Minor | Unlikely | | 1.) - Revise and update Conflicts of Interest Policy (MA)<br>'2.) - Monitor Board and Pensions Committee participation in Hymans online training.<br>3.) Update PC and PB training plan with regulatory changes from CIPFA, TPR or SAB as and when.<br>4.) Arrange additional training as required (scheme actuary, investment adviser, investment managers or officer) 5.) Monitor use of Hymans online knowledge portal | Quarterly | 1.) Declaration of interest now standing meeting agenda item - completed.<br>2.) 'Hymans bitesize online training for PC and PB<br>3.) Fund Investment adviser and fund actuary provide additonal training as required.<br>4.) Fund managers provide additional training as required |
| G5 | Material misstatement of accounts and potentially a qualified audit opinion | Poor internal monitoring and reconciliation process leads to incorrect financing / assets recorded in the Statement of Accounts | Major | Possible | | 1 - Qualified Accountant produces accounts using most recent SORP, Accounting Code of Practice, Disclosure Checklist and other relevant CIPFA training materials/publications. Attendance at Pensions Officers Group Meetings<br>2 - Draft Statement of Accounts and working papers reviewed by the Head of Pensions & Treasury and the Chief Accountant.<br>3 - Reconciliation undertaken between the book cost and market values to the custodians book of records received quarterly. Further reconciliation undertaken between the custodian and investment managers' records.<br>4 - A checklist of all daily, weekly, monthly and quarterly reconciliations is maintained. Full reconciliation and interim accounts are prepared on a quarterly basis.<br>5 - All reconciliaitons are independently reviewed and signed off by a second officer.<br>6 - All adjustments (including unrealised profits) posted into the general ledger so that accounts can be reported created directly from agresso. | Moderate | Rare | | 1) - Consider controls and whether further actions are required (MA)<br>2.) Head of Pensions & Treasury reviews all reconciliations (transfer in, transfer out, refunds, benefit paid, lump sum, death benefits and pensions paid) | Sep-23 | Deloitte auditors have commenced review of the 2016 and 2019 membership data used by Hymans to calculate the pension fund liablities and funding level. This may result in a qualification of the 2018/19 and 2019/20 pension fund accounts. |
| G6 | Failure to comply with TPR Cyber requirements for Pension Schemes | Confidential and personal member information is put at risk. Potential breach Of the Data Protection Act 2018. A breach of Corporate IT systems may lead to a failure of the pensions administration system and / or a breach of Data Protection regulations | Moderate | Possible | | Council's policies on cyber protection and data protection apply to the Fund. Membership database is locally hosted and subject to the Council's wider cyber security protections including off side back ups. Computers are password protected, Access to sensitive data pool is limited to restricted number of staff, All staff complete corporate mandatory training on data protection and cyber crime. Sharing of password is prohibited. Pension staff are prohibited from amending their own records. System reports are set up to exclude the record of the member of staff running the report. Only one senior members of the team can overide | Moderate | Rare | | Assess Fund against Draft TPR Code of Practice. Risk cannot be completely eliminated . 2.) Complete LGPS Cyber Score card 3.) Provide cyber risk assessment to Board every 2 years | Sep-24 | Comments on cyber score card received from Heywoods, |
| G7 | Failure to secure and manage personal data in line with GDPR requirements | Cyber attacks may lead to loss or compromise of data. Leading to Audit critism, legal challenge, reputational risks and financial penalties | Moderate | Possible | | 1.) Annual Information governance for staff<br>2.) Policies and procedures in place and reviwed regularly (Breaches, Data Protection, Systems Access and Retention Schedule) 3.) Secure physical storage measures 4.) Admin system providers implement range of protections against cyber threats including encryption, firewalls, annual 3rd party penetration testing etc. 5.) Use of actuary's portal to send data for calculations<br>6.) Actuary implement range of protection against cyber crime | Moderate | Possible | | 1.) On going monitoring. Ensure completion of cyber score card by LBTH IT officers.<br>2.) Arrange for Local Pensions Board to receive assurance presentation by Divisional Director IT.<br>3.) LGA suggested GDPR policies issued to employers | Dec-23 | Scheme version of LGA GDPR policies and templates submitted to Committee for approval and issued to employers in March 2022. Copy published on website. Employer GDPR templates issued to all employers and available on website. Staff awareness. All staff required to complete mandatory corporate training. |

**Funding & Investment Risks (includes accounting and audit)**

| Risk no: | Risk Overview (this will happen) | Risk Description (if this happens) | Current impact (see key) | Current likelihood (see key) | Current Risk Status | Internal controls in place | Target Impact (see key) | Target Likelihood (see key) | Target Risk Status | Further Action and Owner | Indicative Time Frame | Comments and update June 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FI 1 | Investment and/or funding objectives and/or strategies are inappropriate, inconsistent or otherwise no longer fit for purpose such that asset values fall/liabilities rise and funding levels fall and/or employer costs rise unexpectedly | Investment and funding strategies are considered in isolation or without proper advice or without considering legislative changes such as LGPS regulations (e.g. asset pooling), external factors (e.g. McCloud) and other funding and investment related requirements | Catastrophic | Unlikely | | 1 - ISS / FSS are set in line with legislation /guidance, approved by PC, reviewed regularly and contain links to each other<br>2 - Close liaison between the Fund's actuary and strategic investment adviser<br>3 - Fund commissions stochastic modelling from the actuary to test the likelihood of success of achieving required returns<br>4 - The Fund uses Strategic Investment consultant, but has also engaged an independent adviser to challenge/confirm investment/investment strategy decisions<br>5 - The Investment Consultant / Independent Adviser along with officers have regular meetings to review the investment strategy and present options to the Committee for approval.<br>6 - The Fund subscribes to a number of organisations that assist officers to keep abreast of development / changes to the LGPS which may affect funding | Minor | Unlikely | | 1 - Ensure strategies reviewed in response to external changes (MA) | Quarterly | The Pensions Committee is currently undertaking a full investment strategy review a number of additional training sessions have been in place. |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FI 2 | Investment targets are not achieved therefore materially reducing solvency / increasing contributions | -Markets perform below actuarial assumptions<br>- Fund managers and/or in-house investments don't meet their targets<br>- Market opportunities are not identified and/or implemented. | Moderate | Possible | | 1 - Use of a diversified portfolio (regularly monitored)<br>2 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the PC<br>3 - On going monitoring of appointed managers (including in house investments) managed through regular updates and meetings with key personnel<br>4 - Officers regularly meet with Fund Managers, attend seminars and conferences to continually gain knowledge of Investment opportunities available<br>5 - Consideration / understanding of potential Brexit implications<br>6 - Equity Protection and Currency Hedging Strategy in place to protect equity gains and potentially reduce volatility of contributions. | Moderate | Possible | | 1 - Consider whether any actions set out in this point are not currently done, and consider implementing (MA) | Quarterly | This risk cannot be completely eliminated however by diversify and monitoring the Pensions Committee reduces the risk of occurrence. Funding level at 21 June 2023 is 155% with a 92% probability of achieving this result. |
| FI 3 | Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions | Market expectations for inflation and gilt yields can change in a manner which has a significant adverse impact on the funding ratio. There is a risk that an increase in expectations for inflation is not accompanied by a corresponding increase in gilt yields which could impact employer contribution rates payable to the Fund. | Major | Likely | | 1 - Use of a diversified portfolio which is regularly monitored.<br>2 - Monthly monitoring of funding and hedge ratio position versus targets.<br>3 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the PC.<br>4 - Consideration / understanding of potential Brexit implications.<br>5. Investment strategy reviews held every three years or earlier consider inflation risks and protection from different asset classes. Index linked gilts provide some protection. Some other assets have inflation linkage e.g. property, UK Housing, Renewable Energy fund<br>6. Fund Actuary consulted when making strategic investment changes involving asset allocations 7. Actuarial valuation uses discount rate linked to inflation to reduce short-term volatility of funding level and employer contributions. | Moderate | Possible | | 1 - Consider whether any controls set out in this point are not currently done, and consider implementing (MA)<br>2. Pensions Committee receives periodic funding update from scheme actuary<br>3. Independent Adviser provides updates on inflation<br>4.) Pensions Committee reviewing various inflation inked asset classes. | Quarterly monitoring | the Committee received funding update at 21 June 2023 in September. Estimated funding level was 155% |
| *FI 4* | Investment Strategy fails to deliver appropriate returns | Long-term Investment Strategy issues caused by:<br>- Responsible Investment (including Climate Change) is not properly considered<br>- Actual asset allocations move away from strategic benchmark<br>- Relevant information relating to investments is not communicated to the PC<br>- The risks associated with the Fund's assets are not fully understood resulting in taking either too much or too little risk | Major | Possible | | 1. Fund has in place Responsible Investment (RI) Strategy<br>2. RI Policy has Strategic RI Priorities<br>3. London CIV has RI policy in place<br>4. Asset Allocations formally reviewed as part of quarterly report to PC and necessary action taken to correct inbalance<br>5 - PC receives formal quarterly reports on both the overall performance of the Fund and individual investment managers<br>6 - Full Investment Strategy review undertaken by Investment Consultant after triennial valuation with Annual/Ad-hoc Strategy reviews undertaken in intervening years to ensure the Strategy is still appropriate to achieve long term funding objectives 7- PC sign up to TCFD<br>8 - PC set net zero carbon targets | Moderate | Possible | | 1 - Consider whether any controls set out in this point are not currently done, and consider implementing (MA) 2- Pensions Committee is currently working on adopting TCFD accrediitaiton and reporting | On going monitoring. Risk cannot be completely eliminated | 1.) London CIV RI Policy completed May 21<br>2.) Tower Hamlets Pension Fund RI Policy approved by Committee and reviewed annual as aprt of ISS review.<br>3.) Committee to approve 2022/23 TCFD report while 2023/24 TCFD report will comence June 2024.<br>4.) Net zero target of 2040 was set by Pensions Committee November 2020<br>5.) Full Investment Strategy Review March 24 |
| FI 5 | Failure of London CIV and investment managers to meet adequate performance levels resulting in reduced financial returns | Issues with the London CIV including:<br>- The manager selection strategy and process adopted by London CIV through fund manager appointments may be inadequate<br>- Asset pooling restricts Fund's ability to fully implement a desired mandate<br>- Asset Pool may not possess required inhouse skill to manage new asset classes like Renewable Infrastructure fund coinvestments<br>- Failure of Asset Pool to appoint best in class investment managers | Major | Likely | | 1 - The Fund is a founding member of London CIV and is an active participant at all levels (Executive and Officer) of London CIV.<br>2 - Specifically, the Fund has representation at the Investment Advisory Committee and Officer's business meetings where strategies and fund manager appointments that align with the Fund's investment strategy are promoted.<br>3 - The London CIV will have as wide a range of mandates as possible and also that there will be a choice of manager for each mandate/asset class. However, because the CIV has to reach consensus among its 32 members, there is a risk that the full complement of mandates in the Fund may not be replicated by London CIV.<br>4- The London CIV is planning to appoint investment managers to all asset classes that the Fund is currently invested in.<br>5 - Fund will be able to retain mandates not currently appointed to by the London CIV and may invest in other pools if they have a desired mandate<br>6 - Fund to continue close monitoring of Renewable Energy Fund and pressue the LCIV to take advice before coinvestmet are made. | Moderate | Possible | | 1 - Keep abreast of asset pooling developments generally and London CIV issues specifically, and ensure the Fund is well placed to act accordingly (MA)<br>2 - Pensions Committee to promptly write to LCIV raising any concerns and continue close monitoring | Mar-24 | 1.) Continued close monitoring. 2.) Interim Head of Pensions & Treasury mets with LCIV CEO on a bi-monthly basis 3.) Interim Head of Pensions and Treasury meets with LCIV Client Team and other managers on a quarterly basis to discuss performance, ESG, Voting and any matters as approriate |
| FI 6 | Value of liabilities/contributions change due to demographics being out of line with assumptions | Employer related assumptions (early retirements, pay increases, 50:50 take up), life expectancy and other demographic assumptions are out of line with assumptions | Moderate | Unlikely | | 1 - Regular monitoring of actual membership experience carried out by the Fund.<br>2 - Actuarial valuation assumptions based on evidential analysis and discussions with the Fund/employers.<br>3 - Ensure employers made aware of the financial consequences of their decisions<br>4 - In the case of early retirements, employers pay capital sums to fund the costs for non-ill health cases.<br>5 - Employer monitoring project commissioned with Hymans to review employers close to cessation. | Moderate | Unlikely | | 1 - Consider whether any controls set out in this point are not currently done, and consider implementing (MA) | Mar-25 | The Fund subscribes to Hymans Club Vitae for demograhic monitoring |
| FI 7 | Insufficient cash to pay benefits as they fall due, resulting in disinvestment at depressed asset prices | Increases in benefit outflow, including new retirements, or inadequate monitoring, or reductions in contributions not anticipated/expected and/or investment income is less than expected | Minor | Rare | | 1 - Annual cashflow monitoring undertaken and utilised to inform Investment Strategy to ensure that Fund is always able to meet liabilities as they fall due<br>2 - Ensuring all payments due are received on time including employer contributions (to avoid breaching Regulations)<br>3 - Employer contribution payments monitored on a monthly basis; including a full reconciliation between expected and actual<br>4 - Late payers are identified and reported to the PC as part of quarterly pensions administration report.<br>5 - Holding sufficient liquid assets as part of agreed cashflow management policy<br>6 - Monitor cashflow requirements<br>7 - Treasury management policy is documented | Minor | Rare | | 1 - Consider whether any controls set out in this point are not currently done, and consider implementing (MA)<br>2.) - CThe Fund has around £21m operational cash this has meant that the £20m cash from Schroders equity protection proceeds agreed by Committee is yet to be drawn | Monthly review. | Pensions Committee agreed £20m cash to cover operational cash short falls in 2021 and 2022. The Committee received 2023/24 cash flow for the period 2023/24 to 2025/26 |
| FI 8 | McCloud Judgement | Implementation of the proposed remedy following new pension legislation and scheme specific regulations for tje removal of age discrimination from the LGPS due to the McCloud judgement. Pension Fund officers unable to adequately comply with legislatiive and regulatory amendments arising from the proposed McCloud remedy due to employers inability to provide historic data required. There is a key risk that employers will not respond when contacted or employers will not have the required information due to GDPR rules which require finance data to be destroyed after 6 years or some employers may have changed payroll provider. DLUHC has produced the proposed remedy and th intention to introducelegislation to the statute books from 1 April 2023 but applied retrospectively to 31 March 2012 and 31 March 2014. | Moderate | Possible | | 1.) Adjustments were made to the 2019 valuation to account for any possible McCloud impact<br>2.) Quarterly update to Pensions Committee and Pensions Board<br>3.) Officers to commence with McCloud project implementation<br>4.) On 4 February 2021 HM Treasury published its response to the consultation and sets out its preferred remedy choice. DLUCHC have produced a document that gives general details as to how the remedy proposal would work for the LGPS. Further legislative changes are required before the reemdy can be implemented, however due to the complexity of the proposed remedy pension administrators and pension systems providers have commenced development of systems and processes based on current understandings to enable the remedy to be implemented<br>5.) Employers have been notified of need to keep historic data<br>6.) Pensions Funds will need to understand what the impact of the remedy means, develop processes and calculations to apply the regulations or the amended schemes. | Moderate | Possible | | 1.) - Continous monitoring in intervaluation updates (MA)<br>2.) - Set up McCloud project set up and updates reported to Pensions Board and Committee quarterly<br>3.) - communications with scheme members and employers.commenced<br>4.) Possible inability to extract historic payroll data for affected scheme members remains a problem. Offiers are working with LBTH payroll and other employers.<br>5.) Employer change of payroll provider and failure of employer to keep historic data 6.) Engage Heywood to undertake initial collection and bulk upload of scheme member data required from scheme employers.<br>7.) Officers should keep up to date of all relevant correspondence issued by DLUHC, LGA & HMRC and keep upt to date with buletting and guidance from the Home Office as well as regularly attend webinars, forums and seminars. | Feb-24 | McCloud implementation service procured from Heywood. Officers working along side Heywood to collect and identify impacted members. Although communication issued to employers in August 21 informing them of need to keep historic data of employees has not been very sucessful, officers are considering other means of escalating and obtaining histori data. Employers will be contacted for the 3rd time in November 2023. Website updated with Member communication received from LGA. |
| FI 9 | Climate Change Impact. Climate change risk can be grouped into two categories - Physical risks arising from changes in weather that impact on the economy and Transition risks arising from the transition to a low carbon economy. | Studies and evidence shows that Climate Change has the potential to materially impact financial returns based on current studies as well as societal and economic shifts towards a low-carbon future. Significant fall in equity valuations as a result of climate-related transition risk. | Moderate | Possible | | Annual monitoring of Fund carbon footprint by Pensions Committee. Pensions Committee sign up to net zero carbon by 2040 in November 2021, Changes to investment strategy to reduce climate change risk. Annual TCFD disclosures. Well diversified equity strategic asset allocation. The LGIM Low Carbon mandate Hedged and unhedged, LCIV (BG) Paris Aligned fund and LCIV (RBC) Sustainable equity fund all incorporates ESG tilt, reduced carbon foot print, Paris Aligned principles and engagement on climate matters as applicable. | Moderate | Possible | | increased monitoring of climate change risk, increased manager monitoring of climate change risk, Pensions Committee prepared TCFD report and Pensions Committee considering Decarbonisation target analysis as well as Net Zero strategy. | on going monitoring | Fund to continue reporting in line with Taskforce on Climated related Financial Disclosures (TCFD) and incorporate draft metrices included in the consultation paper. The aim is to improve assessment, management and disclosures of both climate-related financial risks and opportunities. Pensions Committee will be advised when the regulations and related guidance is releases and Committee will be informed as to how the Fund plans to meet any new requirements in addition to what is currently measured. |

**Administration & Communication Risks**

| Risk no: | Risk Overview (this will happen) | Risk Description (if this happens) | Current impact (see key) | Current likelihood (see key) | Current Risk Status | Internal controls in place | Target Impact (see key) | Target Likelihood (see key) | Target Risk Status | Further Action and Owner | Indicative Time Frame | Comments and updated June 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| AG 1 | Unable to meet legal and performance expectations due to external factors | Big changes in employer or scheme member numbers or unexpected work increases (e.g. regulation changes such as increase in transfers out due to new pension freedoms) | Major | Possible | | 1 - Ongoing reporting to management/PC/PB to quickly identify issues (For example on transfers - Monitor numbers and values of transfers out being processed and report regularly)<br>2 - External consultants available to assist if required<br>3 - Recruitment to new posts | Minor | Unlikely | | 1 - Ongoing consideration of resource levels post recruitment of new posts (MA)<br>2 - Ongoing consideration of likely national changes and impact on resource (MA) | Quarterly | This risk remains a possibility due to regulatory changes however officer will mitigate by procuring external consultancy expertise. Autoenrolment and subsequent opt out of hundreds of council employees has impacted the team's ability to process routine tasks while focusing on opt out form processing. |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| AG2 | High administration costs and/or errors (including rectification costs and IDRP costs or fraud) and reputational damage if Ombudsman rules against the Fund | Systems or are not kept up to date or not utilised appropriately, or complaints are not dealt with appropriately or other processes inefficient | Major | Likely | | 1- Business plan has number of forthcoming improvements (I-connect/MSS etc)<br>2 - Use of Altair which is a nationally recognised software with plentiful guidance / support<br>3 - Ongoing training on how to use systems within the Administration team<br>4- Fund has (PC approved) Internal Dispute Resolution Policy (IDRP)<br>5 - Robust checks / adherence with best practice including undertaking regular reconciliation of payments | Minor | Unlikely | | 1 - iconnect fully roll out to all employersm. 2.) MSS also rolled out although take up yet to attain 50%<br>3 - Assessment of Team skills / capabilities, training and reconciliations | Quarterly monitoring | Various reconciliations are now in place - retirements, lumpsums, refunds, opt out, early retirement, deaths, payroll and investments are in place. Controls are put in place to eliminate errors or issues identified. Reconciliations are reviewed monthly or quarterly while tasksz, cases and memos outstanding are reviewed forthnightly. |
| AG 3 | Scheme members do not understand or appreciate their benefits and cannot make informed decisions | Newsletters and letters are inaccurate, poorly drafted, overly complicated, irrelevant, too technical or insufficient in some other manner | Moderate | Unlikely | | 1 - Communications Strategy reviewed and updated<br>2 - Members provided with explanatory notes and guidance and given access to further pension support<br>3 - Website provides information on the Scheme and on Members' benefits<br>4 - Member self service to be launched in 2020 | Insignificant | Unlikely | | 1 - Implementation of member self service to progress to deferred members (MA)<br>2 - Ensure all communication and literature is up to date / relevant (MA)<br>3 - Revise / update Admin / Comms Strategies every 3 years or as required (MA)<br>4 - Consider annual communications survey (MA) | on going monitoring | Communication with scheme members continue to improve. Employers forum is scheduled annually, Members who require pensions savings statement receive statements annually, Memberself service roll out continues although take up has been low. Fund website now up and scope to include pensioner members on MSS explored with software provider. |
| AG 4 | Service provision is interrupted or incorrect benefits paid and/or records are lost, including data breaches | System failure or unavailability, including as a result of cybercrime or fraud / misappropriation by officers | Major | Rare | | 1 - Disaster recovery plan in place and allows the pension administration system to be run from an alternative site<br>2 - Altair administration system is subject to daily software backups and off-site duplication of records<br>3 - Pensioner payroll system is subject to daily software backups and off-site duplication of records<br>4 - Robust checks / adherence with best practice including undertaking regular reconciliation of payments<br>5 - Internal Audit plan includes dedicated hours for review of internal controls in relation to the management and accounting of the Pension Fund. The plan is designed on a risk basis, so that areas of high risk will be subject to more frequent internal audits<br>6 - Recommendations from internal audits of processes and controls are implemented in a timely manner | Moderate | Rare | | 1 - Ongoing checks relating to suitability of disaster recovery plan (MA)<br>2 - Review of cybercrime risk controls (MA)<br>3. continous monitoring of business continuity plans for pensions | Mar-24 | Cyber risk introduced. Fund provided with details of Heywood's own disaster recovery, business continuity plans mainatained. Officers can access Heywood cloud while working from home in the even of council's systems being temporarily down. Heywood system also has functionality to store forms and records in cloud |
| AG 5 | Guaranteed Minimum Pension (GMP) reconciliation. In accurate record keeping | From 6 April 2016 changes to the State Pension Scheme remove the contracting-out nature of the LGPS. GMP's no longer provided by HMRC. GMP information held by Fund could be wrong resulting in potential for liabilities being paid by Fund. High Court ruling determination that UK defined pension schemes must compensate members for differences attributable to GMP. Impact of the potential adjustments to be made to members' pensions as a result of the GMP reconciliation exercise. | Major | Likely | | 1.) Establish internal controls<br>2.) resolve contract with ITM.<br>3.) Identify terms of LBTH IT procurement of GMP reconciliation in Aquila Heywood contract<br>3.) Possible impact on pensions team resources | Minor | Unlikely | | 1 - Data analysis carried out and action taken to reconcile and adjust paid pension paid to retired members.<br>2. to review GMP amounts allocated to active and deferred members<br>3. Internal Audit | March 2024 or once impant of final legislation is know | Project resourcing to be considered in January 2024. It has been identified that not all historic pension records in altair were updated with complete GMP information as the payroll system has |
| AG 6 | Data Quality Issues | The Fund produced a remediation plan which is expected to put in place improvements for pension fund administration and governance over a 2 to 3 year period. Data quality is a key issue and it is necessary to nip in the bud from the onset which is at the point when the initial data is received from the employer. | Major | Likely | | 1.) Liaise with pensions admin software provider to produce annual data reviews.<br>2.) Set initial targets which are acheivable then raise with time.<br>3.) Upload member data to actuary data portal to identify errors annally | Minor | Unlikely | | 1 - Take steps to address issues with employers directly<br>2. Escalate to senior officers for each employer.<br>3. Report to internal audit and Pensions Regulator as last resort 4. Liaise with actuary and action data quality report recommendations issued during triennial valuations | Mar-24 | A review of current status report scheduled for March 2024 |
| AG 7 | Scam detection and Prevention | There is a risk that a Scheme Member could be the victim of fraud. This could be caused by the Scheme Member being exploited into transferring their pension from the LGPS to a bogus or unsuitable pension scheme. This could result in the Scheme Member losing their pension or being at financial loss. This could also result in the Regulator finding against the Fund and requiring it to make good the losses experienced by the Scheme Member. | Minor | Unlikely | | The Fund complies with the Code of Good Practice and the Pensions Regulator's guidance and check list. Pension officer notify team leaders and managers if transfer is to a scheme which is perceived as a "scam". Scheme members are required to sign against the TPR check list to ensure they are aware and have taken adequate financial advice. Companies House, HMRC and FCA register is checked to ensure legitimacy. | Minor | Unlikely | | Electronic news letters to scheme members via MSS to continue to make members aware of pension scam awareness and cyber security risks | On going monitoring | |
| AG 8 | Financial Irregularity | There is a risk of unintentional overpayments. Failure to address financial<br>irregularity may result in a<br>financial loss to the Fund and<br>scheme employers, as well as<br>reputational damage to the<br>Council | Minor | Unlikely | | Unintentional overpayments – The NFI activity may identify overpayments where no fraudulent activity has arisen, but a benefactor has unintentionally benefited from the Fund, e.g. payments continuing to be made to a widow(er) following the death of their partner. In such instances, officers act compassionately whilst still protecting the assets of the Fund. | Minor | Unlikely | | Reconciliation of scheme data (pensioners and deferred members) against NFI is procured half yearly. | Quarterly | Note: cases do not necessarily constitute a fraud, but do represent areas where there is a discrepancy between the Fund's information and data from the government agencies. Half yearly comparison eliminates risks of over payment. NFI data matching costs is met by the Fund. Overpayment policy |
| AG9 | Delay in Transfer in processing time | Timely processing of Transfer in cases is reliant on members previous pension scheme/Fund providing transfer quote or payments prompty. | Moderate | Possible | | Pension Officer case review meetings itentifies transfer in cases which require escalation. Officers send 2 remainder letters to schemes in question and notify member of delay | Moderate | Possible | | Escalation process involves notifyiny member of delay experienced by fund. Remainder letter to schemes include deadlines to respond | Quarterly | Fund officers continue to send remainders to other LGPS Funds and pension schemes to ensure replies are received promptly. Consider escalating if necessary. Pensions overpayment policy presented to committee in September 2023. Dedicated reconciliation officer. |

**Employer Risk**

| Risk no: | Risk Overview (this will happen) | Risk Description (if this happens) | Current impact (see key) | Current likelihood (see key) | Current Risk Status | Internal controls in place | Target Impact (see key) | Target Likelihood (see key) | Target Risk Status | Further Action and Owner | Indicative Time Frame | Comments and update June 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ER 1 | Inability to meet legal and performance expectations (including inaccuracies and delays and potential legal breaches) due to lack of or poor quality data from the council and other employers. | Employers:<br>-don't understand or meet their responsibilities<br>-don't allocate sufficient resources to pension matters<br>- don't engage with the Administering Authority<br>- the council is the main employer in the scheme and accounts for over 85% of income to the pension fund. Payroll reports and data information received from the council do not agree to amounts paid to the scheme. | Major | Likely | | 1 - Administration strategy updated and consulted upon<br>2 - Communications Strategy (to be reviewed) sets out how Fund will engage with all Stakeholders<br>3 - Ensure information communicated to Employers is clear, concise and relevant<br>4 - Where available use standard templates/information from the LGPS employers association<br>5 - Provide training to employers that is specific to their roles and responsibilities in the LGPS<br>6 - Employer access to the i-Connect portal (roll-out in progress), and forms available on website<br>7 - Employers can access specialist support from Fund Officers<br>8 - Engage with relevant council team on employee data quality | Moderate | Possible | | 1 - Continue to work with identified employer to ensure issues are resolved<br>2 - Revise / update Admin / Comms Strategies<br>3 - Identify other employer data issues and engage with employers on these<br>4. Update Board on progress with LBTH payroll | Mar-24 | Although progress has been made, data remains an issue with council |
| ER 2 | Failure to provide an Annual Benefit Statement to 100% of active members due to incorrect data provided by employers in the scheme | Historic issues around data provision by council and other employers in the scheme remain. Where scheme employers are unable to provide correct and timely data on their employees this hasa direct impact on the Fund's ability to provide correct Annual Benefit Statements to all its scheme members especially active members. Incorrect salary data means pension estimates are also incorrect when provided to members. | Moderate | Possible | | 1.) Establish data portal for employers to upload data<br>2.) Enforce data submission by employers<br>3.) Review and identify data errors within days of employer upload 4.) Contact employers immediately to rectify data errors on portal<br>5.) Provide training to employers on how to use data portal and recognising data errors<br>6.) Reconcile monthly contributions paid by employers against data uploaded to portal and contact employers within reasonable time frame<br>7.) Ensure employers provide end of year payroll reports. | Minor | Unlikely | | 1 - Take steps to address issues with employers directly<br>2. Escalate to senior officers for each employer.<br>3. Report to internal audit and Pensions Regulator as last resort. All employers apart from LBTH council, East End Homes, Tower Hamlets Homes, Mulberry Academy, ITRES and Cayley.<br>4.) Reconciliations of payroll spreadsheet compared with payroll data extraction report shows employees with differences in employer and employee contributions. Continue to liaise with LBTH payroll to resolve. | Sep-24 | Review date September 2024 in line with ABS deadlines. All statements off to print before statutory deadlines. The working group for payroll continues. Concersn around data will be raised at this group |
| ER 3 | Employer unable to pay cessation deficits leading to other employers becoming liable for such deficits | Employer ceasing to exist or otherwise exiting (e.g. when contract ends) with insufficient funding (bond or guarantee). | Moderate | Unlikely | | 1 - Employer monitoring database developed and updated quarterly to capture key metrics that drive an employers' liabilities and status within the Fund.<br>2 - Contract dates for admitted bodies are monitored, so that officers are aware and able to identify employers that are due to leave the Scheme.<br>3 - Fund Actuary is notified of the need to calculate a cessation valuation 3 months before an employer is due to leave the Fund.<br>4 - Admission agreements policy requires a guarantee or bond.<br>5 - Fund Actuary undertakes periodic review of employer profiles which are factored into employer contribution rates. | Minor | Unlikely | | 1 - Consider whether any controls set out in this point are not currently done, and consider implementing (MA) | Mar-24 | 1.) Periodic review of employer financial standing<br>2.) Update FSS as and when necessary |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ER 4 | Employer contributions are insufficient and/or inappropriate relative to the employer's risk profile, potentially leading to other employers having to meet their liabilities | - Funding and/or investment strategy doesn't take into account changes to employer risk characteristics or the strength of employers' covenant.<br>- Employer contributions not in line with Rates and Adjustments Certificate from actuarial valuation<br>- Fund fails to recover other Employer income adding to the deficit. | Major | Unlikely | | 1 - Ensuring appropriately prudent assumptions on ongoing basis<br>2 - Employer covenant analyses undertaken by the actuary, along with employer profiling to help understand employer specifics. This is carried out on admission and periodically and the actuary uses this information when contribution rates are being set triennially.<br>3 - Employer monitoring database developed / updated quarterly to capture key metrics that drive an employer's liabilities.<br>4 - Regular profiling of employers' characteristics to ensure that assumptions are still relevant and the FSS is fit for purpose.<br>5 - Employer contribution payment is monitored against expected payment quarterly and late payers reported to PC.<br>6 - All employer expenditure incurred by the fund is recharged to the relevant employer via itemised invoices. All income recoverable is itemised in the custodian reports.<br>7 - Recovery / timing of invoices is regularly monitored.<br>8 - Actuarial / Investment advice provided by qualified professionals and subject to peer review to ensure that it is fit for purpose. | Moderate | Unlikely | | 1 - Ensure employer covenant monitoring remains fit for purpose (MA)<br>2 - Consider whether any controls set out in this point are not currently done, and consider implementing (MA) | Mar-25 | | Risk was evaluated during 2022 valuation. Housing Association employer risk profile increased by actuary due to reduced active membership numbers |
| ER 5 | McCloud | Inability of scheme employers to provide required data | Major | Likely | | Perfrom data review exercise in bulk and individually to identify scheme members who may qualify and / or identify missing data | Moderate | Possible | | 1.) Software provider currently developing calculations and recalculations of deferred benefits and those already in receipt of pension to identify incorrect values and any over/underpayments. 2.) The ABS will need to be amended following implementation of the amended remedy regulations as it is anticipated McCloud data will be included for each scheme member.<br>3.) ABS contain a statement on McCloud provided by the LGA.<br>4.) Changes by software provider should include bulk calculations and calculations for individuals, include revised pension amounts, arrears payable/collectible (benefits and contributions) plus interest payable if applicable. | Dec-23 | | |

**SUMMARY**

| Non-Executive Report of the:<br><br>**Pensions Committee**<br><br>Monday, 11 December 2023 | TOWER HAMLETS |
|---|---|
| **Report of:** Julie Lorraine Corporate Director, Resources | **Classification:**<br>unrestricted |
| **Pensions Administration and LGPS Quarterly Update – September 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 appendices;
2. Note insourcing of Tower Hamlet Homes;
3. Note academy conversions in the pipeline.

## 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 September 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. Table 1A below shows membership number at the end of the quarter.

Table 1A: Membership number on 30 September 2023

| Membership Numbers | Active | Deferred | Undecided | Pensioner | Frozen |
|---|---|---|---|---|---|
| LGPS | 7,924 | 8,430 | 167 | 7,229 | 3,163 |
| % of Membership | 29.44 | 31.32 | 0.62 | 26.86 | 11.75 |
| Change from last quarter | 149 | 31 | 3 | 26 | 148 |

Table1B: Quarterly change in membership numbers

| **Membership Category** | **At 30/06/23** | **+/- Change (%)** | **At 30/09/2023** |
|---|---|---|---|
| **Active** | 7,775 | 1.9 | 7,924 |
| **Deferred** | 8,399 | 0.4 | 8,430 |
| **Undecided** | 164 | 1.8 | 167 |
| **Pensioner (incl spouse & dependant members)** | 7,203 | 0.4 | 7,229 |
| **Frozen** | 3,015 | 4.9 | 3,163 |
| **Total** | **26,556** | **0.7** | **26,913** |

3.2 During the quarter opt outs and frozen refunds processed led to adjustments to previous quarter results reported in September 2023.

3.3 Table 2 below shows tasks completed and outstanding during the quarter. A proportion of transfer in outstanding cases relate to instances where the team awaits responses from scheme members or various pension schemes to respond to options, we have already sent them. For example, new employees deciding whether they wish to transfer in benefits from another pension arrangement. As a result, we are unable to take any further action until the member or pension scheme responds.

Table 2: Tasks completed and Outstanding during the quarter

| | | Jul-23 | | | | Aug-23 | | | | Sep-23 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Cases at Start | New Cases | Cases Processed | Cases Outstanding | Cases at Start | New Cases | Cases Processed | Cases Outstanding | Cases at Start | New Cases | Cases Processed | Cases outstanding |
| **Retirements** | **Altair Workflow** | | | | | | | | | | | | |
| Voluntary | AHEARLYA | 10 | 15 | 12 | 13 | 13 | 7 | 7 | 13 | 13 | 12 | 16 | 9 |
| Redundancy | AHREDUNA | 2 | 2 | 2 | 2 | 2 | 0 | 0 | 2 | 2 | 0 | 0 | 2 |
| Medical | AHIHRETA | 1 | 0 | 0 | 1 | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 |
| Late | AHLATERA | 6 | 2 | 4 | 4 | 4 | 1 | 2 | 3 | 6 | 6 | 7 | 2 |
| Flexible | AHFLEXRA | 1 | 2 | 2 | 1 | 1 | 0 | 1 | 0 | 0 | 1 | 1 | 0 |
| Deferred into Payment | AHDBPAYA | 24 | 16 | 24 | 16 | 16 | 17 | 11 | 22 | 22 | 26 | 23 | 25 |
| | | **44** | **37** | **44** | **37** | **37** | **25** | **22** | **40** | **43** | **45** | **47** | **41** |
| **Transfers** | | | | | | | | | | | | | |
| Transfer In - Quotes | AHTVIQ | 8 | 16 | 12 | 12 | 12 | 18 | 15 | 15 | 15 | 10 | 17 | 8 |
| Transfer Out - Quotes | AHTVOQ | 4 | 10 | 12 | 2 | 2 | 17 | 10 | 9 | 9 | 10 | 12 | 7 |
| Transfer In - Actual | IFAIN03 & TVIN03 | 13 | 9 | 13 | 9 | 9 | 11 | 13 | 7 | 7 | 10 | 8 | 9 |
| Transfer Out - Actual | IFAOUT02 & TVOUT02 | 18 | 11 | 21 | 8 | 8 | 23 | 21 | 10 | 10 | 13 | 13 | 10 |
| | | **43** | **46** | **58** | **31** | **31** | **69** | **59** | **41** | **41** | **43** | **50** | **34** |
| **Refunds** | | | | | | | | | | | | | |
| Refund Calculations | AHRFNDF | 10 | 52 | 20 | 13 | 13 | 59 | 44 | 28 | 28 | 44 | 40 | 32 |
| Refund Payments | AHRFNDA | 16 | 17 | 18 | 15 | 15 | 29 | 35 | 9 | 9 | 26 | 22 | 13 |
| | | **26** | **69** | **38** | **57** | **28** | **88** | **79** | **37** | **37** | **70** | **62** | **45** |
| **Estimates** | | | | | | | | | | | | | |
| Voluntary | AHBENEST & AHEARLYQ | 26 | 41 | 48 | 19 | 19 | 42 | 38 | 23 | 23 | 32 | 46 | 9 |
| Redundancy | AHREDUNQ | 1 | 2 | 2 | 1 | 1 | 6 | 5 | 2 | 2 | 6 | 4 | 4 |
| Medical | AHIHRETQ | 1 | 1 | 2 | 0 | 0 | 3 | 2 | 1 | 1 | 2 | 1 | 3 |
| Late | AHLATERQ | 2 | 12 | 9 | 5 | 5 | 0 | 4 | 1 | 1 | 7 | 6 | 2 |
| Flexible | AHFLEXRQ | 2 | 6 | 6 | 2 | 2 | 1 | 1 | 2 | 2 | 6 | 4 | 4 |
| Deferred into Payment | AHDBPAYQ | 24 | 11 | 26 | 9 | 9 | 18 | 22 | 5 | 5 | 25 | 22 | 8 |
| | | **56** | **73** | **93** | **36** | **36** | **70** | **72** | **34** | **34** | **78** | **83** | **29** |
| **Deferred** | | | | | | | | | | | | | |
| Deferred Calculations | AHDEFLV | 22 | 27 | 31 | 18 | 18 | 26 | 17 | 27 | 27 | 76 | 39 | 64 |
| **Opt Out** | | | | | | | | | | | | | |
| Opt Out | OPTOPRT2 | 28 | 85 | 82 | 31 | 31 | 34 | 50 | 15 | 15 | 41 | 42 | 14 |
| **New Starters** | | | | | | | | | | | | | |
| New Starters | AHNEWST | 2 | 92 | 92 | 2 | 2 | 116 | 105 | 13 | 13 | 109 | 121 | 1 |
| **Nominations** | | | | | | | | | | | | | |
| Nomination Changes | AHNOMIN | 3 | 5 | 5 | 3 | 3 | 12 | 10 | 5 | 5 | 8 | 7 | 6 |
| **Address** | | | | | | | | | | | | | |
| Address Changes | AHADDRES | 5 | 27 | 18 | 14 | 14 | 26 | 37 | 3 | 3 | 36 | 22 | 17 |
| **Bank Account** | | | | | | | | | | | | | |
| Bank Accoun Change | BANKCHGE | 11 | 7 | 9 | 9 | 9 | 5 | 2 | 12 | 12 | 5 | 4 | 13 |
| **General Enquiry** | | | | | | | | | | | | | |
| General Enquiry | AHMEMBER | 48 | 83 | 83 | 48 | 48 | 200 | 144 | 104 | 104 | 179 | 172 | 111 |
| **Deaths** | | | | | | | | | | | | | |
| Death Cases - General | AHDEATH | 87 | 70 | 75 | 82 | 82 | 30 | 18 | 94 | 94 | 31 | 39 | 86 |
| **TOTAL** | | **375** | **621** | **628** | **368** | **339** | **701** | **615** | **425** | **428** | **721** | **688** | **461** |

3.4 Table 2 above excludes a substantial number of 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.

3.5 The pensions email inbox response time lag is down to 5 days. The increase in the last 6 weeks has been due to the number of responses from pensioner members providing email addresses in response to the Council's move to online payslip app.

3.6 A dedicated agency employee cover remains assigned to the pensions inbox to ensure current turnaround times is maintained. The number of emails received via the inbox currently ranges between 60 to 80 each day due to opt out requests and pensioner member responding to requests to provide email addresses.
In the long term, the team aims to target a turnaround time of 24 to 48 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

3.7 The table 3 below shows performance against CIPFA suggested timelines between the period July to September 2023.
Due date on cases is 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.

Table 3A: Performance against CIPFA suggested timelines between the period July and September 2023.

| Task type | Altair Workflow | Target Days | July % Within Target | August % Within Target | September % Within Target |
|---|---|---|---|---|---|
| **Retirements** | | | | | |
| Voluntary | AHEARLYA | 15 | 58.33 | 42.86 | 33.33 |
| Redundancy | AHREDUNA | 15 | 100 | - | - |
| Medical | AHIHRETA | 15 | - | 0 | - |
| Late | AHLATERA | 15 | 25 | 50 | 57.14 |
| Flexible | AHFLEXRA | 15 | 50 | 100 | 100 |
| Deferred into Payment | AHDBPAYA | 15 | 43.48 | 36.36 | 43.48 |
| | | | | | |
| **Transfers** | | | | | |
| Transfer In - Quotes | AHTVIQ | 10 | 91.67 | 80 | 87.5 |
| Transfer Out - Quotes | AHTVOQ | 10 | 75 | 100 | 75 |
| Transfer In - Actual | IFAIN03 & TVIN03 | 0 | | | |
| Transfer Out - Actual | IFAOUT02 & TVOUT02 | 0 | | | |
| | | | | | |
| **Refunds** | | | | | |
| Refund Calculations | AHRFNDF | 10 | 91.67 | 73.81 | 58.33 |
| Refund Payments | AHRFNDA | 10 | 61.11 | 62.07 | 75 |
| | | | | | |
| **Estimates** | | | | | |
| Voluntary | AHBENEST & AHEARLYQ | 15 | 87.5 | 83.33 | 88.37 |
| Redundancy | AHREDUNQ | 15 | 50 | 80 | 100 |
| Medical | AHIHRETQ | 15 | 50 | 100 | 100 |
| Late | AHLATERQ | 15 | 88.89 | 50 | 83.33 |
| Flexible | AHFLEXRQ | 15 | 100 | 0 | 75 |
| Deferred into Payment | AHDBPAYQ | 15 | 100 | 73.91 | 95.45 |
| | | | | | |
| **Deferred** | | | | | |
| Deferred Calculations | AHDEFLV | 30 | 96.67 | 94.12 | 89.47 |
| | | | | | |
| **Opt Out** | | | | | |
| Opt Out | OPTOPRT2 | 2 | 79.75 | 50 | 67.57 |
| | | | | | |
| **New Starters** | | | | | |
| New Starters | AHNEWST | 40 | 100 | 100 | 100 |
| | | | | | |
| **Nominations** | | | | | |
| Nomination Changes | AHNOMIN | 10 | 80 | 70 | 42.86 |
| | | | | | |
| **Address** | | | | | |
| Address Changes | AHADDRES | 15 | 83.33 | 97.3 | 95.45 |
| | | | | | |
| **Bank Account** | | | | | |
| Bank Accoun Change | BANKCHGE | 0 | 66.67 | 100 | 75 |
| | | | | | |
| **General Enquiry** | | | | | |
| General Enquiry | AHMEMBER | 10 | 76.92 | 85.52 | 72.02 |
| | | | | | |
| **Deaths** | | | | | |
| Death Cases - General | AHDEATH | 15 | 66.2 | 61.11 | 51.28 |
| | | | | | |
| | | Average | **74.88** | **69.15** | **75.71** |

Table 3B: Performance against CIPFA targets

| 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**

3.8 Employers with active members on 30 September 2023.

Table 4: Employers with active members

| **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 Ltd (Free Schools) |
| Compass Contract Services Limited | Mulberry Academy Trust (Canon Barnet, Mulberry UTC, Mulberry School for Girls, Wood Wharf Primary, Stephney Green and Mulberry Academy Shoredich) |
| East End Homes | South Quay College (aka City Gateway) |
| Greenwich Leisure Limited | East London Arts & Music |
| Juniper Ventures Ltd | Letta Trust (Stebon and Bygrove Schools) |
| Olive Dining | Tower Hamlets Enterprise Academy Ltd (London Enterprise Academy) |
| Riverside Housing Group (One Housing) | Paradigm Trust (Culloden, Old Ford and Solebay Primary Schools) |
| Phoenix Trust – closed scheme | Sir William Burrough Academy |
| Purgo Supplies Services Ltd | University School Trust (MAT) (St Paul's Way Trust School and Cyril Jackson Primary) |
| Tower Hamlets Community Housing Limited | Tower Hamlets Homes Limited |
| Vibrance (formerly Redbridge Community Housing Limited) | The Wapping and Shadwell Secondary Education Trust (Wapping High School) |
| Wettons Cleaning Limited | |
| Nourish Catering | |

Employer Insourcing

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

New Employer Admissions

3.10 A number of schools are in the process of academy conversion:

- St Anne's and Guardian Angels Catholic Primary School.
- St Elizabeth Catholic Primary School
- Bishop Challoner Catholic Secondary School

Employer Data Quality

3.11 All employers now upload monthly payroll reports into the iconnect pension system. This has now enabled the team to commence reviewing data submitted and sending employers' error spreadsheets. The first set of error spreadsheet were issued to the Council this month. The team is also able to focus on provide employer training and follow up on late monthly return uploads.

Although there has been improvement in data quality of Council payroll employee data uploads, data extracts still include incomplete and inaccurate records each month, the payroll/pensions working group chaired by the Director of Finance Procurement and Audit meets monthly to look into payroll system issues which result in inaccurate data being provided to the pensions team. Tower Hamlets are currently working with the systems provider to resolve longstanding historic data issues that generate anomalies on a small number of records.

Online payslip for pensioners

3.12 Tower Hamlets Council launched the online payslips app for all employees, school staffs 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. Initial communication was issued to pensioners requesting for email addresses, the team is currently updating responses received. So far take up has been low.

Employer Cessation

3.13 Taylor Shaw catering contracts with Stephney Green and multi-school contract with Bow School, Central Foundation Girls Schools and Morpeth School ended in July 2023 thereby triggering a cessation.

Annual benefit Statement

3.14 Both deferred and active members received a combination of paper and electronic annual benefit statements. Members who are signed up to Member Self Service can access statements online.

Pension Savings Statement

3.15 The team are in the process of finalising the annual allowance position for members who have previously exceeded their annual allowance and for those that have been identified as part of the annual benefit statement process as requiring further investigation.

**LGPS SCHEME and LEGISLATIVE UPDATES**

SAB Issues Academy Conversion Guidance

3.16 On 19 October 2023, the SAB published guidance on academy conversions. The guidance is published in response to a recommendation in the Section 13 Report on the 2019 fund valuations, produced by GAD. The guidance explains the common actuarial approaches LGPS administering authorities use when a local authority school converts to an academy. The Scheme Actuary is being consulted in respect of this guidance.

### Knowledge and Skills Survey

3.17 The SAB Compliance and Reporting Committee issued a survey for completion by pension committee and local pension board members. The survey seeks to gather information on the experience of pension committee and local pension board members in obtaining the required knowledge and skills for their role. It builds on a survey issued earlier this year which also captured the views of officers. The data collected will not be shared on an individual or identifiable basis.

### CPI Rate

3.18 On 18 October 2023, the Office for National Statistics announced the Consumer Price Index (CPI) rate of inflation for September 2023 as 6.7 per cent. Government policy in recent years has been to base increases under the Pensions (Increase) Act 1971 and revaluation of pension accounts under section 9 of the Public Service Pensions Act 2013 on the rate of C P I in September of the previous year.

Government confirmation is awaited that confirms the revaluation and pensions increase that will apply to L G P S active pension accounts, deferred pensions and pensions in payment in April 2024 will be 6.7 per cent.

### Pensions (Extension of Automatic Enrolment) Act 2023

3.19 On 18 September 2023, the Pensions (Extension of Automatic Enrolment) Act 2023 received Royal Assent. The Act gives the UK Government the power to make regulations that will lower the minimum age for automatic enrolment from 22 to 18 and remove the lower earnings limit for contributions. The regulations will apply in England, Scotland and Wales. The UK Government is expected to shortly launch a consultation on implementing the change.

### New McCloud regulations

3.20 On 8 September 2023, the Department of Levelling Up Housing and Communities (DLUHC) announced the outcome of the consultation on McCloud issues. It also laid before Parliament, The Local Government Pension Scheme (Amendment) (No. 3) Regulations 2023, which came into force on 1 October 2023.

The LGPS Regulations 2013 are amended to include the new definition of the underpin and extend it to those groups who were previously excluded but are now in scope. Statutory guidance is expected shortly, providing funds with more information on how to implement the new underpin including advice on prioritising cases.

To qualify for underpin protection members must meet the following criteria:

• Been a member of the LGPS or another public service pension scheme (PSPS) on or before 31 March 2012 (the former PSPS benefits do not have to have been transferred to the LGPS) and,

• Provided they do not have a subsequent continuous gap in membership of a PSPS of more than 5 years and,

• Contributed to the LGPS at some point during the remedy period (1 April 2014 and 31 March 2022), or transferred in PSPS membership where the member contributed to the scheme during the remedy period and,

• Were under age 65 during some, or all, of the remedy period.

Further legislation and guidance to come – the consultation response accompanying the 2023 Amendment Regulations advised that in the period after the regulations come into force, the DLUHC will provide initial guidance on how McCloud cases should be prioritised to administrators via the LGA. DLUHC has also set up a national guidance working group which will identify topics for statutory guidance (being those where *"it is necessary to achieve a consistent approach on an important aspect of the McCloud remedy and that certainty is not already provided through the regulations*").

The consultation response also highlights that there will be further regulations in relation to the McCloud remedy to follow, to deal with some further technical issues arising in relation to non-standard cases where the underpin applies.

McCloud Update September 2023

3.21 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.

Table 5: McCloud summary milestones update

| **Tasks** | **Responsible for** |
|---|---|
| • Update meeting with Heywood **October 2023** | • LBTH/Heywood |
| • Additional resources required by Fund to focus on McCloud and related employer bottlenecks. **October 2023** | • Heywood /LBTH |
| • Escalate provision of outstanding data **Nov 2023** | • Heywood/LBTH |
| • Prepare final list of members in scope for remedy **Dec 2023** | • LBTH/Heywood |
| • Categorise in scope members into actives, transfer outs and deceased **Jan 2024** | • LBTH |
| • Publish member material received from LGA **Oct 2023** | • LBTH |
| • Receive McCloud template letters **Oct 2023** | • LBTH |

| | |
|---|---|
| • Officer training **Nov/Dec** | |
| • Receive LGPS Guidance – **Nov/Dec 2023** | • LBTH |
| • Switch on McCloud calculator in altair **Dec 2023** | • LBTH |
| • Update implementation plan **Dec 2023** | • Heywood/LBTH |
| • Tax implications for members – identify members who have paid too much or too little tax for the tax years 2019/20 to 2022/23 **Jan 2024** | • LBTH |
| • Officer training **Jan 2024** | • LBTH |
| • Officer training **Feb 2024** | • LBTH |
| • Receive Annual Benefit Statement guidance **Mar 24** | |
| **Risks** | |
| • Review time scales and targets **September 2023** | |

Member Self Service (MSS) Roll Out

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

Pensions Dashboard

3.33 The Government led “Pension Dashboard” project is intended to allow individuals to go to a single website and receive details of all the pensions they hold across UK pension providers. The original connection deadline for Public Sector schemes was 31 October 2024, but in March 2023, the Department for Work and Pensions announced delays and a reset of the programme as part of refreshing its delivery plan for a new connection deadline for all schemes of 31 October 2026.

Additional guidance is expected, which should set an expectation of when public sector schemes should connect, rather than waiting until the final deadline. The ‘dashboard available point’ (DAP) is to be determined but will be communicated 6 months in advance to allow schemes to prepare.

## 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. All pension fund costs are met fully by the Fund.

## 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).

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**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:**

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Appendix 1

## Monthly Data Submission on 30 September 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 | 30/09/2023 |
| Atlantic Cleaning Services | 00037 | Admitted Body | 30/09/2023 |
| Bishop Challinor Catholic Federation of Schoo | 00131 | Scheduled Body | 30/09/2023 |
| Bowden House | 00129 | Main Scheme | 30/09/2023 |
| Canary Wharf College | 00021 | Scheduled Body | 31/05/2023 |
| Canon Barnett Academy | 00052 | Scheduled Body | 30/09/2023 |
| Cayley Primary School | 00130 | Main Scheme | 30/09/2023 |
| Clara Grant - Boelyn Trust | 00046 | Scheduled Body | 30/09/2023 |
| City Gateway | 00025 | Admitted Body | 31/08/2023 |
| Compass Contract | 00027 | Admitted Body | 30/04/2023 |
| Cyril Jackson Academy | 00044 | Scheduled Body | 30/09/2023 |
| East London Arts & Music | 00030 | Scheduled Body | 30/09/2023 |
| TH EPM MPP (LEA maintained schools) | 00001 | Main Scheme | 30/09/2023 |
| Greenwich Leisure Limited | 00007 | Admitted Body | 30/09/2023 |
| Ian Mikardo Academy | 00029 | Scheduled Body | 30/09/2023 |
| Juniper Cleaning St Saviours | 00041 | Admitted Body | 30/09/2023 |
| LETTA Trust | 00028 | Scheduled Body | 30/09/2023 |
| London Enterprise Academy | 00023 | Scheduled Body | 30/09/2023 |
| Mulberry Academy | 00026 | Scheduled Body | 30/09/2023 |
| Nourish Catering – Thomas Baxter/John Scarr | 00053 | Admitted Body | 30/04/2023 |
| Nourish Catering – Chisenhale/Old Palace | 00054 | Admitted Body | 31/01/2022 |
| Olga Primary School | 00128 | Scheduled Body | 30/09/2023 |
| Olive Dining | 00043 | Admitted Body | 30/09/2023 |
| One Housing (Toynbee Island) | 00011 | Admitted Body | 30/09/2023 |
| Paradigm Trust | 00033 | Scheduled Body | 30/09/2023 |
| Phoenix Trust (Closed Scheme) | 00051 | Admitted Body | 30/09/2023 |
| Purgo Supply Cyril Jackson | 00039 | Admitted Body | 08/09/2023 |
| Purgo Supply St Paul's | 00042 | Admitted Body | 09/09/2023 |
| REDBRIDGE CHL (Vibrance) | 00004 | Admitted Body | 30/09/2023 |
| Ridge Crest Cleaning Services | 00038 | Admitted Body | |
| Sir William Burrough Academy | 00018 | Scheduled Body | 30/09/2023 |
| Stepney Green -Mulberry Trust | 00047 | Scheduled Body | 30/09/2023 |
| St Pauls Way Trust Academy | 00019 | Scheduled Body | 30/09/2023 |
| THCH (Closed Scheme) | 00003 | Admitted Body | 30/09/2023 |
| THCH (Open Scheme) | 00008 | Admitted Body | 30/09/2023 |
| Taylor Shaw - Catering | 00036 | Admitted Body | 31/07/2023 |
| Taylor Shaw - Stepney Green | 00048 | Admitted Body | 31/07/2023 |
| Wapping High School | 00024 | Scheduled Body | 30/09/2023 |
| Wettons Cleaning Services Ltd | 00034 | Admitted Body | 31/08/2023 |
| | | | |
| **Internal** | | | |
| Tower Hamlets LBC | 00001 | Main Scheme | 30/09/2023 |
| Tower Hamlets Schools | 00001 | Main Scheme | 30/09/2023 |
| Central Foundation | 00001 | Main Scheme | 30/09/2023 |
| East End Homes | 00006 | Admitted Body | 30/09/2023 |
| Tower Hamlets Homes | 00013 | Scheduled Body | 30/09/2023 |

# PENSIONS COMMITTEE

## Work Plan

**2023/24 December 23**

| | | |
|---|---|---|
| 11 December 2023 | | |
| | 1 | Pension Fund Accounts and Annual Report |
| | 2 | Quarterly Risk Register Update |
| | 3 | Quarterly Administrative Monitoring, Performance and LGPS Update |
| | 4 | Quarterly Corporate Governance, ESG, Stewardship, Engagement & Share Voting |
| | 5 | Strategy Review - Communications Strategy |
| | 6 | Quarterly Investment Performance Reporting and update on emerging /current issues<br>• Report of Independent Adviser market and manager update<br>• Whole Fund and manager quarterly performance |
| | 7 | Asset allocation review – Alternatives to LCIV(BG) – Index-Linked Gilts/Investment Grade Credit |
| | 8 | LGPS Consultation (England and Wales) Next Steps on Investments: |
| | 9 | TCFD and Climate Risk Register (verbal) |
| | 10 | Training and Development Policy |
| | 11 | Pensions Committee Terms of Reference, training and work plan |

| 25 March 2024 | | |
|---|---|---|
| | 1 | Member Training – Climate Change Scenario Analysis |
| | 2 | Quarterly Risk Register Update and review of breaches |
| | 3 | Quarterly Administrative Monitoring, Performance and LGPS Update |
| | 4 | Quarterly Corporate Governance, ESG, Stewardship, Engagement & Share Voting |
| | 5 | Accounts and Audit Update |
| | 6 | Governance Compliance and TPR Code of Practice Checklist |
| | 8 | Review of Service Provider Contracts |
| | 9 | Strategy Review Admin Strategy, Cyber Risk |
| | 11 | Quarterly Investment Performance Reporting and update on emerging /current issues<br>• Report of Independent Adviser market and manager update<br>• Whole Fund and manager quarterly performance<br>• Manager presentations |
| | 12 | Equity Portfolio Diversification |
| | 13 | Draft Investment Strategy Statement (ISS) 2024/25 |
| | 14 | Preparation for 2023 TCFD report (Climate change scenario analysis and Annual carbon foot-printing analysis) |
| | 15 | Pensions Committee Terms of Reference, training and work plan |

**Additional Meetings/training**

## 2023/24 TRAINING

| Title of Training / Presentation | | | Time |
|---|---|---|---|
| 18 September 23 | | | |
| | 1 | Member Training – Strategic Asset Allocation | 7.15pm to 8.15pm |
| October 23 | | | |
| | 1 | Member Training – Strategic Asset Allocation options – ILG and IGC | 6.30pm to 7.30pm |
| November 23 | | | |
| | 1 | Member Training – Asset Allocation – ILG and IGC – meet potential managers | 6.30pm to 7.30pm |
| | | | |
| | | Member Training – Climate Change Scenario Analysis | |

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

# Agenda Item 9.2

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# Agenda Item 9.3

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