Pension Board

Agenda

Monday, 20 November 2023 at 10.00 a.m.
Committee Room - Tower Hamlets Town Hall, 160 Whitechapel Road, London E1 1BJ

Members:

Chair: John Jones (Independent Chair)

Vice Chair: David Stephen Thompson (Representing Retired/Deferred Pension Fund Members)

John Gray, (Representing Active Admitted/Statutory Bodies Pension Fund Members)

Chris Boylett, (Interim Head of Revenue and Benefits)

Nneka Oroge, Trade Union Representative

Councillor Abdul Mannan, Scrutiny Lead for Housing and Regeneration

Annette McKenna, Representing Admitted Bodies Employers

Substitutes: Michael Alderson

[A meeting is only quorate when at least one person of each member and employer representatives are present including the independent chair, or 50% of both member and employer representative are present]

Contact for further enquiries:

Farhana Zia, Democratic Services Officer,

farhana.zia@towerhamlets.gov.uk

020 7364 0842

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

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

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Tower Hamlets Council
Tower Hamlets Town Hall
160 Whitechapel Road
London E1 1BJ

A Guide to the Pensions Board

The Pensions Board was created in 2015 under the requirements of the Public Service Pensions Act 2013 to assist the Administering Authority (Tower Hamlets Council) in its role as a scheme manager of the Scheme. Its role is to:

a) secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and;
b) to ensure the effective and efficient governance and administration of the Scheme.

Public Engagement

Meetings of the committee are open to the public to attend, and a timetable for meeting dates and deadlines can be found on the council's website.

London Borough of Tower Hamlets

Pension Board

Monday, 20 November 2023

10.00 a.m.

1. **APOLOGIES FOR ABSENCE**

2. **DECLARATIONS OF INTERESTS**

3. **UNRESTRICTED MINUTES (PAGES 9 - 18)**

   To confirm as a correct record of the proceedings the unrestricted minutes of the meeting of the Pensions Board held on 26th June 2023.

4. **SUBMISSIONS FROM FUND MEMBERS**

   To consider any written submissions from Fund Members/Stakeholders.

   (Submissions must be received by the Clerk to the meeting no later than 5.00p.m. on the day before the meeting.)

5. **SUBMISSIONS / RESPONSES FROM PENSION COMMITTEE**

6. **REPORTS FOR CONSIDERATION**

6 .1 Funding Strategy Statement Update (Pages 19 - 54)

6 .2 Funding Update 21 June 2023 (Pages 55 - 66)

6 .3 Report on 2023/24 Fund Liquidity and Cash Flow Forecast (Pages 67 - 72)

6 .4 Administering Authority Discretions – Overpayment of Pensions Policy (Pages 73 - 88)

6 .5 Report of Internal Controls London CIV and underlying Investment Managers (Pages 89 - 106)

6 .6 Pensions Administration and LGPS Quarterly Update – June 2023 (Pages 107 - 118)

6 .7 Local Government Pension Scheme Consultation: Next Steps on Investments (Pages 119 - 162)

Tower Hamlets Council
Tower Hamlets Town Hall
160 Whitechapel Road
London E1 1BJ

7. **PENSIONS COMMITTEE AGENDA FOR THE FORTHCOMING MEETING**

8. **ANY OTHER BUSINESS**

9. **EXCLUSION OF PRESS AND PUBLIC**

In view of the contents of the remaining items on the agenda the Committee is recommended to adopt the following motion: “That, under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act,1972.”

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

9 .1 **ESG, Voting, Engagement and Stewardship Update (Pages 163 - 240)**

9 .2 **Risk Management Policy and Quarterly Review of Risk Register (Pages 241 - 250)**

9 .3 **Cost Transparency – Investment Management and Pooling Costs 2022/23**

To follow.

Next Meeting of the Pension Board
Monday, 11 March 2024 at 10.00 a.m. to be held in Committee Room - Tower Hamlets Town Hall, 160 Whitechapel Road, London E1 1BJ

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DECLARATIONS OF INTERESTS AT MEETINGS– NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Code of Conduct for Members at Part C, Section 31 of the Council's Constitution

(i) Disclosable Pecuniary Interests (DPI)

You have a DPI in any item of business on the agenda where it relates to the categories listed in **Appendix A** to this guidance. Please note that a DPI includes: (i) Your own relevant interests; (ii)Those of your spouse or civil partner; (iii) A person with whom the Member is living as husband/wife/civil partners. Other individuals, e.g. Children, siblings and flatmates do not need to be considered. Failure to disclose or register a DPI (within 28 days) is a criminal offence.

Members with a DPI, (unless granted a dispensation) must not seek to improperly influence the decision, must declare the nature of the interest and leave the meeting room (including the public gallery) during the consideration and decision on the item – unless exercising their right to address the Committee.

DPI Dispensations and Sensitive Interests. In certain circumstances, Members may make a request to the Monitoring Officer for a dispensation or for an interest to be treated as sensitive.

(ii) Non - DPI Interests that the Council has decided should be registered – (Non - DPIs)

You will have 'Non DPI Interest' in any item on the agenda, where it relates to (i) the offer of gifts or hospitality, (with an estimated value of at least £25) (ii) Council Appointments or nominations to bodies (iii) Membership of any body exercising a function of a public nature, a charitable purpose or aimed at influencing public opinion.

Members must declare the nature of the interest, but may stay in the meeting room and participate in the consideration of the matter and vote on it **unless:**

- A reasonable person would think that your interest is so significant that it would be likely to impair your judgement of the public interest. **If so, you must withdraw and take no part in the consideration or discussion of the matter.**

(iii) Declarations of Interests not included in the Register of Members' Interest.

Occasions may arise where a matter under consideration would, or would be likely to, **affect the wellbeing of you, your family, or close associate(s) more than it would anyone else living in the local area** but which is not required to be included in the Register of Members' Interests. In such matters, Members must consider the information set out in paragraph (ii) above regarding Non DPI - interests and apply the test, set out in this paragraph.

Guidance on Predetermination and Bias

Member's attention is drawn to the guidance on predetermination and bias, particularly the need to consider the merits of the case with an open mind, as set out in the Planning and Licensing Codes of Conduct, (Part C, Section 34 and 35 of the Constitution). For further advice on the possibility of bias or predetermination, you are advised to seek advice prior to the meeting.

Section 106 of the Local Government Finance Act, 1992 - Declarations which restrict Members in Council Tax arrears, for at least a two months from voting

In such circumstances the member may not vote on any reports and motions with respect to the matter.

Further Advice contact: Janet Fasan, Director of Legal and Monitoring Officer, Tel: 0207 364 4800.

APPENDIX A: Definition of a Disclosable Pecuniary Interest

(Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, Reg 2 and Schedule)

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority— (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged.
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	Any tenancy where (to the Member's knowledge)— (a) the landlord is the relevant authority; and (b) the tenant is a body in which the relevant person has a beneficial interest.
Securities	Any beneficial interest in securities of a body where— (a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and (b) either— (i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSION BOARD

HELD AT 10.03 A.M. ON MONDAY, 26 JUNE 2023

COMMITTEE ROOM - TOWER HAMLETS TOWN HALL, 160 WHITECHAPEL ROAD, LONDON E1 1BJ

Members Present in Person:

John Jones	Independent Chair
John Gray	(Representing Active Admitted/Statutory Bodies Pension Fund Members)
Chris Boylett	(Interim Head of Revenue and Benefits)
David Stephen Thompson	Representing Retired/Deferred Pension Fund Members
Councillor Abdul Mannan	Scrutiny Lead for Housing and Regeneration
Annette McKenna	Representing Admitted Bodies Employers

Apologies:

Nneka Oroge	Trade Union Representative

Others Present in Person:

Colin Robertson	Independent Investment Advisor (Pensions Committee)

Officers Present in Person:

Carole S Bowes	(Employment Lawyer, Legal Services, Directorate Law, Probity and Governance)
Miriam Adams	Interim Head of Pensions and Treasury
Farhana Zia	(Democratic Services Officer, Committees, Governance)

Officers In Attendance Virtually:

Lilian Ajose	(Senior Lawyer)
John Harrison	Interim Director of Finance, Procurement and Audit

1. APOLOGIES

Apologies for absence were received from Nneka Oroge (Trade Union Representative).

2. DECLARATIONS OF INTERESTS

John Gray (Representing Active Admitted/Statutory Bodes Fund Members) declared he was vice-chair of the Local Authority Pension Fund Forum) and a trade union member.

3. APPOINTMENT OF VICE-CHAIR

The Chair Mr John Jones proposed Mr David Stephen Thompson continue in his role as vice-chair of the Pensions Board. The nomination was seconded by Annette McKenna.

The Pensions Board **RESOLVED** to:

1. Elect Mr David Stephen Thompson as the vice-chair of the Pensions Board for 2023-24.

4. UNRESTRICTED MINUTES

The unrestricted minutes of 27th February 2023 were **AGREED** and **APPROVED** as an accurate record of the meeting.

5. SUBMISSIONS FROM FUND MEMBERS

There were no submissions from fund members.

6. SUBMISSIONS / RESPONSES FROM PENSION COMMITTEE

There were no submissions/responses from the Pensions Committee.

Mr John Jones stated he had attended the last Pensions Committee of 11th March 2023, were he presented the Board’s report, which had been well received.

7. TRAINING - INFLATION & INTEREST RATES

Mr Colin Robertson, Independent Investment Advisor, provided the Board with training on the subjects of inflation and interest rates.

The training covered many issues including, for example:
- Different measures of inflation and types of inflation such as consumer prices and asset price Inflation.
- The importance of considering interest rates and gilt yields after deducting inflation and how long-term inflation can be forecast.
- Long term interest rates / bonds and credit spreads.
- Different types of asset classes and their characteristics including levels of liquidity.

In response to questions from members the following was noted:

- Mr Robertson said taxation could be used to kerb inflation, as this slows the economy but as the same time could lead to higher prices.

- The Government's monetary and fiscal policies can impact short-term, such as a rise in interest rates or long-term where structural changes are made.
- Supply issues have had a global effect, due to the pandemic. Higher costs lead to demand for higher wages, and this can affect inflation.
- The Pension Fund as funds invested in diversified assets and is not significantly affected by the rise in interest rates or inflation. Mr Robertson said it was a balanced portfolio.

The Pensions Board **RESOLVED** to:

Thank Mr Robertson for his presentation, which they had found to be very informative.

8. REPORTS FOR CONSIDERATION

8.1 Pension Board Terms of Reference, Membership, Quorum and Dates of Meetings 2023/24

Ms Farhana Zia, Democratic Services Officer presented the report, asking members to note the Pensions Committee's terms of reference, membership, quorum and dates of meeting for the municipal year 2023/24.

She informed members these had been agreed at Full Council on the 17th May 2023.

The Pensions Committee **RESOLVED** to:

1. Note its Terms of reference, Quorum, Membership and Dates of future meetings as set out in Appendices 1,2 and 3 in the report; and
2. CONFIRMED & AGREED to hold scheduled meetings of the Pensions Board at 10:00 a.m.

8.2 Governance Compliance Policy and Statement

Ms Miriam Adams, Interim Head of Pensions and Treasury introduced the report stating that the report outlined the Governance policy and Governance compliance statement in accordance with the Local Government Pensions Scheme Regulations.

Ms Adams referred members to the report appended at page 34 and drew attention to the aims and objectives of the governance policy and statement. She referred to the two areas of partial compliance and said the Pensions Fund was preparing to hold its first AGM with all stakeholders, in January 2024.

In response to questions and comments from members the following was noted:

- Mr Thompson supported the suggestion of holding an AGM with stakeholders and asked if the publication of the Annual report would coincide with the AGM. Ms Adams said the 18/19 and 19/20 Annual reports were in draft but could not be consulted on until the Council's accounts had been signed off.

- The Chair, Mr Jones also welcomed the prospect of an AGM and asked that Pension Board members are also invited to this meeting.

The Pensions Board **RESOLVED** to:

Note the recommendations made to the Pensions Committee who will consider this report at its meeting of 3rd July 2023, that:

1. The Committee should note and approve the draft Governance Compliance Policy and Compliance Statement (Appendix 1).

8.3 Administering Authority Discretions

Ms Miriam Adams, Interim Head of Pensions and Treasury presented the Administering Authority Discretions report. She said a full review of all the administering authority discretions and policies had been undertaken with the support of the Fund actuaries. She said the report and appendix set out the updated discretionary requirements for approval. Ms Adams referred to the Death Grant Policy on page 81 and the Children's Pension Policy on page 85 of the agenda pack.

In response to comments and questions from members the following was noted:

- Mr Thompson praised the report and pointed out a typo on page 83, the first two paragraphs and said this needed to be reworded.
- Referring to page 85, Mr Thompson said under the qualifying criteria, clarity was required as to what "natural children" referred to.
  - **Action:** Ms Adams AGREED to look at the aforementioned and said she'd speak to the Local Government Association.

The Pensions Board **RESOLVED to:**

Note the recommendations made to the Pensions Committee who will consider this report at its meeting of 3rd July 2023, that:

The Pensions Committee is recommended to:
1. Consider and approve the recommended administering authority discretions policy.
2. Note that policies have been implemented following legal developments and recommendations from the Local Government Association:
3. Consider and approve the Death Grant Policy.
4. Consider and approve the Child Pension Policy and.
5. That the Committee approve publication on the Pension Fund website.

8.4 ESG, Voting, Engagement and Stewardship Update

Ms Miriam Adams, Interim Head of Pensions and Treasury presented the ESG, Voting, Engagement and Stewardship update report. She said the report provided an overview of the activities carried out by the Tower Hamlets Pension Fund's investment managers and on its behalf by the Local Authority Penson Forum (LAPFF) in the quarter ending March 2023.

Ms Adams commented the quarter had been a quite one. She said the report was limited to the companies that the Pension Fund was invested in.

In response to comments and questions from members the following was noted:

- Mr Gray stated LAPFF had declared an international garment workers day to improve the working conditions of workers and the supply chain.
- Mr Thompson stated he was pleased to see there had been dialogue with Amazon. He said whilst the LAPFF initiative was good, working conditions in the UK also required improvement.
- Ms Adams stated the LBTH Pensions Fund had been the main driver for improving relations with LCIV and voting patterns.

The Pensions Board **RESOLVED** to:

Note the recommendations made to the Pensions Committee who will consider this report at its meeting of 3rd July 2023, that:

The Pensions Committee is recommended to:

1. Note content of this report and appendices.

8.5 PENSIONS BOARD WORK PLAN 2023-24

Ms Miriam Adams, Interim Head of Pensions and Treasury introduced the Pension Board work plan for 2023/24. She said the work plan was subject to change during the year and invited comments from members.

In response to comments and questions from members the following as noted:

- Ms Adams confirmed Budgetary control information would be presented as part of the annual report, coming to the next meeting.
- In reference to page 133, Mr Thompson enquired if the 'Investment strategy statement and review changes' would be in draft format to allow comments. Ms Adams confirmed that it will be.

The Pensions Board **RESOLVED** to:

1. Note the Pension Board workplan for 2323/24.

8.6 Pensions Administration and LGPS Quarterly Update

Ms Miriam Adams, Interim Head of Pensions and Treasury introduced the report stating that the report provided information on the administration and performance of the Fund over the last quarter as well as an update on the key LGPS issues and initiatives which impact the Fund.

Ms Adams said the table at 3.1, page 136 showed the membership to the fund had risen slightly. The number of tasks completed and outstanding was shown in table 3.2.

In response to comments and questions from members the following was noted:

- Mr Jones stated performance had risen compared to performance 18 months ago. He said the number of pension staff had increased and said this was a good new story that ought to be celebrated.
- Ms Adams confirmed this and said they were looking to recruit more staff. She said she was looking to strengthen performance with a target of 70% completed tasks. She said the next quarter report would show a dip in performance, but this had been to sickness in the team.
- Referring to the checks and balances in place for Overseas Pensioners, paragraph 3.6, Ms Adams confirmed it was an officer decision to stop a pension after a final reminder had been sent. She said a pensioner/fund member was given three months to respond to existence checks with each case being reviewed on a case-by-case basis.
- Referring to staff who are ‘insourcing’ paragraph 3.9, Ms Adams said her team will be working with staff to ensure they know of the benefits of the pension scheme however the onus was on the employers to promote the scheme.
- Referring to the table at paragraph 3.2, Mr Thompson suggested the ‘other’ category be looked at and be re-defined to help understand the types of queries received.

The Pensions Board **RESOLVED** to:

Note the recommendations made to the Pensions Committee who will consider this report at its meeting of 3rd July 2023, that:

The Pensions Committee is recommended to:

1. Note and comment on the contents of this report and appendix.
2. Agree the admission of Riverside Housing Association previously known as One Housing.
3. Note the conversion of Cannon Barnet LEA maintained school to academy status and.
4. Agree to extend the annual overseas existence checks to include a once every 3 years additional checks via Convera (previously known as Western Union).

8.7 Pension Fund Accounts Audit Update (verbal)

Ms Miriam Adams, Interim Head of Pensions and Treasury provided a verbal update in relation to the Pension Fund accounts. She informed members the auditors had raised concerns about figures used by the Actuary in their forecasts. She said they were not satisfied with the membership numbers from the triennial valuations of 2016 and 2019. Ms Adams said there was a possibility that the accounts would be qualified for years 2018/19 and 2019/20. She said they were comparing data from 2016 and 2019 triennial spreadsheets.

In response to comments and questions the following was noted:

- Mr Jones stated it was puzzling the auditors were questioning data from 2016 and 2019 triennial valuations and not the financial statements. He asked if this had happened in any other council and if this matter could be escalated to the LGPS and CIPFA? Ms Adams responded stating she was unaware of this being raised as an issue in any other council and that she would relay the Board's comments back to the Corporate Director for Resources, Ms Holland.

Mr Jones thanked Ms Adams for the update.

8.8 Quarterly Update Risk Register and Risk Policy

Ms Miriam Adams, Interim Head of Pensions and Treasury stated the report updated members of the Board and Committee, on changes to the Fund's risk register and Risk Management Policy as at March 2023. Ms Adams provided an explanation for the risks listed at paragraph 3.3 to 3.13 and the remedial action taken. She explained the progress that had been made to the risks and referred to the table at paragraph 3.14 which summarised the total risks.

In response to comments and questions the following was noted:

- Referring to the table at 3.10 and the risk register appended, Mr Thompson said there were 11 reds of which 9 had been converted to amber. He said most of them were showing 'ongoing' but did not state a deadline. He asked this to be reviewed with an indication of when they were likely to be completed.

The Pensions Board **RESOLVED** to:

Note the recommendations made to the Pensions Committee who will consider this report at its meeting of 3rd July 2023, that:

The Committee is recommended to:

1. Note and comment on the detailed Risk Register (Appendix 1)

8.9 Review of Internal Controls at Investment Managers and Custodian

Ms Miriam Adams, Interim Head of Pensions and Treasury stated the report presented the findings of the review examining the adequacy of internal control measures in place by fund managers who hold the Fund's assets in management. She said an independent accounting and auditing firm had been used for this purpose. Ms Adams said the review of these report and bridging letters had identified no significant changes to the internal control environment for the period of 1st April 2022 to 31st March 2023.

In response to comments and questions the following was noted:

- In answer to if the team had enough resources to undertake reconciliations regularly, Ms Adams said this was a struggle at times. She said one administrative officer for reconciliations. She confirmed more information would be provided in the annual report coming back to the Board and Committee.

The Pensions Board **RESOLVED** to:

Note the recommendations made to the Pensions Committee who will consider this report at its meeting of 3rd July 2023, that:

The Pensions Committee is recommended to:
1. Note the report contents; and
2. Note that the current position for London CIV.

9. PENSIONS COMMITTEE AGENDA FOR THE FORTHCOMING MEETING

Ms Miriam Adams, Interim Head of Pensions and Treasury said several reports that were on the Pensions Board agenda would be presented to the Committee at its meeting of 3rd July 2023. She said Mr Jones, would be attending the meeting to provide his regular update.

10. ANY OTHER BUSINESS

No other business was discussed by Board members.

11. EXCLUSION OF PRESS AND PUBLIC

The Chair **MOVED** and

It was **RESOLVED:**

"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."

11.1 RESTRICTED MINUTES OF THE PREVIOUS MEETING

The restricted minutes from the 27th February 2023 meeting were **AGREED** and **APPROVED** by the Board.

The meeting ended at 12.55 p.m.

Chair, John Jones
Pension Board

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Non-Executive Report of the: **Pensions Board** Monday, 20 November 2023	TOWER HAMLETS
Report of: Julie Lorraine Corporate Director Resources	**Classification:** Open
Funding Strategy Statement Update and Policy on Academy Funding Update	

Executive Summary

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

Recommendations:

The Pensions Board is recommended to:

1. Note the content of this report; and

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

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

1. REASONS FOR THE DECISIONS

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

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

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

2. ALTERNATIVE OPTIONS

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

3. DETAILS OF THE REPORT

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

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

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

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

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

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

v) The policy is retrospective in its application.

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

Other considerations

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

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

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

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

4. EQUALITIES IMPLICATIONS

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

5. OTHER STATUTORY IMPLICATIONS

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

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

Risk Management

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

6. COMMENTS OF THE CHIEF FINANCE OFFICER

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

7. COMMENTS OF LEGAL SERVICES

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

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

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

Linked Reports, Appendices and Background Documents

Linked Report

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

Appendices

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

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

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

Officer contact details for documents:
Miriam Adams Interim Head of Pensions and Treasury Ext 4248

London Borough of Tower Hamlets Pension Fund

Draft Funding Strategy Statement
25 September 2023

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

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

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

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

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

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

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

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

1.3 Who is the FSS for?

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

Different types of employers participate in the fund:

Scheduled bodies

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

Designating employers

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

Admission bodies

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

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

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

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

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

1.5 Does the funding strategy reflect the investment strategy?

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

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

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

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

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

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

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

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

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

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

2.2 The contribution rate calculation

Table 2: contribution rate calculation for individual or pooled employers

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

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

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

See Appendix D for further information on funding targets.

2.3 Making contribution rates stable

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

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

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

Table 1: current stabilisation approach

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

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

2.4 Reviewing contributions between valuations

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

2.5 What is pooling?

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

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

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

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

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

2.6 What are the current contribution pools?

- **Schools** – generally pool with their funding council, although there may be exceptions for specialist or independent schools.
- **Smaller TABs** – may be pooled with the letting employer.

2.7 Administering authority discretion

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

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

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

3 What additional contributions may be payable?

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

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

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

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

3.2 Pension costs – early retirement on ill-health grounds

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

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

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

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

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

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

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

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

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

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

4.2 How are employer liabilities calculated?

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

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

4.3 What is a funding level?

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

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

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

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

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

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

5.2 New academies

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

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

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

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

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

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

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

5.3 New admission bodies as a result of outsourcing services

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

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

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

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

(i) Pass-through admissions

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

(ii) Other admissions

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

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

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

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

5.4 Other new employers

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

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

5.5 Risk assessment for new admission bodies

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

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

This must cover some or all of the:

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

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

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

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

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

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

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

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

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

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

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

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

7.2 What happens on cessation?

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

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

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

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

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

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

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

7.3 What happens if there is a surplus?

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

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

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

7.4 How do employers repay cessation debts?

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

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

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

7.5 What if an employer has no active members?

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

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

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

8 What are the statutory reporting requirements?

8.1 Reporting regulations

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

8.2 Solvency

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

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

or

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

8.3 Long-term cost efficiency

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

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

Relative factors include:

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

Absolute factors include:

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

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

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

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

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

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

A2 Consultation

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

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

A3 How is the FSS published?

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

A4 How often is the FSS reviewed?

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

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

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

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

Appendix B – Roles and responsibilities

B1 The administering authority:

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

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

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

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

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

7 communicates with employers so they understand their obligations

8 safeguards the fund against employer default

9 works with the fund actuary to manage the valuation process

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

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

12 tells the actuary about changes which could affect funding

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

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

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

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

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

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

6 make any required exit payments when leaving the fund.

B3 The fund actuary:

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

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

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

4 prepares advice and calculations around bulk transfers and individual benefits

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

6 advises on terminating employers' participation in the fund

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

B4 Other parties:

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

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

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

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

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

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

Appendix C – Risks and controls

C1 Managing risks

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

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

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

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

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

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

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

C6 Employer covenant assessment and monitoring

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

C7 Climate risk and TCFD reporting

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

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

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

Appendix D – Actuarial assumptions

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

D1 What are assumptions?

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

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

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

D2 What assumptions are used to set the contribution rate?

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

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

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

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

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

D3 What financial assumptions were used?

Future investment returns and discount rate

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

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

Assumptions for future investment returns depend on the funding objective.

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

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

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

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

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

Pension increases and CARE revaluation

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

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

Salary growth

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

D4 What demographic assumptions were used?

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

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

Life expectancy

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

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

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

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

Males

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

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

Females

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

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

Low-risk exit basis

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

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

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

Contractor exit basis

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

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

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London Borough of Tower Hamlets Pension Fund

Policy on academy funding

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

1 Introduction

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

1.1 Aims and Objectives

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

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

1.2 Background

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

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

1.3 Guidance and regulatory framework

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

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

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

2 Statement of Principles

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

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

3 Policies

3.1 Admission to the fund

As set out in section 5.2 of the FSS:

Asset allocation on conversion

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

Contribution rate

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

3.2 Multi-academy trusts

Asset tracking

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

Contribution rate

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

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

Academies leaving a MAT

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

3.3 Merging of MATs (contribution rates)

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

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

3.4 Cessations of academies and multi-academy trusts

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

The cessation treatment will depend on the circumstances:

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

3.5 Academy consolidations

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

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

3.6 Outsourcing

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

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

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

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

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

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

3.7 Accounting

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

4 Practicalities and process

To be considered on a case by case basis

5 Related Policies

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

- Contribution review policy
- Cessation policy
- Bulk transfer policy

Non-Executive Report of the: **Pensions Committee** Monday, 20 November 2023	TOWER HAMLETS
Report of: Julie Lorraine, Corporate Director Resources	**Classification:** Open
Funding Update 21 June 2023	

Executive Summary

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

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

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

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

Recommendations:

The Pensions Board is recommended to:

1. Note the content of this report.

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

1. REASONS FOR THE DECISIONS

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

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

2. ALTERNATIVE OPTIONS

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

3. DETAILS OF THE REPORT

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

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

Investment returns since the valuation at 31 March 2022

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

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

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

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

4. EQUALITIES IMPLICATIONS

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

5. OTHER STATUTORY IMPLICATIONS

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

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

Risk Management

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

6. COMMENTS OF THE CHIEF FINANCE OFFICER

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

7. COMMENTS OF LEGAL SERVICES

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

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

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

Linked Reports, Appendices and Background Documents

Linked Report

- List any linked reports
- NONE

Appendices

- Hymans Funding Update report 21 June 2023 - Appendix 1

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

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

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

London Borough of Tower Hamlets Pension Fund Funding update report at 21 June 2023

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

The purpose of this report is to provide the funding position of the London Borough of Tower Hamlets Pension Fund as at 21 June 2023 and show how it has changed since the previous valuation at 31 March 2022. This report has not been prepared for use for any other purpose and should not be so used. The report should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. Hymans Robertson LLP accept no liability where the report is used by or disclosed to a third party unless such liability has been expressly accepted in writing. Where permitted, the report may only be released or otherwise disclosed in a complete form which fully discloses the advice and the basis on which it is given.

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

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

1 Results

1.1 Funding position update

The table below shows the estimated funding position at 31 March 2022 and 21 June 2023.

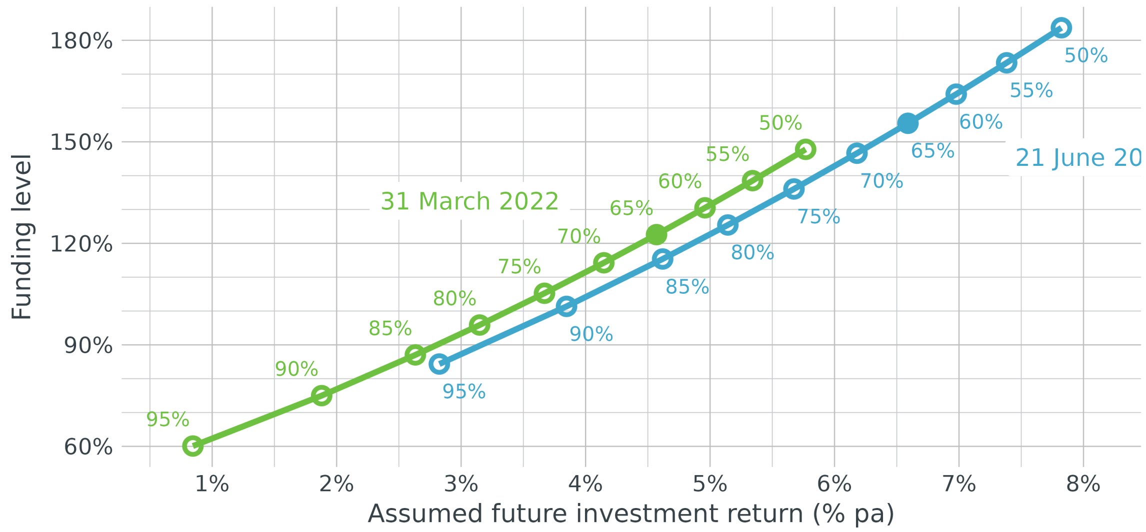
Please note that the asset value at 21 June 2023 shown in this report may differ to the actual asset value at that date because it is an estimate based on estimated cashflows (see section 3.2) and estimated investment returns (see section 3.3). However, the estimated value is consistent with the liabilities and therefore gives a more reliable estimate of the funding position than the actual asset value at the same date.

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

	Ongoing basis	Ongoing basis
Monetary amounts in £bn	31 March 2022	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%

1.2 Funding level range chart

The chart below shows how the funding level varies with the assumed rate of future investment returns, comparing the position at 31 March 2022 with the updated position at 21 June 2023 . The percentages next to each point show the likelihood of the investment strategy achieving that return (for further details see section 3.4). The solid coloured point indicates the assumed future investment return and funding level on the Ongoing basis.



1.3 Funding level progression

The chart below shows the estimated funding level (ratio of assets to liabilities) over time between 31 March 2022 and 21 June 2023. It allows for changes in market conditions and other factors described in Appendix A. If the fund has moved to a different basis since 31 March 2022 this may give rise to step changes in the funding level on the date of the change.

2 Next steps

2.1 Understanding the results

The results at 21 June 2023 in this report are estimates based on rolling forward the fund's funding position from 31 March 2022. You should understand the methodology and limitations of this approach described in appendices A and B.

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

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

3 Data and assumptions

3.1 Membership data

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

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

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

3.2 Cashflows since the valuation at 31 March 2022

We have allowed for the following cashflows in estimating the assets and liabilities at 21 June 2023. Cashflows are assumed to be paid daily. Contributions are based on the estimated payroll, certified employer contributions (including any lump sum contributions) and the average employee contribution rate at 31 March 2022. Benefits paid are projections based on the membership at 31 March 2022.

Estimated cashflows (£k)	31 March 2022 to 21 June 2023
Employer contributions	70,059
Employee contributions	17,113
Benefits paid	78,973
Transfers in/(out)	0

3.3 Investment returns since the valuation at 31 March 2022

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

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

The total investment return for the whole period is (2.90%).

3.4 Financial assumptions

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

Assumption	31 March 2022	21 June 2023
Funding basis	Ongoing	Ongoing
Discount rate methodology	Expected returns on the Main Fund strategy over 20 years with a 65% likelihood	Expected returns on the Main Fund strategy over 20 years with a 65% likelihood
Discount rate (% pa)	4.6%	6.6%
Pension increase methodology	Expected CPI inflation over 20 years with a 50% likelihood	Expected CPI inflation over 20 years with a 50% likelihood
Pension increases (% pa)	2.7%	2.3%

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

3.5 Demographic assumptions

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

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

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

Appendix A - Technical information

A.1 Funding update methodology

The last formal valuation of the fund was carried out as at 31 March 2022. The results in this report are based on projecting the results of this valuation forward to 21 June 2023 using approximate methods. The rollforward allows for

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

The CARE, deferred and pensioner liabilities at 21 June 2023 include a total adjustment of 7.2% to reflect the difference between actual September CPI inflation values and the assumption made at 31 March 2022. The adjustment for each year's actual inflation is applied from 1 October that year, cumulative with prior years' adjustments, which may lead to step changes in the funding level progression chart.

In preparing the updated funding position at 21 June 2023 no allowance has been made for the effect of changes in the membership profile since 31 March 2022. The principal reason for this is that insufficient information is available to allow me to make any such adjustment. Significant membership movements, or any material difference between estimated inputs and actual ones, may affect the reliability of the results.The fund should consider whether any such factors mean that the rollforward approach may not be appropriate.

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

A.2 Sensitivity of results to assumptions

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

If the real discount rate used to value the accrued liabilities decreases then the value placed on those liabilities will increase. If the real discount rate was 1.0% pa lower then the liabilities at 21 June 2023 would increase by approximately 20%.

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

Appendix B - Reliances and limitations

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

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

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

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

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

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

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

This report complies with the relevant Technical Actuarial Standards.

Non-Executive Report of the: **Pensions Board** Monday, 20 November 2023	TOWER HAMLETS
Report of: Julie Lorraine Corporate Director, Resources	**Classification:** Unrestricted
Report on 2023/24 Fund Liquidity and Cash Flow Forecast	

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

Summary

The London Borough of Tower Hamlets Pension Fund is open to new entrants, a number of council insourcing are expected in 2023/24 and 204/25, however the Fund is also maturing fast.

This report is an update on the Pension Fund's projected cash flow forecast for 2023/24 to 2025/26. The Fund is projecting a £8.4m positive net cash flow by 2025/26 without any cash draw down from investments.

Recommendations

The Pensions Board is recommended to:

- Note the cash flow forecast from operational activities (Appendix A)

1. <u>REASONS FOR THE DECISION</u>

1.1 The London Borough of Tower Hamlets Pension Fund is part of the wider Local Government Pension Scheme LGPS). The Scheme as with other LGPS schemes is funded and distinct from 'pay as you go' schemes which are unfunded.

1.2 The Fund receives contributions and investment income from current members, employers and fund assets which is used to pay benefits as they fall due. Consequently, one of the main objectives of the Fund is to ensure that sufficient funds are available to meet all benefits as they fall due for payment. However, this objective may be jeopardised if the Fund does not maintain sufficient liquidity. The Pension Committee is charged with meeting the duties of the Council in respect of the Pension Fund.

2. ALTERNATIVE OPTION

2.1 The Fund is bound by legislation to ensure that members of the Fund receive benefits as they fall due under the Fund's terms. Although the Fund is free to determine how best to fund its liabilities as they fall due. It is expected to meet such obligations to its retired members.

3. DETAILS OF REPORT

3.1 It is difficult to be exact about the day at which the Fund will become cashflow negative given the potential impact of transfers in/out and payment of lumpsum amounts, both of which are very difficult to predict as they do not follow a set pattern. Nevertheless, based on actuals to date and, it is expected that the Fund will report an estimated positive cash balance of £16.8m on 31 March 2024.

3.2 In the past, Fund has always been cash flow positive and therefore has always been able to meet all its liabilities without the need to sell any of its assets or recall dividends from its fund managers.

The Fund has also supported London CIV Renewable Energy capital calls in 201/22 and 2022/23 pending divestments from Goldmans and Insight.

3.3 The Funding Strategy Statement assumes that the Fund will mature at some point in the future, however maturity may be reached a lot sooner than has been anticipated due to the cash outflow or increase in manager fees paid inhouse aside from those deducted from Net Asset Value and increases in actuarial fees.

3.4 A future contributor to the cash flow position is the anticipated GLL insourcing which has an increase in payroll numbers for the council as well as other insourcing of services currently provided by contractors or organisations not in the scheme.

The significant increase in contribution rates for Housing Associations and lumpsums deficit funding will also have a positive impact on cashflow.

On the other current savings pressures from the council may impact the Fund in two ways: firstly the Fund loses income that it could otherwise have received as contributions from employees and who are active members of the Fund and also employer contributions to the Fund by the Council in relation to active members; secondly, some staff will be made redundant or retire both of which cases will mean immediate entitlements to cash lumps ums/retirement benefits, both of which will have the effect of impacting cash flow negatively.

3.5 The table below shows the membership over the last 4 years.

Membership Type	March 20	March 21	March 22	March 23	June 23
Actives	7,301	7,372	7,652	7,791	7,810
Deferred	7,902	7,953	8,321	8,399	8,392
Pensioners	6,683	6,705	6,979	7,186	7,139

3.6 The general belief is that LGPS funds have lot of assets, but don't hold lots of cash. There are good reasons for this – funds generally invest for the longer term and holding too much cash leads to lost opportunities on other assets that offer higher expected returns. Funds are therefore constantly trying to balance the need to hold enough cash to meet all benefit payments against the need to invest the need to invest in return seeking assets. LGPS funds also had very young age profile which meant income received from contributions far exceeded expenditure from benefit payments. Over the last decade LGPS funds are beginning to reach a mature age profile. Although 2021/22 figures released by the SAB showed that overall, in England and Wales LGPS funds till remain cash flow positive.

Monitoring

3.7 As with all LGPS schemes, a key objective of the LBTH Pension Fund funding policy is to ensure that sufficient funds are available to meet all benefits as they fall due for payment. Given that the Fund is expected to be cash flow positive in 2023/24, 2024/25 and 2025/26, aside from continued monitoring, no immediate measures are being put in place to ensure liquidity is maintained within the Fund so that the Fund can continue to meet its obligations to scheme members.

Internal Cash Management

3.8 Pension Fund cash balances held for operational activities is managed in accordance with the Council's Treasury Management Strategy agreed by Full Council, which is delegated to the Corporate Director, Resources to manage on a day-to-day basis within the agreed parameters.

4. EQUALITIES IMPLICATIONS

4.1 There are no direct equality implications regarding this matter.

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 Any form of investment inevitably involves a degree of risk.

5.3 To minimise risk, the Pensions Committee attempts to achieve a diversified portfolio. Diversification relates to asset classes and management styles.

6. <u>COMMENTS OF THE CHIEF FINANCE OFFICER</u>

6.1 Finance comments are included in the report.

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

7. <u>COMMENTS OF LEGAL SERVICES</u>

7.1 The Council as administering authority of the pension fund must ensure that it complies with its statutory duties in relation to the proper management of the pension funds. It is necessary and appropriate for the Pensions Board to receive information on the performance of the Fund in relation to the liquidity as set out in this report.

Linked Reports, Appendices and Background Documents

Linked Report
- None

Appendices
- **Cash flow forecast 2023/24 (Appendix A)**

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

Officer contact details for documents:
- Miriam Adams, Interim Head of Pensions and Treasury x4248
  Email: Miriam.adams@towerhamlets.gov.uk

Cash Flow Forecast 2023/24 to 2025/26 Appendix A

	2022/23 Actual £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
CASH IN				
Contributions				
From Employers	-42,843	-46,843	-49,500	-52,000
From Employees	-15,002	-16,352	-17,497	-18,372
Payment of Deficit Contributions	-13,664	-15,473	-15,473	-15,473
Augumentation	-2,654	-2,000	-2,000	-2,000
Transfer Values In	-8,413	-9,700	-10,400	-11,300
Other Income				
From Pensions over payments and returned bacs	-117	-140	-140	-140
AVC in	-24	-40	-40	-40
Income from Recoverable Taxes	129	-98	-98	0
Intransit payments	-754	0	0	0
VAT refund	-166	-200	-240	-285
Reimbursement of Council Overseas Pensioners		-37	-37	-37
Income from Fund Manager Fee Rebates	-78	-23	0	0
	-83,586	-90,906	-95,425	-99,647
Cash from divestments	0	0	0	0
TOTAL CASH IN	**-83,586**	**-90,906**	**-95,425**	**-99,647**
CASH OUT				
Benefit Payable	53,534	62,379	69,179	74,713
Lump Sums, Retirement Allowances & Death Grants	11,474	13,000	14,000	15,000
Payment to and on account of leavers				
Refund of Contributions	322	350	350	350
Transfer Values Out	8,377	9,000	9,000	9,000
Capital Calls funded with inhouse cash	6,917	2,432	0	0
Expenses				
Fund manager fees paid in house	1,566	1,970	2,300	2,450
Admin Expenses	1,975	2,500	2,800	2,900
Oversight and Governance fees	474	590	680	760
Prevous Year's recharges paid				
	84,640	92,221	98,309	105,173
NET INCOME/EXPENDITURE	**1,054**	**1,315**	**2,884**	**5,526**
Opening Cash balance	-19,186	-18,132	-16,817	-13,933
Net Cash Movement	1,054	1,315	2,884	5,526
CLOSING CASH POSITION	**-18,132**	**-16,817**	**-13,933**	**-8,407**

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Non-Executive Report of the: **Pensions Board** Monday 20 November 2023	
Report of: Julie Lorraine Corporate Director Resources	**Classification:** Open
Administering Authority Discretions – Overpayment of Pensions Policy	

Executive Summary

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

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

Recommendations:

The Pensions Board is recommended to:

1. Note the Policy on Pension Overpayments (the Pension Overpayments Policy)

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

3. Note that the Pensions Committee approved publication on the Pension Fund website.

4. Note that the requirement to review every three years.

1. <u>REASONS FOR THE DECISIONS</u>

1.1 The Policy sets out:

- Steps that will be taken by LBTHPF to minimise the risk of overpayments occurring.

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

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

2. ALTERNATIVE OPTIONS

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

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

3. DETAILS OF THE REPORT

3.1 The Policy attached at Appendix 1 applies to:

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

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

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

Disputes

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

Policy Monitoring

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

4. EQUALITIES IMPLICATIONS

4.1 There are no direct equality implications regarding this matter.

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

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that it is prohibited by or under the Equality Act 2010;

(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;

(iii) Foster good relations between those who have protected characteristics and those who so not.

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

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

5. OTHER STATUTORY IMPLICATIONS

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

- Best Value Implications,

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

Risk Management

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

6. COMMENTS OF THE CHIEF FINANCE OFFICER

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

7. COMMENTS OF LEGAL SERVICES

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

7.2 The Council must publish written statements of the policies.

Linked Reports, Appendices and Background Documents

Linked Report
- List any linked reports.
- NONE.

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

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

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

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

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

PENSION OVERPAYMENT POLICY

Appendix 1

1.0 Introduction

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

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

Scope

2.0 The policy applies to:

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

Prevention of Overpayments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Responsibility of Scheme Members

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

Steps a member should take:

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

Or by email to pensions@towerhamlets.gov.uk

Or by phone to 0207 364 4251

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

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

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

Managing overpayments of pension on the death of a scheme member

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Recovery Period

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

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

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

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

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

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

Length of time to recover overpayment

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

Scheme member is unable to return overpayment

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

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

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

Cases where LBTHPF may not seek recovery

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

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

Monitoring repayments

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

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

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

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

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

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

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

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

Unauthorised Payments

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

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

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

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

Overpayments due to Fraud or Corruption

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

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

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

Underpayments

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

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

Disputes

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

Policy Monitoring

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

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Non-Executive Report of the: **Pensions Board** Monday 20 November 2023	TOWER HAMLETS
Report of Julie Lorraine Corporate Director Resources	**Classification:** Unrestricted
Review of Internal Controls at Investment Managers and Custodian – London CIV	

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

Summary

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

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

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

Recommendations:

The Pensions Board is recommended to:

1. Note the report contents; and

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

1. REASONS FOR THE DECISIONS

1.1 There are no alternative decisions to be made.

2. ALTERNATIVE OPTIONS

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

3. DETAILS OF REPORT

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

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

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

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

Review of London CIV Internal Control Reports

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

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

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London CIV Fund Monitoring Framework

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

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

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

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

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

Portfolio managers internal control reports

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

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

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

* Manager recently appointed

4. EQUALITIES IMPLICATIONS

4.1 There are no direct equalities implications to this report.

5. OTHER STATUTORY IMPLICATIONS

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

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

Risk Management Implications

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

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

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

6. <u>COMMENTS OF THE CHIEF FINANCE OFFICER</u>

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

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

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

7. <u>COMMENTS OF LEGAL SERVICES</u>

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

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

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

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

Officer contact details for documents:

- Miriam Adams, Interim Head of Pensions & Treasury   x4248

THIRD PARTY CONTROLS OVERSIGHT SUMMARY

31 March 2023

As of April 2023

London CIV

Introduction

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

- Portfolio Management
- Fund Administration

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

Contents

1. Portfolio Management

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

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

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

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

Initial Due Diligence

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

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

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

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

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

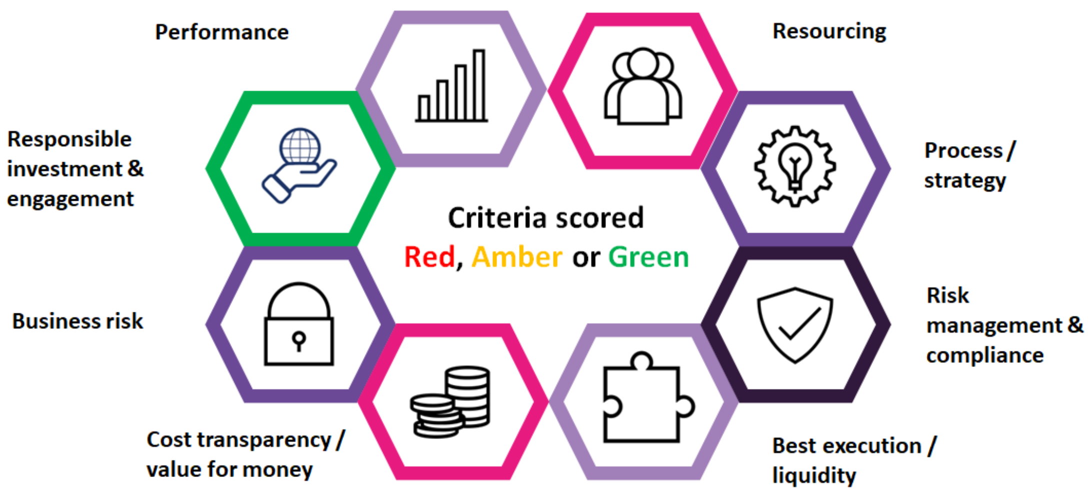
IDD Summary

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

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

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

London CIV Fund Monitoring Framework



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

Monitoring: What Does Green Look Like?

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

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

Normal

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

Enhanced

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

Watch

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

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

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

Ongoing Monitoring

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

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

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

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

* The Investment Manager does not prepare an internal controls report

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Portfolio Managers Internal Control Reports

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

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

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

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

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

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

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

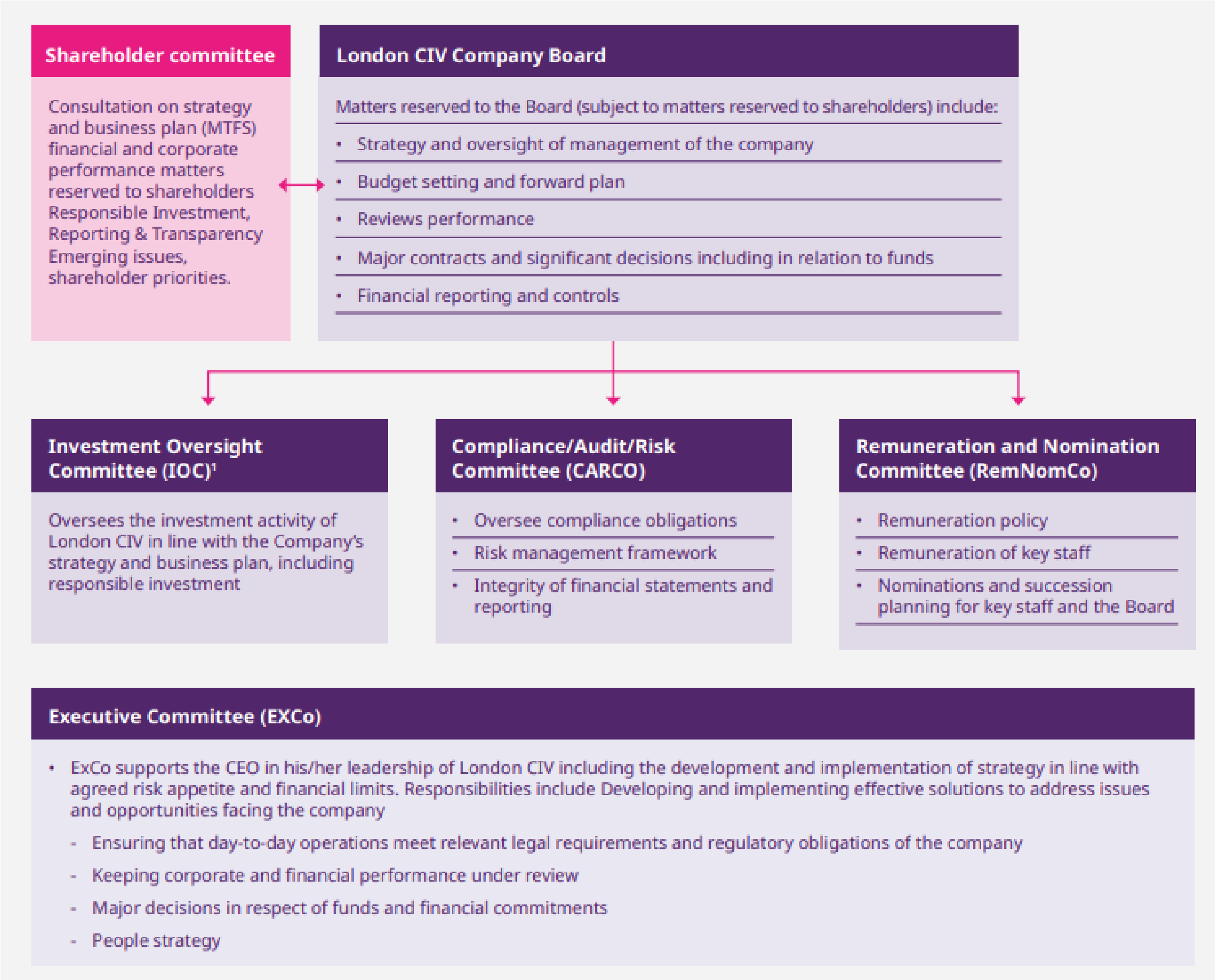
Report	Report date	Sign off date	Qualified?	Auditor
SOC 1	30/09/2022	18/11/2022	No	KPMG

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

3. London CIV Corporate Governance Framework

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

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



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

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

4. Information and Cyber Security

Introduction

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

Internal cyber and IT security reviews

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

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

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

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

5. Limitations on distribution

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

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

Non-Executive Report of the: **Pensions Board** Monday, 20 November 2023	TOWER HAMLETS
Report of: Julie Lorraine Corporate Director, Resources	**Classification:** unrestricted
Pensions Administration and LGPS Quarterly Update – June 2023	

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

Executive Summary

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

Recommendations:

The Pensions Board is recommended to:

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

1. REASONS FOR THE DECISIONS

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

2. ALTERNATIVE OPTIONS

2.1 There are no alternative options to this report.

3. DETAILS OF THE REPORT

ADMINISTRATION UPDATE

Scheme Membership on 30 June 2023.

3.1 A core part of running the pension fund is the maintenance of scheme membership records that enable scheme benefits to be calculated in addition to dealing with new members joining and members leaving the scheme. This activity is carried out in house. The team also deals with employer related issues, including new employers and cessation. Task outstanding reported last quarter slightly moved since reported due to reopening of a few frozen and pensioner cases since quarter end report. Table 1A below shows membership number at the end of the quarter.

3.2 Table 1A: Membership number on 30 June 2023

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

Table1B: Quarterly change in membership numbers

Membership Category	At 31/03/23	+/- Change (%)	At 30/06/2023
Active	7,810	-0.4	7,775
Deferred	8,392	0.1	8,399
Undecided	48	241.7	164
Pensioner (incl spouse & dependant members)	7,139	0.9	7,203
Frozen	2,890	4.3	3,013
Total	**26,279**	**1.0**	**26,554**

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

Table 2: Tasks completed and Outstanding during the quarter

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

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

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

A dedicated agency employee cover has been assigned in the last 12 months to clear outstanding back log and ensure that queries are now attended or assigned to an officer promptly. It is anticipated that a permanent post will be

created to cover this work stream at some point. The number of emails received via the inbox ranges between 35 to 55 each day.
The team aims to target a turnaround time of 24 hours to either action the query or raise tasks for a member of the team to action if complex.

Performance Against CIPFA Pensions Administration Suggested Targets

3.6 The table below shows performance against CIPFA suggested timelines between the period April to June 2023. Some tasks such as transfers in and out as well as processing of deaths and retirements require initial responses from 3rd parties, other pension funds, lawyers or scheme members which sometimes take time.
Due date on all cases are never amended or revised except in exceptional circumstances to enable officers effective monitor time taken to complete tasks and review process changes in the team which might be required.
Performance during the quarter was significantly impacted by staff annual leave and long term sickness.

Table 3A: Performance against CIPFA suggested timelines between the period April and June 2023.

			April	May	June
Retirements	**Altair Workflow**	**Target days**	**% Within Target**	**% Within Target**	**% 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

3.7 Employers with active members on 30 June 2023.

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

Employer Insourcing

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

New Employer Admissions

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

Employer Data Quality

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

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

Online payslip for pensioners

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

Employer Cessation

3.12 No reported employer cessations during the June 2023 quarter.

LGPS SCHEME and LEGISLATIVE UPDATES

2022 Scheme valuation report

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

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

Scheme Advisory Surpluses Working Group

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

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

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

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

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

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

Pensions dashboards

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

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

Additional Pension and Club transfers

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

Life Time Allowance

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

Economic Activity of Public Bodies (Overseas Matters) Bill

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

McCloud legislative Update

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

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

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

Member Self Service (MSS) Roll Out

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

4. EQUALITIES IMPLICATIONS

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

5. OTHER STATUTORY IMPLICATIONS

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

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

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 There are no direct financial implications arising from the contents of this report. All pension fund costs are met 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).

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Employer monthly data submission (Appendix 1)

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

https://ri.lgpsboard.org/items

Officer contact details for documents:
Miriam Adams – Interim Head of Pensions & Treasury Ext 4248

Appendix 1

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

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

Agenda Item 6.7

Non-Executive Report of the: **Pensions Board** **Monday, 20 November 2023**	TOWER HAMLETS
Report of: Julie Lorraine Corporate Director, Resources	**Classification:** Open (Unrestricted)
Local Government Pension Scheme Consultation: Next Steps on Investments	

Executive Summary

On 11 July 2023, the Department for Levelling Up, Housing & Communities (DLUHC) issued a consultation on the Local Government Pension Scheme entitled "Local Government Pension Scheme (England and Wales) Next Steps on Investments". The Consultation is seeking views on proposals relating to investments of the Local Government Pension Scheme (LGPS) and covers the areas of asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments.

The consultation ran until 2 October 2023. A copy of the consultation document is included as Appendix 1 to this report and the Fund's response approved by the Pensions Committee is included as Appendix 2.

Recommendations:

The Pensions Board is recommended to:

1. Note the Fund's consultation response (Appendix 1).
2. Note the summary report by Mercer (Appendix 3).

1. REASONS FOR THE DECISIONS

1.1 To ensure that the Pensions Board is notified of the Pension Fund Committee's views on the proposals within the consultation document shared with government.

2. ALTERNATIVE OPTIONS

2.1 There is no alternative to this report.

3. DETAILS OF THE REPORT

3.1 Tower Hamlets Pension Fund has pooled 61% of its strategic asset allocation through London CIV, while 20% of its assets is pooled under a fee arrangement via London CIV Pool.

3.2 The Fund has benefited from the availability of Private Markets investments like Renewable Energy Infrastructure fund and UK Housing fund via the pool. To date, the Fund has pooled all the liquid assets in its investment strategy bar Index Linked Gilts.

3.3 More widely however, progress on pooling across much of England and Wales have not been same.

3.4 The consultation is seeking views on proposals in:

- The acceleration and expansion of pooling with administering authorities confirming how they invest their funds and why. There is a proposal for a deadline for listed asset transition by March 2025 and going forward the government is seeking to see a transition towards fewer pools to maximise the benefit of scale.

- Funds will be expected to have a plan to invest up to 5% of assets to support levelling up in the UK.

- Proposals of an ambition to increase (10%) investment into high growth companies via unlisted equity, including venture capital and growth equity. Including suggestions that the DLUHC would support the LGPS in collaborating with the British Business Bank

- Proposed amendments to the LGPS's regulations to implement requirements on pension funds that use investment consultants. These amendments are needed to implement the requirements of an order made by the Competition and Markets Authority (CMA) in respect of the LGPS.

- A proposed requirement for funds to have a training policy for pension committee members and report against that policy.

- A technical change to the definition of investments within LGPS regulations. The amendment proposed will ensure consistency with the language used in regulation 4 of the 2016 Regulations, where unquoted securities investment partnerships are defined. The proposed amendment should also eliminate any ambiguity regarding regulation 3(1)b.

3.5 There are a total of 15 questions, and these are set out in the Appendix and the full consultation document can be found in a link in the linked document section of this report.

Next Steps

3.6 The consultation period ends on 2 October 2023. The expectation is that the Government may either announce the outcome of the consultation or give a strong steer as to its likely announcement in the Autumn Statement (expected to be in November). The Committee will be kept up to date with future developments on the guidance and /or regulations relating to LGPS investment pooling.

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.

Linked Reports, Appendices and Background Documents

Linked Report
- NONE.

Appendices
- Draft consultation response (Appendix 1)
- DLUHC Consultation (Appendix 2)

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report
'Local Government Pension Scheme: Next Steps on Investments' available online at:
Local Government Pension Scheme (England and Wales): Next steps on investments - GOV.UK (www.gov.uk)

Officer contact details for documents:
Miriam Adams, Interim Head of Pensions and Treasury Ext 4248

Appendix 1

Local Government Pension Scheme (England and Wales): Next Steps on Investments Consultation
London Borough of Tower Hamlets Pension Fund Response

Further guidance from central government on next steps on investment within the public sector is valued by The London Borough of Tower Hamlets. The London Borough of Tower Hamlets Pension Fund ('the Fund') is a key supporter of the London CIV asset pool, with 81% of strategic asset allocation pooled.

Greater clarity on the relationship between clients and asset pools would therefore be of significant importance to the fund. The Fund broadly supports the government's move toward to levelling up investments, with 5% of Fund assets already committed via London CIV in UK Housing fund and 6% in London CIV Renewable Infrastructure fund which has some assets in the UK.

However, The Fund would urge caution with regard to being too prescriptive on asset allocation and has concerns over the 10% target to private equity, alongside the government's ambition for 5% within infrastructure and 5% to levelling up.

Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

The London Borough of Tower Hamlets Pension Fund agrees that pooling is a suitable strategy for smaller LGPS Funds to gain entry into alternative investments, achieve economies of scale and value for money.

There is also further scope for increased pooling of assets, collaboration between pools and sharing of skills and knowledge within the LGPS.

It is important to note that there are challenges within pooling that impact LGPS's ability to fully transition assets into the pool companies. LGPS Funds invest in a large range of assets, some of which are extremely specialised, and others are particularly long term focused. Thus, pool companies may not always be able to offer appropriate investment solutions.

While it is noted that the government is keen to focus on fee reduction, the Fund believes that the focus should be on investment outperformance against a relevant benchmark net of fees.

The priority for all LGPS Funds is maximising the return on investment to pay pensions in full and on time.

Focusing on the absolute fees may provide some assistance in selecting products, but the overall value added to Funds should be considered as more relevant and useful information.

In some cases, the costs of an asset class/manager may be greater, but these may be justified by the higher returns or safely consistent returns. Therefore, it would seem counterintuitive to transition, or possibly have to liquidate, those existing assets into pools at the expense of long-term performance.

Question 2: Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

The Fund does not disagree with a deadline to transition listed assets to their LGPS pool. However, there should be a degree of flexibility, recognising that this may not be possible for all funds. The Fund also notes that 2025 is a triennial valuation year therefore Funds would not generally look to make significant investment changes until after the valuation cycle.

Investment regulations required take time and may be subject to further consultation, a March 2025 deadline does not allow sufficient time for consultation, changes and communication.

Question 3: Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

The London Borough of Tower Hamlets Pension Fund does not believe that the interaction between funds and pools should be fully prescribed. Funds are responsible for setting their own strategic asset allocation and what works for one fund does not necessarily work for another. As with asset allocation, investment advisers are selected on their suitability for each fund. There is potential for conflict between the advice received from a pool and the advice received from the investment advisor for individual scheme Funds.

The strengthening of relationships between pool companies and clients is vital to the success of pooling, so to insist upon a certain style of interaction between pools and funds would not be conducive to this result. In summary, effective collaboration between a fund and a pool companies should be possible without the need for guidance on how interactions should take place.

Additionally, pool companies may not always have suitable strategies/sub-funds on offer on their platforms, or the ability to adequately resource these strategies. There is concern that the increased demand on the pool companies may be significant, especially those with a large number of clients.

Question 4: Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

Tower Hamlets Pension Fund agrees that it is of utmost importance that Committee members have the required skills and knowledge to make informed investment decisions.

While pension fund committee members are not currently mandated by legislation to undertake training, the Fund already has a training policy in place and would support new legislation that provides a framework for enforcement that would improve the level of expertise and knowledge across LGPS committees.

Question 5: Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?

The London Borough of Tower Hamlets Pension Fund broadly agrees with the proposals regarding reporting. However, we strongly stress that LGPS Pension Funds are already under significant pressure with existing reporting requirements, and it is anticipated this has a potential to increase further due to the introduction of climate risk reporting in 2024/25. Current reporting requirements within the pension fund annual reports include a section on pool companies which incorporates performance, returns, costs and net savings.

It should be recognized that there are already substantial time constraints in this area and additional reporting requirements could delay the sign off of the pension fund annual pension fund report and accounts by external auditors.
If this reporting requirement were to be implemented, an accompanying guidance note, and template would be desirable.

Question 6: Do you agree with the proposals for the Scheme Annual Report?
The London Borough of Tower Hamlets considers that in the event that the changes to reporting in question five are implemented, then the Fund would agree that a uniform set of statistics to achieve comparability between funds is reasonable.

Question 7: Do you agree with the proposed definition of levelling up investments?
Whilst the Fund welcomes the definition of "Local" within the levelling up framework to be 'UK-wide'. The London Borough of Tower Hamlets Pension Fund broadly agrees with the definition but would seek that it is clarified further regarding two areas of ambiguity.

Firstly, the examples given alongside the definition would suggest that the investments made must be directed to a particular cause.
It would be the Fund's position that all of the UK should be classed as local and the investments made can be indirect, i.e., through a pooled fund with an investment manager rather than directly into a specific project.
It is vital that the size of individual pension funds and their scope to access various types of investment are considered.

Question 8: Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?
Whist larger pools may offer the potential for greater economies of scale, assets under management should not be the only consideration, the London Borough of Tower Hamlets Pension Fund agrees broadly that it makes sense that pools should collaborate with other asset pools to offer broader asset ranges to clients, especially for pools which do not have either the size or expertise to invest within all asset classes.
It should be noted, however, as pool owners, it is the responsibility of individual funds to direct their own asset pools if this is an avenue that they wish to pursue. All client assets should be unitised and held within their respective asset pools.
LGPS pool structures broadly differ, pools differ in method of operation, specialisms, strengths, and weaknesses.

The Fund also believes that a larger number of partner funds with a wider spectrum of committee views may potentially lead to diseconomies of scale regardless of pool size and pool mergers could also be more costly and retention of staff over short to medium term may act as a barrier to further investments in pools until any pool mergers have been completed.

Question 9: Do you agree with the proposed requirements for the levelling up plan to be published by funds?
LGPS Pension Funds are already under substantial pressure with current reporting requirements and any additional reporting requirements may not be realistic for all Funds.

Question 10: Do you agree with the proposed reporting requirements on levelling up investments?
Whist the London Borough of Tower Hamlets Pension Fund appreciates that a voluntary framework requires transparent reporting to assess compliance, in aggregate the reporting recommendations for both the annual report and Investment Strategy Statement represents a significant reporting burden which is likely to result in significant increase in time and costs for producing and auditing the report. The Fund welcomes reporting templates.

Question 11: Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?
The London Borough of Tower Hamlets Pension Fund disagrees with this notion. The government's ambitions for a 10% allocation to private equity, 5% to infrastructure and 5% in levelling up investments, contradicts the LGPS schemes principle that Administering Authorities are responsible for setting the investment strategy and could potentially limit the extent to which Administering Authorities can manage pension fund affordability and contribution stability and manage liability profile of the employers in the scheme.

While a 10% allocation to private equity may be suitable, in terms of risk/return appetite, for some funds, it will not fit all LGPS investment strategies and future funding and pensions outflow obligations.
It is critical to stress that the LGPS's principal duty is to pay pensions in full and on time, and no action that could jeopardise the Fund's ability to do so should be taken.

The Fund believes there are several challenges to investment within the private equity asset class, including, but not limited to, the following:

- Practical issues in defining private equity, particularly if it is the government's intention to exclude other private market investments such as infrastructure from the definition.
- Liquidity: private equity assets are illiquid and if funds lock too much of their portfolio into these asset classes, liquidity issues may arise in the future.

- Complexity and specialism: private equity investments, particularly venture capital, is an asset class where the Pension Fund may not have specialism. LGPS funds may incur considerable external advice costs.
- Cost: typically, the cost of managing private asset classes is more than listed asset classes, and there would need to be appropriate returns to justify it.

- Risk/returns: The majority of LGPS schemes are now fully funded and many are taking the decision to de-risk their strategic asset allocations.
- Private equity assets hold considerably more risk than traditional asset classes, and thus the return must warrant the additional level of risk taken.

It is also important to note that, in regard to all the government ambitions (10% allocation to private equity, 5% to infrastructure and 5% in levelling up investments), some LGPS funds may already be undertaking these actions under other titled allocations and should not have to be part of a brand-new allocation awarded.

Question 12: Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?
The opportunity to collaborate with the British Business Bank would be assessed equally alongside all other investment opportunities presented to the London Borough of Tower Hamlets Pension fund.
However, the Fund believes this would be a more appropriate discussion for the pool companies because collaboration is unlikely to be feasible on an individual fund level.

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?
The Fund agrees with the consultation's proposal for Administering Authorities to set and review strategic objectives for their investment consultants. The Fund already sets these objectives for its advisers.
In respect of the consultation's reference to pools providing investment advice to LGPS Funds, the London Borough of Tower Hamlets Pension Fund believes that it is for the Fund to decide from whom it receives advice from.

Question 14: Do you agree with the proposed amendment to the definition of investments?
The Fund agrees.

Question 15: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.
The recipients of the LGPS cover a wide range of individuals and by its very nature could disadvantage several groups if this a ring-fenced reserve of deferred pay is jeopardised by taking a level of risk beyond that which is necessary to generate returns.
The Fund also notes that underperformance of investments could in the long term impact contribution rates and employer affordability therefore impacting the affordability of the LGPS as a whole.

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GOV.UK

Department for Levelling Up, Housing & Communities

Open consultation

Local Government Pension Scheme (England and Wales): Next steps on investments

Published 11 July 2023

Applies to England and Wales

Contents

This publication is available at https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments/local-government-pension-scheme-england-and-wales-next-steps-on-investments

Scope of the consultation

Topic of this consultation:

This consultation seeks views on proposals relating to the investments of the Local Government Pension Scheme (LGPS). It covers the areas of asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments.

Scope of this consultation:

DLUHC is consulting on proposals for new requirements on LGPS administering authorities.

Geographical scope:

This consultation applies to England and Wales.

Impact assessment:

The proposed interventions affect the investment of assets by local government pension scheme administering authorities. These authorities are all public sector organisations, so no impact assessment is required.

Basic Information

Body/bodies responsible for the consultation:

Department for Levelling Up, Housing and Communities (DLUHC)

Duration:

This consultation will last for 12 weeks from 11 July 2023 to 2 October 2023.

Enquiries:

For any enquiries about the consultation please contact: LGPensions@levellingup.gov.uk

How to respond:

Please respond by completing an online survey (https://consult.levellingup.gov.uk/local-government-finance/local-government-pension-scheme-england-and-wales/).

Alternatively, please email your response to the consultation to LGPensions@levellingup.gov.uk.

Alternatively, please send postal responses to:

> LGF Pensions Team
> Department for Levelling Up, Housing and Communities
> 2nd Floor
> Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

When you reply, it would be very useful if you could make it clear which questions you are responding to. Additionally, please confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:

- your name
- your position (if applicable)
- the name of organisation (if applicable)
- an email address

Chapter 1: Introduction

1. The Local Government Pension Scheme England and Wales (LGPS) is one of the world's largest funded pension schemes and a key player in global markets, investing around £364 billion (excluding Environment Agency funds) worldwide. Its scale enables it to have a significant impact through its investments and gives it the potential to lead the market in innovation and transparency. While long term stable returns in order to pay pensions for its members are the primary purpose of the investments, the government believes that there is scope to deliver substantial benefits to the UK as a whole at the same time. Good management of the LGPS is important for the financial stability of local councils, and ultimately is in the interests of local taxpayers.

2. The government also recognises that pension funds are under substantial pressure on a number of fronts. There is growing scrutiny of institutional investors on environmental issues and in the light of geo-political risks such as Russia's aggressive and illegal invasion of Ukraine. In addition, recent volatility in gilt and bond markets has underlined the need for the highest standards in managing financial risk. The LGPS as a public sector scheme is rightly subject to particularly high expectations and must keep pace with the best in managing these demands.

3. This consultation seeks views on proposals in 5 areas:

- First, the government sets out proposals to accelerate and expand pooling, with administering authorities confirming how they are investing their funds and why.

While pooling has delivered substantial benefits so far, we believe that the pace of transition should accelerate to deliver further benefits which include improved net returns, more effective governance, increased savings and access to more asset classes. We propose a deadline for asset transition by March 2025, noting we will consider action if progress is not seen, including making use of existing powers to direct funds. Going forward, we want to see a transition towards fewer pools to maximise benefits of scale.

- Second, the government proposes to require funds to have a plan to invest up to 5% of assets to support levelling up in the UK, as announced in the [Levelling Up White Paper (LUWP) (https://www.gov.uk/government/publications/levelling-up-the-united-kingdom)](https://www.gov.uk/government/publications/levelling-up-the-united-kingdom). This consultation sets out in more detail how the Government proposes to implement this requirement and seeks views on its plans.
- Third, the government is proposing an ambition to increase investment into high growth companies via unlisted equity, including venture capital and growth equity. The government believes there are real opportunities in this area for institutional investors with a long-term outlook, such as the LGPS.
- Fourth, the government is seeking views about proposed amendments to the LGPS's regulations to implement requirements on pension funds that use investment consultants. These amendments are needed to implement the requirements of an order made by the Competition and Markets Authority (CMA) in respect of the LGPS.
- Finally, the government is proposing to make a technical change to the definition of investments within LGPS regulations.

4. The following chapters set out the government's proposals in more detail and provide the rationale for its proposals. Chapter 2 addresses the proposals regarding LGPS pooling, Chapter 3 outlines the plans for implementing the LUWP commitment, and Chapter 4 sets out a proposal to encourage the LGPS to contribute growth equity to the development of the UK. Chapter 5 explains the government's proposals in relation to the use of external investment consultants by LGPS funds and Chapter 6 sets out its proposal to update the definition of investments. Finally, Chapter 7 sets out our initial assessment of potential equalities impacts and invites views.

5. To assist those wishing to respond to the consultation, Annex A lists the proposals and Annex B lists the consultation questions.

Chapter 2: Asset pooling in the LGPS

6. The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. The aims were to deliver the benefits of scale, improved governance and decision making, reduced costs and excellent value for money, and capacity and capability to invest in infrastructure to help drive growth. LGPS administering authorities responded by coming together in groups of their own choosing to form 8 asset pools.

7. Those 8 pools are now operational, in most cases for over 4 years. Their scale makes them significant players at European and global level. Set up and running costs of around £400 million to 2022 have been fully covered by savings. Net savings of over £380 million have already been delivered, with annual savings of £180 million, and total net savings are forecast to be over £1 billion by 2025 (based on data provided by pools and administering authorities). Significant expertise and capacity have been developed in private markets and infrastructure investment, giving funds access to the higher returns in these markets. In particular, UK and global infrastructure investment has grown from below £1 billion to around £27 billion (based on data collected by the pools).

8. While pooling has delivered substantial benefits so far, progress has varied across the scheme. Accelerating consolidation of assets in the LGPS is crucial for ensuring the scheme is delivering value for money in the interests of scheme members, employers and local taxpayers. Stronger pools can also ensure the LGPS punches its weight on responsible investment, management of climate risks, investment in levelling up, and investment in unlisted equities in support of UK growth. To meet these challenging ambitions, the LGPS pools and their partner funds will need to strengthen their existing partnerships and work together to deliver outstanding net performance, risk management and transparency. This will enable the LGPS to provide long term finance for pensions for millions of low paid workers, and deliver for the UK through investment in the UK, while retaining local control and accountability. Government proposals, set out below, cover increased scale, governance and decision making, as well as transparency and accountability.

Delivering increased scale

Background

9. Across the scheme as at March 2022 £145 billion or 39% of assets have been transferred to the pools with the percentage varying by pool from under 30% (LGPS Central) to over 80% (LPP). A further £114 billion, or 31%, is under pool management and £34bn or 9% is covered by plans to transition into the pools. We make a distinction throughout this document between pooled assets and assets which are under pool management. Pooled assets are owned by the pool in their capacity as asset manager while assets under pool management are assets where the pool has some management or oversight arrangement without ownership.

10. The current scale of the individual pools (based on AUM pooled and assets under pool management) is in the range £16 billion to £60 billion. This covers a variety of arrangements including passively managed assets held by external managers under insurance contracts, and the pool’s oversight and monitoring of these may be limited. However, excluding assets under pool management, the pools range in size from £2 billion to £30 billion. The pools therefore remain significantly below the scale which they could achieve with all assets transferred from their partner funds, rather than remaining under pool management.

11. A further substantial increase in effective scale is a key priority to enable delivery of the benefits of pooling. Increased scale would allow the pools to deliver further savings and efficiencies, including through negotiating lower fees from external investment managers and service providers, and developing internal capacity for investment management. Increased scale would also enable the pools to invest in larger projects which would help the LGPS to take advantage of attractive opportunities in alternative assets.

12. The government therefore wishes to see the existing pools build scale as quickly as possible by accelerating the pace of transition of liquid assets from the funds into the pools, building on and expanding on successes so far. The approach to date has been to encourage funds through guidance to transition their assets into the pools, and substantial progress has been made over the last 4 to 7 years. However, progress is not consistent across the scheme and some pools have secured a much higher proportion of assets of their partner funds than others. We consider that the time is right for action to accelerate the delivery of savings and other benefits of pooling, and our proposals are set out in paragraphs 17 to 21.

Driving greater scale through fewer pools

13. In due course all assets including less liquid assets should be fully transferred to the pools. We recognise that this may need to take place over a longer period to minimise the costs including the costs of breaking existing arrangements. This would include passively managed insurance contracts which may be under some form of pool management. There may be some exceptions such as some types of local property investments. Once this was complete, 5 of the 8 pools would be around £50 billion or higher at current values and the remaining 3 pools would occupy the £25 billion - £40 billion range.

14. Completing the transition of assets would be a major step forward. However, we do not believe that this alone will deliver the full benefits of pooling in the long term. Our view is that the benefits of scale are present in the £50-75 billion range and may improve as far as £100 billion. As such, we should in future look towards a smaller number of pools in the region of or in excess of £50 billion in directly invested assets through merger. The benefits of scale were a key finding of 2021 research (https://www.brunelpensionpartnership.org/wp-content/uploads/2021/09/LGPS-in-the-UK-Learnings-from-International-Peers.pdf) (PDF, 5.7 MB) based on interviews with large international comparators. Respondents confirmed that scale had improved bargaining power with asset managers, enabled access to a wider set of opportunities such as private markets, and had allowed them to build internal capacity.

15. As well as making better use of expertise in managing external managers, there is potential to grow in-house investment management within the pools to reduce or replace the use of external private sector investment managers. This should offer substantial reductions in cost. A small number of larger funds have existing in house capacity and expertise in some areas of investment, and we would like to see this expertise fully shared within their pools. In due course there

should be scope for all pools to access in house capacity and expertise in specific areas of investment within other pools.

16. In the short to medium term, we believe there are benefits which could be secured through joint working without incurring the costs of merger. Some joint vehicles such as the London Fund (London CIV and LPP) and GLIL (LPP and Northern) already exist. We would like to see the pools move towards greater collaboration where this makes sense, and to consider specialisation, building on existing strengths in particular areas of investment, in order to deliver further benefits of scale and limit unnecessary duplication. Areas where specialisation or collaboration may be particularly attractive include infrastructure and other alternative investments including private equity, private debt and venture capital, as well as investments in levelling up projects and social investments.

Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

A timetable for transition

17. Current statutory guidance relating to regulations on the management and investment of LGPS assets currently requires each fund to set out the proportion of its assets which it intends to pool in its Investment Strategy Statement (ISS). Funds are also required to provide in their ISS a summary of the assets which they do not intend to pool, with a rationale including value for money, and to review this at least every 3 years, including consideration of continuing value for money. This should be greatly assisted by the development of the LGPS Code of Transparency (https://lgpsboard.org/index.php/the-code) by the Scheme Advisory Board. This has enabled funds to access transparent cost data from 150 asset managers as of November 2022. However, current guidance sets no timetable for change and provides funds with limited assistance in considering rationale and value for money.

18. The government now seeks views on the setting a deadline for funds to transition all listed assets, as a minimum, to their pool within a reasonable timeframe. We consider a reasonable timeframe for liquid assets to be by 31 March 2025, which is the end of the current local fund valuation period. Transition of all assets should be considered in this timeframe, especially as pooling of illiquid investments may offer the greatest opportunities for reducing savings combined with higher returns.

19. If this is taken forward, funds would need to work with their pool to ensure that they have fully considered all the opportunities available through the pool for their assets. A detailed rationale for each asset remaining outside the pool including value for money considerations would need to be provided in the ISS in line with existing guidance if the asset is not intended to be pooled by 2025.

20. The government seeks views on setting out the transition timetable in statutory guidance on ISS, and requiring funds to review and revise their ISS in line with this expectation. Where funds have concluded that the asset should not be transitioned, the government will expect a rationale to explain why this is the case. We also propose to provide fuller guidance on the existing requirements for ISS in relation to pooling, including guidance on rationale, value for money and review for assets which it is not intended to pool.

21. For further proposals on annual reporting of progress against the plan set out in the ISS see paragraph 41.

Question 2: Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

Governance and decision making

Background

22. Administering authorities are responsible for setting the investment strategy of their funds, having taken proper advice. This includes setting the asset allocation to achieve a diversified portfolio of investments which overall is suitable to meet liabilities, as well as describing the approach to pooling and responsible investment, in line with statutory guidance.

23. Once the investment strategy has been chosen, the expectation set (https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance) when the funds were invited to form pools in 2016 was that as a minimum, the selection of external fund managers and the implementation of the investment strategy would take place at the pool level, in order to streamline decision making, reduce the number of external managers and deliver reduced fees.

24. In practice, funds have adopted a range of approaches. A small number of funds have transferred most of their assets to the pool and delegated strategy decisions below a very broad asset allocation as well as all implementation decisions to their pool, including for assets remaining outside the pool. Some funds have delegated manager selection and other implementation decisions to the pool for their pooled assets only, as well as agreeing broad mandates for some pool vehicles. The pool partnerships which have a higher degree of delegation, closer alignment of strategy and larger proportion of assets pooled have the conditions in place to deliver significantly higher savings compared to pools less advanced in their pooling journey.

25. Some funds have transferred some assets to the pool but only where the pool provides their preferred external manager or mix of assets within a pool vehicle. In these circumstances pools may respond by creating different products for each

partner fund or for small groups of funds, leading to a high number of pool sub-funds or vehicles, which limits the savings which can be achieved.

26. A very small number of funds have joined a pool but pooled no or very few assets. They may have benefited from a wider reduction in fees in the market, in part driven by pooling, but have chosen not to take up the other potential opportunities to date.

27. More effective and consistent governance and decision making is therefore the second key priority for the future of LGPS pooling. Research (https://www.brunelpensionpartnership.org/wp-content/uploads/2021/09/LGPS-in-the-UK-Learnings-from-International-Peers.pdf) (PDF, 5.7 MB) suggests that asset pools internationally are more effective with modern governance structures which enable delegation with accountability and allow decisions to be taken quickly on behalf of partner funds. This will include in particular effective delegation of strategy implementation to the pools by administering authorities.

28. It is the government 's view that the experience of the last 4 years has demonstrated that funds participating in a strong partnership with their pool and with other partner funds, in which they delegate effectively to their pool and align their strategies where possible, are likely to see the most gains, as these approaches allow the pool to deliver the benefits of scale. Others have moved more slowly but in order to maximise the benefits the full participation of all is essential. We want to see all funds moving in this direction in order to deliver the benefits of pooling for all.

Improving governance

29. Setting the investment strategy and asset allocation is a central responsibility for administering authorities, which gives them the most significant degree of influence on returns. It is generally accepted that the strategy accounts for most of the difference in net returns between portfolios, with implementation decisions such as manager selection having a relatively small impact. We do not propose any change to the responsibility of funds for setting investment strategies.

30. We therefore propose revised guidance on pooling to confirm and strengthen the existing guidance on delegation of manager selection and strategy implementation. It would also provide revised guidance on governance, including member representation, transition of assets and new investments outside the pool. We also propose to include guidance on investments in levelling up. This is discussed in Chapter 3.

31. Government recognises that each model has its own benefits. In order to move forward more quickly with the benefits of pooling, we regard the following aspects as being key to progress.

- Pools should operate as a single entity which acts on behalf of and in the sole interests of the partner funds. For this reason, we do not see inter-pool competition as a desirable progression. This does not preclude the potential for inter-pool collaboration, which is encouraged by government.

- Pools should be actively advising funds regarding investment decisions, including investment strategies.
- Pools should be equipped to implement an investment strategy as instructed by their partner fund. An investment strategy should be interpreted to mean a broad instruction regarding asset classes and level of risk. It should not include an excessive number of classes, or choice of specific assets.
- Pools should expect funds to invest via their existing sub-funds where possible. This avoids an unfavourable scenario whereby an excessive number of similar sub-funds undermine the purposes and benefits of pooling.
- Pool governance structures should be equipped to take quick decisions as opportunities present themselves, within the delegated remit of the fund.

Question 3: Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

32. Pensions expertise is an important criterion for decision making, and there are some factors which may make it harder to acquire that expertise under current structures. Firstly, pensions committees generally have high levels of turnover. Second, members of such committees are not required to complete training and may have no specific expertise in pensions. The outcome of these factors is that expertise may be lower than an equivalent panel of trustees for a private sector scheme, with higher reliance on advisors. Some targeted requirements, specifically on training, would help administering authorities to manage these issues.

33. We propose that each administering authority sets a training policy for committee members. We propose that the administering authority should report regularly on the training undertaken by committee members and whether this is in line with their training policy.

Question 4: Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

Transparency and accountability

Background

34. Current reporting relevant to the assets of the LGPS comprises the following:

- **Official statistics** - The annual LGPS statistics collected on the SF3 form by the Department and published in September contain only the overall asset value for the scheme and each fund, with no data on asset classes or other information.
- **Annual reports.** Annual reports are required by CIPFA guidance (https://www.cipfa.org/policy-and-guidance/publications/p/preparing-the-annual-report-

guidance-for-local-government-pension-scheme-funds-2019-edition) to include the value and percentage of pooled and non-pooled assets, the costs and performance of pooled and non- pooled assets, the progress of transition during the reporting year and the plans for transition of non-pooled assets. Annual reports are required to be published by 1 December for the preceding financial year. Funds are also required by guidance on ISS to report annually to the SAB on the progress of asset transition to the pool against implementation plans (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/627030/Guidance_on_preparing_and_maintaining_an_investment_strategy_statement.pdf) (PDF, 150 KB). Pool annual reports provide some additional information but vary considerably in level of detail.

- **Scheme Advisory Board (SAB) annual report.** The SAB produces a report which summarises data from published fund annual reports on governance, funding, membership, financial position, investments and stewardship. It does not currently include data on the progress of asset transition or other data or commentary on pooling. With respect to investments, the Scheme Annual Report reports the proportion of the scheme which is invested in pooled investment vehicles, public markets, bonds, direct property, derivatives, cash and other asset classes. This is based on data in the Net Asset Statement in the annual accounts of administering authorities. Authorities do not report their asset breakdown in a consistent way, and a degree of judgement is exercised by the SAB in interpreting their reports. The commentary on investment performance is based on data provided by PIRC which covers around two thirds of funds. The Annual Report is published in the spring following the end of the financial year to which it relates.

35. In addition, the government recently consulted (https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks) on new requirements for funds to report on climate-related risks to their assets. We will publish the government's response in due course.

36. The current reporting regime provides a substantial quantity of data but does not provide transparency on progress of pooling by fund, by pool or across the scheme. It also does not provide an overall view of asset allocation across the scheme.

37. It is the long-standing view of government, whatever the subject, that transparency should be welcomed. The government seeks views on increasing transparency of asset allocation, pooling, return and savings.

Annual Reports and LGPS statistics

38. We therefore propose to require a single standard set of data on investments across annual reports and LGPS statistics. This would consist of:

- data on the broad asset classes into which LGPS investments fall in a consistent way, for example equities, bonds, private equity, private debt, property. We would work with the SAB to define the asset classes to be chosen and seek the agreement of the Central-Local Information Partnership (Finance) in the normal way for the necessary changes to the data collected from funds for LGPS official statistics. In designing this table, we will take account of requirements for defined contribution schemes and the reporting requirements which apply to private defined benefit schemes via the scheme return (https://www.thepensionsregulator.gov.uk/en/trustees/submit-reports-payments-and-requests-to-us/scheme-return/db-and-mixed-benefit-scheme-return) (an annual return required by The Pensions Regulator).

- for each asset class, data on the assets which are pooled, under pool management and not pooled and that the definitions are clarified. This will include the allocation to infrastructure and levelling up.
- net savings achieved as a result of investing via the pool.

39. We also propose to define the categories as set out in paragraph 9. Pooled assets would mean that the assets are directly owned and managed by the pool. Assets under pool management would cover assets which are managed or overseen but not owned by the pool. Neither category would include any assets which are held by collective investment vehicles other than those managed by the 8 LGPS pools.

40. We propose that the requirements to report on asset allocation and pooling data would be set out in revised guidance on pooling and in revised guidance on annual reports which is under consideration by the SAB.

41. We also propose to introduce a requirement to include commentary in the annual report on the progress of asset transfer against implementation plans and the approach to pooling set out in the ISS, in order to ensure funds are transparent and accountable on the progress of asset transition.

42. We also view it as desirable that each fund report the returns achieved by assets invested in each asset class against an appropriate benchmark, in a way that is consistent across funds, and easily comparable between pooled and non-pooled assets. We welcome views on how such a regime may work in practice.

43. We believe that these measures would ensure that data and commentary on the progress of pooling and on asset allocation is available earlier, is consistent across the scheme and between LGPS statistics and annual reports. We recognise there may be increased costs arising from a change to the asset classes reported, but these can be met from the fund, and costs should be reduced by having a single standard set of data. We consider some additional costs can be justified to ensure better public accountability.

Question 5: Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?

Scheme Annual Report

44. The SAB produces a Scheme Annual Report which aggregates information from fund annual reports. The purpose of the Annual Report is to provide a single source of information for members, employers and other stakeholders. Continual improvement of this report is a key priority of the SAB and is supported by the government. We intend the proposals in this consultation to assist the SAB in this goal.

45. We believe that the single standard set of data discussed above will make it easier to provide a clear overview of the scheme's asset allocation and of the progress of pooling. We have agreed with the SAB that they will incorporate this change into the Scheme Annual Report in future years by including a table which divides assets by category (equity, bonds, property etc) as well as by pooled status (pooled, not-pooled or under pool management).

Question 6: Do you agree with the proposals for the Scheme Annual Report?

Directions by the Secretary of State

46. Under Regulation 8 the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "2016 regulations" (https://www.legislation.gov.uk/uksi/2016/946/regulation/8/made)) the Secretary of State has power, after consultation, to make directions to a fund where that fund is in breach of statutory guidance. Directions can cover the fund's investment strategy statement, its assets, the running of the fund's investment function, or any other instruction in relation to its investment function.

47. No such directions have been issued by the Secretary of State under Regulation 8.

48. Government will expect administering authorities to act in accordance with statutory guidance once issued. Where funds do not comply with guidance, government will consider whether a direction is appropriate. Examples of activities which could result in this include: withdrawing pool membership, failing to transition assets in line with the timetable or failing to provide adequate justification for non-pooled assets.

49. The Secretary of State also has power under section 3(2)(a) and Schedule 3 of the Public Service Pensions Act 2013 to make regulations on the administration, management and winding-up of LGPS pension funds, subject to consultation and the consent of HM Treasury.

Summary of proposals

50. The proposals are:

- To revise ISS guidance to include requirements to transfer listed assets to the pool by 31 March 2025, and to set out in the ISS:

- assets which are pooled, under pool management and not pooled, and
- to provide a rationale, value for money and date for review for assets which are under pool management or not pooled
- To revise pooling guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above including on delegation of manager selection, strategy implementation, advice, governance, transition of assets, new investments outside the pool and reporting.
- To implement a requirement in guidance for administering authorities to have a training policy for pensions committee members and to report against the policy
- To revise guidance on annual reports to require greater clarity on progress of pooling including a summary asset allocation (including investment in infrastructure and levelling up), a comparison between actual and strategic asset allocation and a report of the net savings from pooling. We also seek views on whether there should be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how this requirement should operate.
- For the Scheme Advisory Board to expand their Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS.
- To make changes to LGPS official statistics to provide greater transparency on asset allocation and the proportion of assets which have been pooled.

51. Should this be taken forward, we intend to monitor progress over the current valuation period (to 31 March 2025), based on fund annual reports, LGPS statistics, the Scheme Annual Report and other evidence. This monitoring will include progress on transition, governance and reporting and how effective these are in delivering improvements in efficiency, cost and performance.

52. Whilst reserving our ultimate position, the government's strong preference is to see progress continue on a voluntary basis within a strengthened framework. This will maintain local management and accountability in the LGPS, while delivering significant savings and better risk management, and avoiding waste and duplication. But we will consider action to ensure progress if necessary, including making use of existing powers to direct funds.

Chapter 3: LGPS investments and levelling up

Background

53. In the Levelling Up White Paper (LUWP) (https://www.gov.uk/government/publications/levelling-up-the-united-kingdom) the government set out its mission to tackle the uneven distribution of opportunity in the United Kingdom (UK). The aim is to level up the UK by spreading opportunity more equally across the country and bring left behind communities up to the level

of more prosperous areas. To do so will mean that the whole country succeeds by growing the economy and realising the potential of places and people across the UK.

54. One of the key ambitions in the levelling up programme is to boost productivity, grow the economy, and raise living standards across the UK. One way in which this mission can be achieved is by ensuring that some of the funds managed by institutional investors flow into projects that help deliver levelling up while also offering attractive returns.

55. The Local Government Pension Scheme (LGPS) with assets of £364 billion, projected to increase to £500 billion by 2030, is a major institutional investor. The government wishes to encourage the LGPS to continue to meet its core fiduciary duty of funding pensions for members while also supporting levelling up by investing in infrastructure, housing, regeneration, and small and medium enterprise (SME) finance across the whole UK, not only in the local area of an authority. Overall, £27 billion of LGPS funds had already been invested in infrastructure in the UK and overseas by March 2022.

56. The government has set an ambition in the LUWP for LGPS funds to invest up to 5% of their assets under management (AUM) in projects which support local areas. To implement this ambition, the Government is asking LGPS funds to work with LGPS asset pools to publish plans for increasing their local investment.

Defining investment in levelling up

57. In developing their plans, LGPS funds will need to consider what types of investments will contribute to levelling up. This section therefore sets out a proposed approach to assessing whether an investment supports levelling up, drawing on the LUWP and its discussion of different forms of capital and levelling up missions. The definition is intended to help LGPS funds and pools in considering how they could invest a share of their AUM in a way that promotes growth, supports levelling up, and meets their fiduciary duty to ensure members' pensions.

58. The ambition of the levelling up agenda is to reduce geographical disparities. While some areas of the UK already benefit from all the conditions for growth, the government is keen to improve productivity, boost economic growth, encourage innovation, create good jobs, and enhance educational attainment in those parts of the UK that have so far had an unequal share of the country's economic success. In pursuing this ambition, the government believes that a boost to productivity, pay, jobs, and living standards can be achieved through targeted interventions that extend opportunities more equally across the UK.

59. Current causes of the UK's spatial disparities include changes in the global economy and their uneven impact on the country's regions, but the key drivers lie in the 6 forms of capital identified in the LUWP (human, intangible, financial, physical, social and institutional). While each capital is important in its own right, it

is their interaction that creates a virtuous cycle that encourages economic growth and the associated societal benefits.

60. To address the imbalances in how the 6 capitals are distributed across the UK, the government has identified 12 medium-term levelling up missions (living standards, research and development, transport, digital connectivity, education, skills, health, well-being, pride in place, housing, crime and local leadership). Institutional investors such as pension funds can contribute to the levelling up missions while also benefitting from such investments. Global investors, including pension funds from Canada and Australia, are already active investors in such projects, but UK institutional investors are under-represented.

61. The government believes that the LGPS should secure the benefits of such investment and can play a key role in building a pipeline of investable UK opportunities without costly deal by deal auctions. With assets of around £364 billion the LGPS has large investable assets, investment expertise in the pools, and local networks. It is well placed to identify investment opportunities and ensure these meet the risk/return profiles demanded by LGPS funds.

62. To help LGPS funds make their plans, the government proposes that an investment would meet the levelling up requirement if

- it makes a measurable contribution to one of the levelling up missions set out in the LUWP; and
- it supports any local area within the United Kingdom.

63. We consider the following existing LGPS investments as examples of investments which would fall within the proposed definition:

- Nottinghamshire Pension Fund invested £1.5 million (https://www.impactinvest.org.uk/case-study/direct-investment-nottinghamshire-community-energy/) in Nottinghamshire Community Energy in 2016 to help construct and manage a solar farm to produce clean energy. The profits help support projects in Nottinghamshire to address climate change mitigation, wildlife conservation, and reducing fuel poverty while delivering a good return on investment.
- Durham County Council Pension fund has committed £18 million (https://www.foresightgroup.eu/private-equity?tab=6) to enable the launch of a new private equity investment fund that supports SMEs across the North East. The fund's purpose is to support economic growth and create high-quality local jobs in the region, while targeting an appropriate rate of return for its investors.
- Greater Manchester Pension Fund has a £50 million (https://www.insidermedia.com/news/north-east/foresight-launches-new-fund-for-smes) Invest 4 Growth portfolio which makes investments that provide a commercial return and have beneficial economic, social, or environmental impacts.The fund also uses its £401 million Impact Portfolio to invest regionally in supported living accommodation, renewable energy, and loans to SMEs.
- South Yorkshire Pension invests around £80 million (https://bdaily.co.uk/articles/2022/12/09/80m-investment-from-south-yorkshire-pensions-

authority-boosts-local-economy) in local development projects and aims to generate commercial return whilst delivering a positive local impact.

64. Funds should ensure that any levelling up investment plan they produce is consistent with their existing overall investment strategy statement and funding strategy statement. We intend to develop guidance working with the Scheme Advisory Board on levelling up investments which meet the requirement announced in the Levelling Up White Paper.

Question 7: Do you agree with the proposed definition of levelling up investments?

Fiduciary duty and investing in levelling up

65. This new requirement would not alter the established fiduciary duty of LGPS funds to make investment decisions in order to pay pensions. Investments that support levelling up may form part of a well-diversified portfolio with a range of risk/return characteristics. As current investment activity across the LGPS underscores, such investments may create attractive risk adjusted returns for pension funds and help deliver economic growth and societal benefits.

66. Under existing environment, social, and governance (ESG) criteria, set out in Guidance on Preparing and Maintaining an Investment Strategy Statement (https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement), funds may also take non-financial considerations into account when making investments, provided that they have good reasons to think the scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

Enabling investment to support levelling up

67. Under these proposals, administering authorities would be expected to evaluate possible levelling up investments and assess their suitability for their fund's investment strategy. There is scope for projects of different scales, risk/return profiles, and geographical concentrations to be considered.

68. Private markets are a principal way through which investments that support levelling up can be made. These markets are particularly important in infrastructure, clean energy and regeneration investing and they are therefore likely to play a role in delivering funds' levelling up investments. This route to investment, however, presents challenges, especially for smaller LGPS funds. The minimum investment may be quite high, and at higher cost than public market investments. Specialist expertise is needed to assess risk and return profiles and source and negotiate opportunities.

69. The LGPS asset pools can offer a route to investing in levelling up through private markets. They can put together an investment of sufficient size with the

participation of their partner funds. Those which are wholly owned companies can also provide investment at lower cost as they are established on a not for profit basis and have developed the expertise and capacity to invest in private markets through intermediaries and in some cases are able to invest directly or to co-invest, which reduces costs.

70. There may also be concerns about local investments. Perceived or potential conflicts of interests may arise between the fund and the administering authority in its wider role as the local authority, if funds invest in inappropriately high-risk projects in the area in which they are located. The LGPS asset pools can assist by ensuring that decisions to invest in a local area can be taken at pool level to avoid any perceived or potential conflict of interest and take advantage of the pool's expertise.

71. Some LGPS asset pools have already created investment vehicles to enable funds to invest in levelling up projects more easily:

- GLIL was established in 2015 by the Greater Manchester Pension Fund and the London Pensions Fund Authority with £500 million in capital commitments. It was expanded in 2016 with the admission of 3 further LGPS funds. GLIL invests in core infrastructure assets predominantly in the UK and focuses on investment opportunities that are backed by physical assets, offer a reliable cash flow, and are isolated from business cycles. It currently has £3.6 billion of committed capital and has deployed £2.1 billion across 13 assets that include offshore windfarms, electric train fleets, and solar farms.
- The London Fund is a collaboration between the Local Pensions Partnership Investments (LPPI) and the London Collective Investment Vehicle (LCIV). The Fund's aim is to invest in the capital, with a focus on developing housing and infrastructure. In making investment decisions, the London Fund is seeking positive contributions to social and environmental issues too. For the fund's partners the London Fund also represents an opportunity to access a greater range of investment opportunities than if they acted alone.
- Brunel Pension Partnership has designed and implemented a portfolio for one of its partner funds, Cornwall Pension Fund, to facilitate local investment in affordable housing and renewable energy in Cornwall. Cornwall Pension Fund made an initial investment of £115 million despite being one of the smaller LGPS funds.

72. The government wishes to see specialist expertise in local investments within pools and their private sector partners continue to evolve, to ensure that funds and the UK as a whole can benefit from investment in levelling up. The scale of the LGPS and a new requirement for the LGPS to set a plan to invest in levelling up should provide an important spur to this development.

73. The government looks to the pools to develop further such solutions in collaboration with their partner funds. This approach will maximise the opportunities to capitalise on administering authorities' local knowledge and asset pools' scale and private market access. Pools may choose to leverage their local networks to work with local partners to develop opportunities and avoid the deal by

deal auctions which can add cost to infrastructure investment. In due course they may also develop the capacity and knowledge to invest in smaller scale local projects which may be too small for private sector intermediaries, and help tackle the capital gap for smaller projects.

74. However, some pools do not currently have internal asset management capacity, or the range of investment vehicles required to meet the needs of their partner funds. To increase the range of options available to funds to deliver investment in levelling up, it may be helpful for funds to invest through their own pool in investment vehicles provided by other pools. The government therefore proposes to set out in guidance that LGPS funds may invest through their pool in another pool's investment vehicle.

Question 8: Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

Implementing the requirement to publish plans for increasing local investment

75. The government proposes to amend regulations to require funds to publish a plan on how they will invest up to 5% of their assets under management (AUM) in projects that support levelling up across the UK. The plan may form part of the investment strategy statement. It should take account of the fund's investment and funding strategy statements and be reviewed at least every 3 years in line with the local valuation cycle.

76. It is proposed that the plan should include:

- The fund's current level of investment in levelling up investments
- A plan to increase levelling up investments to deliver an allocation of up to 5% of AUM including the timeline to delivery
- The fund's approach to working with their pool to reach their chosen allocation.

77. Many funds will already have some investments which contribute to levelling up, and in some cases this may exceed 5%. Some funds may wish to increase their investment above 5%. It will be for funds to decide the appropriate level of investment and types of investment.

Question 9: Do you agree with the proposed requirements for the levelling up plan to be published by funds?

78. The government also proposes to require funds to report annually on their progress against their plan in their annual report. This requirement is proposed to provide transparency and accountability on the progress and investments made by funds. The section of the annual report on levelling up would be expected to include:

- The percentage of AUM invested in levelling up projects compared to the fund's plan for that year, the percentage in the previous year, and the ambition set by the fund
- The amount and type of levelling up investments that have been made through the fund's LGPS pool, and outside the pool.
- A narrative account explaining the changes in AUM allocated and the progress against the fund's plan, and the rationale for investing through the pool or outside the pool.

79. The government intends to include guidance on the new requirement and on reporting progress in revised guidance on investment strategy statements and on pooling.

Question 10: Do you agree with the proposed reporting requirements on levelling up investments?

Divestment

80. Many administering authorities are under pressure to divest assets from certain countries or geographical regions, even though the UK government has no sanctions in place against those countries or regions. The government strongly believes that local authority pension funds do not, and should not, have their own foreign policies. The government intends to implement the manifesto commitment to prevent public bodies pursuing boycotts, divestments and sanctions campaigns (BDS) against foreign countries or territories, unless in line with the UK's official foreign policy, through the Foreign Affairs (Economic Activity of Public Bodies) Bill, introduced in June .

Chapter 4: Investment opportunities in private equity

Background

81. The government is launching a package of measures to reform the pensions landscape as part of the government's capital markets strategy, making more capital available to support UK companies and seeking to boost the retirement incomes of UK pension savers. These measures sit alongside legislative and regulatory changes that strengthen the UK's position as a destination for listings, and cement the UK's standing as a global trading hub, attracting world leading companies including tech firms to incorporate, list and grow here. This initiative seeks to support the high-growth, innovative technology companies that often struggle to obtain the scale-up capital they need to reach their potential. British Business Bank (BBB) research suggests that the UK's venture capital financing gap relative to the US is over £5 billion per annum, despite UK funds making similar returns to their US counterparts.

82. The LGPS is largely well funded and has a very long-term time horizon, unlike most private sector defined benefit funds, which are typically closed and much more mature. Investing a higher percentage of LGPS capital into high-growth companies via private equity (particularly venture capital and growth equity), could generate improved returns to pay pensions. This includes but is not limited to innovative UK companies operating in fintech, life sciences, biotech, and green technology sectors.

83. The Scheme Annual Report for 2021-22 indicates the LGPS has a strong investment allocation into private equity of 4.3%, recognising the exact figure will vary across funds and will cover late-stage private equity in addition to venture capital and growth equity. Private reports indicate this is the highest performing asset class across the LGPS.

Ambition of 10% investment allocation in private equity

84. The government wishes to see LGPS funds and pools doubling their current allocation into private equity, with a total ambition of 10% investment allocation, as part of a diversified but ambitious portfolio. This ambition will help drive business investment throughout the country, in a way that allows everyone in the UK to benefit from the growth of our economy, by boosting LGPS investment returns, incentivising companies to grow and list in the UK, and grasping productive opportunities of the future.

85. Each fund will be different and will need to make its own investment decisions based on potential risk and reward appetite. As with any other asset class, it is important for administering authorities to exercise judgement on their exposure to private equity, as with any other asset class, and any investment in these asset classes should be part of a diverse and balanced portfolio.

86. We propose that LGPS funds should complete this consideration of private equity opportunities, including growth equity and venture capital, as part of the regular review of their investment strategy statement, and that the new requirement would be set out in revised guidance on investment strategy statements.

87. As with investments in levelling up, we expect that funds will work with their pool in considering such investments to ensure that they make use of the scale, capacity and expertise of the pool and take advantage of the full range of opportunities in size and type. We welcome views on further opportunities for government to remove any barriers to investment in UK growth equity and venture capital by the LGPS.

Question 11: Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

British Business Bank

88. The British Business Bank (BBB) is a government-owned economic development bank that makes finance markets for smaller businesses work more effectively, allowing those businesses to prosper, grow and build UK economic activity.

89. One of the BBB's strategic objectives is to back UK innovation by improving the way that equity finance markets work to support the UK's most promising businesses. The BBB has a range of programmes to deliver this objective, including British Patient Capital (https://www.britishpatientcapital.co.uk/) (the BBB's commercial subsidiary with resources of £2.5 billion, which has delivered an internal rate of return of 32.9% since inception and Enterprise Capital Funds programme, which supports earlier stage businesses.

90. In delivering these programmes, the BBB has become the largest domestic investor in UK venture capital with deep expertise to support due diligence and the ability to invest at scale. This could be of benefit to the LGPS in finding attractive opportunities in this space. We support the LGPS, in particular the pools, to explore opportunities to collaborate and capitalise on the Bank's expertise and capabilities in venture capital and growth equity, and will bring forward any changes to secondary legislation which currently inhibit this.

Question 12: Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?

Chapter 5: Improving the provision of investment consultancy services to the LGPS

Background

91. In 2017 the Financial Conduct Authority (FCA) published its final Asset Management Market Study Report (https://www.fca.org.uk/publication/correspondence/provision-view-uil-mir-investment-consultancy-services.pdf) (PDF, 317 KB). At the same time, the FCA made a reference to the Competition and Markets Authority (CMA) for a market investigation into the supply and acquisition of investment consultancy services and fiduciary management services to and by institutional investors and employers in the UK.

92. The CMA focussed its investigation on pension funds as the core clients for investment consultancy and fiduciary management services, and published its final report (https://assets.publishing.service.gov.uk/media/5c0fee5740f0b60c8d6019a6/ICMI_Final_Re

port.pdf) (PDF, 3.1 MB) in December 2018.This found that for both investment consultancy and fiduciary management services there was a low level of engagement by trustees, a lack of clear and comparable information to assess value for money, and an incumbency advantage for investment consultants in steering clients to their own fiduciary management services.

93. Based on its findings, the CMA made The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 (the Order) (https://assets.publishing.service.gov.uk/media/5cfdfa86e5274a090f9eef8e/Order_investment_consultants.pdf) (PDF, 230 KB) in June 2019 to tackle the adverse effects on competition identified. The Order applies to all registrable pension schemes including the LGPS and came into force on 10 December 2019.

94. The Order was intended as an interim measure to make changes quickly while statutory authorities take steps to implement the remedies in the relevant legislation. DWP has implemented the Order's requirements for private pension scheme trustees through The Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2022 (https://www.legislation.gov.uk/uksi/2022/825/note/made).

95. However, LGPS administering authorities fall within the exemption in the Order at Article 3.6 that exempts any pension scheme trustees that are contracting authorities for the purposes of the Public Contracts Regulations 2015. These regulations cover local authorities including administering authorities, which means that administering authorities are exempt from the requirement of the Order to put fiduciary management services out to competitive tender.

96. Further, LGPS pool companies owned by LGPS funds are exempt from the Order under Article 1.7(b) which excludes in house or wholly owned investment consultancy providers and fiduciary management service providers. The exclusion under Article 1.7 of the Order applies to the Order as a whole (see para 15 of the Explanatory Note to the Order). This also puts LGPS pool companies outside the scope of the Order regarding any investment consultancy services they provide.

97. As a result, the only requirement in the Order which requires implementation in the LGPS is the requirement to set strategic objectives for investment consultancy they receive outside the LGPS pool companies. The Order prohibits funds from receiving any investment consultancy services unless they have set strategic objectives for their investment consultancy provider (Art 12). These strategic objectives should also closely relate to the fund's investment strategy and be reviewed at least every 3 years or whenever the investment strategy changes significantly. Further, there is an expectation of regular performance reporting by the investment consultancy provider that measures performance against these strategic objectives (see paragraph 91 of the Explanatory Note to the Order).

Implementing the CMA Order for the LGPS

98. As the responsible authority for the Local Government Pension Scheme, the Department for Levelling Up Housing and Communities (DLUHC) proposes to

amend LGPS regulations and statutory guidance to implement the Order's requirements for the provision of investment consultancy services for the LGPS.

99. Setting strategic objectives for investment consultants is in line with wider ambitions to improve governance and transparency in the LGPS and should encourage administering authorities to better monitor performance and improve the quality and value for money of such services over time.

100. We therefore propose that:

- Where the administering authority uses investment consultancy services in relation to its Investment Strategy Statement or for other matters, it must set strategic objectives for the investment consultancy provider, unless the provider is exempt (such as the LGPS pools);
- Administering authorities must not enter investment consultancy services contracts or continue to receive such services from any provider unless the authority has set strategic objectives for that provider
- Administering authorities must review strategic objectives at least every 3 years or every time the ISS changes substantially
- Strategic objectives must have regard to guidance on setting objectives for providers of investment consultancy services issued by the Pension Regulator in November 2019.

101. Investment consultancy services would include services where the provider advises the administering authority in relation to one or more of the following:

- investments that may be made or retained by or on behalf of the administering authority
- any matters in respect of which the administering authority is required by law to seek advice in relation to the preparation or revision of the investment strategy statement
- strategic asset allocation
- manager selection

102. In line with the definition of investment consultancy services in Article 2.1 of the Order, advice would mean advice on the merits of the administering authority taking or not taking a specific course of action and includes any recommendation or guidance to that effect. It is not intended that the term would cover the high-level commentary provided by actuaries in or in respect of triennial valuation reports and with regard to the link between investment approach and the administering authority's funding objectives.

103. The government proposes to implement these requirements by amending The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations) (https://www.legislation.gov.uk/uksi/2016/946/contents/made) and associated guidance (https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement).

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

Chapter 6: Updating the LGPS definition of investments

104. In making the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (S.I. 2016/946 (https://www.legislation.gov.uk/uksi/2016/946/contents/made)) (the 2016 Regulations), the Government intended to ensure that the definition of investments which were or could be made by LGPS administering authorities included passive insurance contracts, private equity and derivatives.

105. After laying the 2016 Regulations, the Joint Committee on Statutory Instruments (JCSI) identified an issue relating to the drafting of regulation 3(1)(b) and regulation (4) of the 2016 Regulations. Regulation 3(1)(b) was intended to include contributions in an unquoted securities investment partnership within the definition of investment but reads as follows:

> Reg 3(1)(b) a contribution to a limited partnership in an unquoted securities investment

106. Regulation 3(4) defines unquoted securities investment partnerships as a partnership for investing in securities which are normally not quoted on a recognised stock exchange when the partnership buys them.

107. The Department undertook to amend regulation 3(1)(b) of the 2016 Regulations to align it with regulation 3(4) at the earliest available opportunity. We therefore propose 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

108. The proposed amendment to regulation 3(1)b would ensure consistency with the language used in regulation 4, where unquoted securities investment partnerships are defined. The proposed amendment should also eliminate any ambiguity in regard to regulation 3(1)b.

Question 14: Do you agree with the proposed amendment to the definition of investments?

Chapter 7: Public sector equality duty

109. The Department's policies, guidance and procedures aim to ensure that the equalities impact of any decisions, new policies or policy changes upon groups with protected characteristics is properly considered, and that in formulating them the Department has had due regard to its obligations under the Public Sector Equality Duty at s.149(1) of the Equality Act 2010.

110. We have made an initial assessment and we believe our proposals on reforms to pooling, investment in levelling up, investment in venture capital, requirements on the use of investment consultants and changes to the definition of investment in chapters 2 to 6 do not affect any particular groups with protected characteristics adversely, as there will be no change to member contributions or benefits as a result. There may be an indirect benefit to protected groups who live in deprived areas which benefit from levelling up investments.

Question 15: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

Annex A: List of consultation proposals

Pooling

To revise ISS guidance to include requirements to transfer listed assets to the pool by 31 March 2025, and to set out in the ISS:

- assets which are pooled, under pool management and not pooled, and
- to provide a rationale, value for money and date for review for assets which are under pool management or not pooled

To revise pooling guidance so as to set out fully how funds and pools should interact and promote a model of pooling which includes the characteristics described above including on delegation of manager selection, strategy implementation, advice, governance, transition of assets, new investments outside the pool and reporting.

To implement a requirement in guidance for administering authorities to have a training policy for pensions committee members and to report against the policy

To revise guidance on annual reports to require greater clarity on progress of pooling including a summary asset allocation (including investment in infrastructure and levelling up), a comparison between actual and strategic asset allocation, and a report of the net savings from pooling. We also seek views on whether there should be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how this requirement should operate

For the Scheme Advisory Board to expand their Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS.

To make changes to LGPS official statistics to provide greater transparency on asset allocation and the proportion of assets which have been pooled.

Investment in levelling up

To amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan.

Investment in private equity

To revise ISS guidance to require funds to consider such investments to meet the government's ambition of a 10% allocation to private equity in the LGPS.

Investment consultancy services

To amend regulations to set requirements funds with respect to investment consultants in line with the CMA order.

Definition of investment

To amend investment regulations to correct an inconsistency in the definition of investment.

Annex B List of consultation questions

Chapter 2: Asset pooling in the LGPS

Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

Question 2: Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

Question 3: Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

Question 4: Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

Question 5: Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?

Question 6: Do you agree with the proposals for the Scheme Annual Report?

Chapter 3: LGPS investments and levelling up

Question 7: Do you agree with the proposed definition of levelling up investments?

Question 8: Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

Question 9: Do you agree with the proposed requirements for the levelling up plan to be published by funds?

Question 10: Do you agree with the proposed reporting requirements on levelling up investments?

Chapter 4: Investment opportunities in private equity

Question 11: Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

Question 12: Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?

Chapter 5: Improving the provision of investment consultancy services to the LGPS

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

Chapter 6: Updating the LGPS definition of investments

Question 14: Do you have any comments on the proposed amendment to the definition of investments?

Chapter 7: Public sector equality duty

Question 15: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

About this consultation

This consultation document and consultation process have been planned to adhere to the consultation principles (https://www.gov.uk/government/publications/consultation-principles-guidance) issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Environmental Information Regulations 2004 and UK data protection legislation. In certain circumstances this may therefore include personal data when required by law.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the information access regimes and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department for Levelling Up, Housing and Communities will at all times process your personal data in accordance with UK data protection legislation and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included below.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure (https://www.gov.uk/government/organisations/department-for-levelling-up-housing-and-communities/about/complaints-procedure).

Personal data

The following is to explain your rights and give you the information you are entitled to under UK data protection legislation.

Note that this section only refers to personal data (your name, contact details and any other information that relates to you or another identified or identifiable individual personally) not the content otherwise of your response to the consultation.

1. The identity of the data controller and contact details of our Data Protection Officer

The Department for Levelling Up, Housing and Communities (DLUHC) is the data controller. The Data Protection Officer can be contacted at dataprotection@levellingup.gov.uk or by writing to the following address:

> Data Protection Officer
> Department for Levelling Up, Housing and Communities
> Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

We will collect your IP address if you complete a consultation online. We may use this to ensure that each person only completes a survey once. We will not use this data for any other purpose.

Sensitive types of personal data

Please do not share special category (https://ico.org.uk/for-organisations/guide-to-data-protection/guide-to-the-general-data-protection-regulation-gdpr/lawful-basis-for-processing/special-category-data/#scd1) personal data or criminal offence data if we have not asked for this unless absolutely necessary for the purposes of your consultation response. By ‘special category personal data’, we mean information about a living individual’s:

- race
- ethnic origin
- political opinions
- religious or philosophical beliefs
- trade union membership
- genetics
- biometrics
- health (including disability-related information)
- sex life; or
- sexual orientation.

By ‘criminal offence data’, we mean information relating to a living individual’s criminal convictions or offences or related security measures.

3. Our legal basis for processing your personal data

The collection of your personal data is lawful under article 6(1)(e) of the UK General Data Protection Regulation as it is necessary for the performance by DLUHC of a task in the public interest/in the exercise of official authority vested in the data controller. Section 8(d) of the Data Protection Act 2018 states that this will include processing of personal data that is necessary for the exercise of a function of the Crown, a Minister of the Crown or a government department i.e. in this case a consultation.

Where necessary for the purposes of this consultation, our lawful basis for the processing of any special category personal data or ‘criminal offence’ data (terms explained under ‘Sensitive Types of Data’) which you submit in response to this consultation is as follows. The relevant lawful basis for the processing of special category personal data is Article 9(2)(g) UK GDPR (‘substantial public interest’), and Schedule 1 paragraph 6 of the Data Protection Act 2018 (‘statutory etc and government purposes’). The relevant lawful basis in relation to personal data relating to criminal convictions and offences data is likewise provided by Schedule 1 paragraph 6 of the Data Protection Act 2018.

4. With whom we will be sharing your personal data

DLUHC may appoint a ‘data processor’, acting on behalf of the Department and under our instruction, to help analyse the responses to this consultation. Where we do we will ensure that the processing of your personal data remains in strict accordance with the requirements of the data protection legislation.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for 2 years from the closure of the consultation, unless we identify that its continued retention is unnecessary before that point.

6. Your rights, e.g. access, rectification, restriction, objection

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

a. to see what data we have about you

b. to ask us to stop using your data, but keep it on record

c. to ask to have your data corrected if it is incorrect or incomplete

d. to object to our use of your personal data in certain circumstances

e. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/ (https://ico.org.uk/), or telephone 0303 123 1113.

Please contact us at the following address if you wish to exercise the rights listed above, except the right to lodge a complaint with the ICO:
dataprotection@levellingup.gov.uk or

> Knowledge and Information Access Team
> Department for Levelling Up, Housing and Communities
> Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

7. Your personal data will not be sent overseas.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

We use a third-party system, Citizen Space, to collect consultation responses. In the first instance your personal data will be stored on their secure UK-based server. Your personal data will be transferred to our secure government IT system as soon as possible, and it will be stored there for 2 years before it is deleted.

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Agenda Item 9.1

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Agenda Item 9.2

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