


Non-Executive Report of the: PENSIONS COMMITTEE 25 March 2021	 TOWER HAMLETS
Report of Kevin Bartle, Interim Corporate Director, Resources	Classification: Unrestricted
Funding Update at 31 December 2020	

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

Summary

The funding update is provided to illustrate the estimated funding position from 31 March 2019 to 31 December 2020 and the funding impact, risks and mitigation of risks associated with the ongoing COVID-19 pandemic.

At the last formal valuation, the Fund assets was £1,552m and the liabilities were £1,525m. This represented a surplus of £27m and equated to a funding level of 102%. At 31 December 2020, with assets at £1,948m and estimated liabilities £1,716m, the actuarial estimate is that the funding level is 114%.

The Fund actuary Hymans will present to Members their outlook on funding position and risk principles.

Recommendations:

Pensions Committee is recommended to:

1. Note the whole Fund actuarial update at 31 December 2020
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 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 REPORT

31 December 2020 funding and risk

- 3.1 The 2019 triennial actuarial valuation was completed in March 2020. It is undertaken to determine the funding position and investment strategy that can support sustainable contributions from employers.

The triennial actuarial review covers three main elements: processing and validation of data, funding strategy and covenant assessment.

- 3.2 The last 24 months since the 2019 valuation has seen market volatility and the COVID-19 pandemic affect investment returns outlook and it is prudent for Members to review any risk mitigation factors that might affect future employer covenants, investment returns and contribution rates.
- 3.3 The funding update is provided to illustrate the estimated funding position from 31 March 2019 to 31 December 2020. At the last formal valuation, the Fund assets were £1,552m and the liabilities were £1,525m. This represented a surplus of £27m and equated to a funding level of 102%. At 31 December 2020, the actuary estimated that the estimated funding level is 114% as detailed in the table below.

Actuarial Funding Position at 31 March 2020			
31 December 2020	Ongoing Funding (£m)	Surplus/ (deficit)	£m
Assets	1,948	Surplus/(deficit) as at 31/3/2019	27
		Contributions (less benefits accruing)	(7)
Liabilities	1,716	Interest on surplus/ (deficit)	(0)
		Excess return on assets	368
Surplus/(deficit)	232	Change in inflation & expected future investment return	(155)
Funding level	114%	Surplus/(deficit) as at 31/12/2020	232

Market movement impact

- 3.4 Hymans the Fund actuary have prepared a presentation (attached as Appendix A) to review the whole Funding level at 31 December 2020.

	31/3/2019	31/12/2020
Market yields (p.a)		
Fixed interest gilts	1.49%	0.67%
Index-linked gilts	-1.81%	-2.31%
Implied inflation	3.36%	3.05%
AA corporate bond yield	2.36%	1.35%
Price Index		
FTSE All Share	3,978	3,674
FTSE 100	7,279	6,461
Expected future investment return (p.a.)		
20yr annualised return on Fund's asset portfolio*	4.0%	3.2%
<p>*There is at least a 70% likelihood of the Fund's investments achieving a return of at least 3.2% p.a. over the next 20 years</p> <p>* There was some extreme volatility in investment markets around the date of 31 December 2020, which may impact the likelihood estimates of expected future investment returns in the estimates calculated by the actuary</p>		

- 3.5 Majority of employers in the Tower Hamlets Fund are public sector bodies, such as the council and academies where the covenant is strong and backed by statute or the Department of Education (DFE). These kinds of employers are unlikely to pose an insolvency risk to the Fund. Similarly, they are likely to make contributions when they fall due although some may face cash flow challenges.
- 3.6 Other employers like contractors tend to only participate in the Fund for a number of years depending on their contract duration. Most are closed to new entrants. Charities and other third sector employers may be the group most impacted although some may have reserves to call upon. Employers like leisure centres have been badly hit by lockdown although ceding councils have made support available.

Future monitoring position of employers

- 3.7 The Fund will continue to monitor the position of all employers, most importantly employers who are expected to cease in the near future and those whose revenue have been hard hit by COVID-19 or likely to be impacted post lock lock down.

4. RISK MITIGATION MEASURES

4.1 The Fund will apply the following measures to mitigate risks.

- Market movements – monitor funding level, outlook for the long-term economy and asset returns on a regular basis.
- Employer covenant and risks – the policy for contribution deferral policy, ensure contracts, bonds and guarantees are in place and up to date. The Committee during this meeting will approve updated Funding Strategy Statement which includes policies on Debt deferral and contribution flexibility. The Fund will engage directly employers and review funding position for employers likely to cease before 2023.
- Higher death rates - the Fund will ensure liquidity availability to pay increased death benefit payments. The Committee, in September 2020, agreed to utilise £20m cash from Equity Protection to plug any operational cash flow deficit for the next 3 years.
- Continue to monitor scheme longevity via Hymans Club Vita which is involved with longevity studies within Hymans LGPS clients.

5. COMMENTS OF THE CHIEF FINANCE OFFICER

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

5.2 The employers' contribution rate for the whole Fund remains at a whole Fund primary rate of 19.9% as a result of the 2019 triennial reported.

6. LEGAL COMMENTS

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

6.2 Regulation 58 of the Local Government Pension Scheme Regulations 2013 requires the Council as an administering authority to publish and maintain a funding strategy statement. This report provides the Committee with an update on the whole Fund's actuarial position as at 31st December 2020.

6.3 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.

7. ONE TOWER HAMLETS CONSIDERATIONS

7.1 The London Borough of Tower Hamlets Pension Fund represents an asset to the Council in terms of its ability for attracting and retaining staff who deliver services to residents. The adoption of a Work Plan should lead to more effective management of the Fund.

7.2 A significant element of the Council's budget is the employer's contribution to the Fund. Therefore, any improvement in the efficiency of the Fund that leads to improvement in investment performance or cost savings will likely reduce contributions from the Council and release funds for other corporate priorities.

8. BEST VALUE (BV) IMPLICATIONS

8.1 The preparation and production of a Funding Strategy Statement ought to result in a more efficient process of managing the Pension Fund.

8.2 Without sound financial management of the Pension Fund, the Council and other employers in the Pension Fund could see increased volatility in their contribution rates and increases in the cost of providing for the benefits of scheme members.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

9.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

10. RISK MANAGEMENT IMPLICATIONS

10.1 All material, financial and business issues and possibility of risks have been considered and addressed within the report and its appendices, and that 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.

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

11.1 There are no any crime and disorder reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report - NONE

Appendices

Funding Position at 31 December 2020

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

List of "Background Papers" used in the preparation of this report –

Hymans Robertson Funding and Risk report at 31 December 2020

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