

**Tower Hamlets Council
Local Government Pension Scheme**

PENSION BOARD

**Tuesday, 13 October 2020 at 10.30 a.m.
Online 'Virtual' Meeting - <https://towerhamlets.public-i.tv/core/portal/home>**

This meeting is open to the public to attend.

Members:

Chair: John Jones

John Gray, (Admitted Bodies Representative for Active Fund Members)

Steve Hill, (Representing Pensions Fund Employers)

Annette McKenna, (Representing Admitted Bodies Employers)

Nneka Oroge, Active Fund Members' Representative

David Stephen Thompson, (Representing Retired/Deferred Pension Fund Members)

Councillor Abdal Ullah

Substitutes:

Roger Jones, (Representing Pensions Fund Employers)

Quorum

A meeting is only quorate when at least one person of each member and employer representatives are present including an independent chair Or 50% of both member and employer representatives are present.

Contact for further enquiries:

Democratic Services

1st Floor, Town Hall, Town Hall, Mulberry Place, 5 Clove Crescent,
London, E14 2BG

Tel: Democratic Services

E-mail: committee.services@towerhamlets.gov.uk

Web: <http://www.towerhamlets.gov.uk/committee>

Scan this code
to your mobile
phone to view
Committee
website.



1. APOLOGIES

2. DECLARATIONS OF INTERESTS (Pages 5 - 6)

3. UNRESTRICTED MINUTES (Pages 7 - 16)

To confirm as a correct record of the proceedings the unrestricted minutes of the last meeting of the Pensions Board.

4. TRAINING

4 .1 ESG and Impact investment training

4 .2 Revised National Knowledge Assessment report

5. REPORTS FOR CONSIDERATION

5 .1 Pension Fund 2019/20 draft accounts (Pages 17 - 48)

5 .2 Risk Register Review (Pages 49 - 58)

5 .3 Fund managers and Custodian internal control report review

5 .4 Draft response to McCloud Consultation (Pages 59 - 70)

5 .5 Review of Administration and LGPS Key Updates (Pages 71 - 78)

5 .6 Contribution Deferral Policy Statement (Pages 79 - 84)

5 .7 Admission Employer Exit Credit Policy (Pages 85 - 92)

6. EXCLUSION OF THE PRESS AND PUBLIC

In view of the contents of the remaining items on the agenda the Board 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/CONFIDENTIAL SECTION (Pink Papers)

The exempt committee papers in the agenda 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 return these to the Committee Officer.

6 .1 Voting and Engagement Update (Pages 93 - 134)

6 .2 Pensions Board Work Plan (Pages 135 - 180)

6 .3 Restricted Minutes (Pages 181 - 182)

To confirm as a correct record of the proceedings the restricted minutes of the last meeting of the Pensions Board.

The next meeting will be held at Monday, 16 November 2020 and Online 'Virtual' Meeting - <https://towerhamlets.public-i.tv/core/portal/home>

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Agenda Item 2

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: Asmat Hussain, Corporate Director, Governance 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 10.30 A.M. ON TUESDAY, 21 JULY 2020
ONLINE 'VIRTUAL' MEETING - [HTTPS://TOWERHAMLETS.PUBLIC-I.TV/CORE/PORTAL/HOME](https://towerhamlets.public-i.tv/core/portal/home)**

Members Present:

John Jones (Chair)	Independent Chair
John Gray (Member)	Representing Active Admitted/Statutory Bodies Pension Fund Members
Councillor Asma Islam (Member)	Cabinet Member for Environment and Public Realm (Job Share) - Lead on Environment
Annette McKenna (Member)	Pensions Board Member representing Admitted Bodies Employers
Nneka Oroge (Member)	Trade Union Representative
David Stephen Thompson (Member)	Representing Retired/Deferred Pension Fund Members

Others Present:

Miriam Adams	– Interim Pensions and Investment Manager
Douglas Anderson	– Hymans Robertson
Kevin Bartle	– Interim Divisional Director of Finance, Procurement and Audit
David Knight	– (Democratic Services Officer, Committees, Governance)
Joel West	– (Democratic Services Officer, Committees, Governance)
Farhana Zia	– (Democratic Services Officer, Committees, Governance)

1. INTRODUCTION

Good morning and welcome to the Pensions Board meeting. My name is John Jones and I will be Chairing this meeting.

Thank you all for participating in this meeting under these difficult circumstances. To ensure the Council is able to function effectively it is vital that the Board meetings continue to operate as the Council must continue to be able to undertake its duties and to offer a good service to its residents and businesses.

Please note that this meeting is being webcast live and will be available to view via the Council's website. If during the meeting a technical error occurs with the transmission which cannot be resolved within a reasonable period of time, then the meeting will be closed, and the remaining business will be deferred to the next meeting of the Pensions Board.

Please could everybody ensure that mobile phones are switched off or on 'silent mode'.

Members and Officers will be speaking at various points during the meeting and those speaking may switch their cameras on at that point, but I would ask that with the exception of myself as Chair, at all other times you keep your cameras and microphones switched off as this will help to minimise any background noise and interference and to ensure the connection remains as stable as possible. If any Members or officers wish to raise a point or question, they should use the *'Meeting Chat'* facility accessed via the teams toolbar signified by the *conversation icon*, and simply type "Speak?" or click on the 'raise your hand sign' and I will come to you in the order I receive requests. Please do not use your microphone until I invite you to do so.

Can I please ask the Members to introduce themselves and state any declarations of interest they may have. We will now go through the agenda.

2. ORDER OF BUSINESS

The Chair indicated that he thought it appropriate that the Order of Business be varied:

Accordingly, the Chair Moved the following motion for the consideration of Members, and it was: -

RESOLVED

To vary the order of business and consider Knowledge Assessment Results and Training Plan for Pensions Committee and Pension Board Members.

To aid clarity, the minutes are presented in the order that the items originally appeared on the agenda.

3. DECLARATIONS OF INTERESTS

There were no declarations of pecuniary interests made by Board Members at the meeting.

4. UNRESTRICTED MINUTES

The minutes of the last meeting were confirmed as a correct record and the Chair was authorised to sign them accordingly.

5. REPORTS FOR CONSIDERATION

5.1 Pensions Administration Quarterly update - June 2020

The Board received and noted the update the update report on the current position with the Pensions Administration service. The main points of the discussion may be summarised as follows:

The Board:

- Welcomed the commendable reduction in the work outstanding at the end of June. Which shows a considerable improvement compared with the position at the end of March.
- Were encouraged that the initiative to implement the I connect system as this will enable data to be uploaded more easily and improve overall efficiency.
- Noted that the majority of employers including the council continue to rely on pension fund staff to upload their monthly payroll data on the portal. A drive to get employers signed up and using the portal for data submission will commence in September
- Noted that the Government want people to belong to workplace pension schemes, so employers have to automatically enrol you back into the LGPS approximately every three years.
- Noted that concerns have been expressed about the fall in stock markets and the potential resultant impact on defined contribution pensions. However, the LGPS as a defined benefit pensions are not linked to stock market performance and are set out in statute. Therefore, although short term investment values may vary, the LGPS as a long-term investor is securely managed to address any longer-term impacts. Therefore, LGPS Scheme members can be assured that both their contributions and their pension, whether in payment or built up to date, will be unaffected.
- Acknowledged that COVID-19 has led to an extraordinary period of lockdown and social distancing measures which has put many employers with LGPS liabilities under considerable financial pressure as their sources of revenue has reduced. Accordingly, the Pensions Team are closely monitoring if to see if any employer with LGPS liabilities is under pressure.
- Was informed that it is anticipated that the pressure on employers will continue over the short to medium term as Government measures to curb the spread of the infection are gradually lifted and public confidence improves.
- Recommend that in future the Service should work with Trade Union representatives to encourage staff to join and continue membership of the LGPS;
- Noted that, where employers have opted to furlough staff, pay continues to be pensionable (i.e. if a member receives 80% of their pay under furlough, employee and employer contributions are due on this level of pay). However, the Government furlough scheme only compensates employers by 3% of pay towards employer pension contributions (the minimum employer contribution under autoenrollment rules). Therefore, the balance of employer pension contributions must

be found by the employer through other sources which may deplete any cash reserves held by employers, putting their businesses at risk.

- Stated that it wished to place on record their thanks and appreciation to Pensions and Investment Manager and her team on the commendable reduction in the back logs.
- Noted the progress in responding to the McCloud ruling with reference to engagement with employers to ensure receipt of member data when required; identifying those scheme members who may be affected; setting up McCloud project plan and identify project team and develop the Member communication.

Accordingly, the Chair Moved and it was:

RESOLVED to:

1. Note the report;
2. Recommend that in future the Service should work with Trade Union representatives to encourage staff to join and continue membership of the LGPS; and
3. Place on record their thanks and appreciation to Miriam Adams the Pensions and Investment Manager and her team on the commendable reduction in the back logs.

5.2 2019/20 Pension Fund Accounts Audit Plan

The Board received and noted that the Audit Plan for 2019/20 The main points of the discussion may be summarised as follows:

The Board:

- Noted that has been prepared by Deloitte LLP, the plan included work to provide an audit opinion on the financial statements of the Pension Fund and the income and expenditure for 2019/20 and to finalise the audit of the 2018/19 Pension Fund accounts.
- Noted that the Pensions Committee had considered the Pension Fund Audit Plan during its meeting held on the 18th June 2020.
- Was advised that the audit cannot yet be concluded because of issues outstanding from previous years, although it was noted that there are no known issues impacting on the Pension Fund accounts.
- Noted that the Pensions Regulator has published guidance for trustees and public service setting out the critical processes for administrators including paying members' benefits, retirement processing, bereavement services as well as any administration functions required to support this function.
-

Accordingly, the Chair Moved and it was:

RESOLVED to:

Note the Audit Planning report from Deloitte that relates to the Tower Hamlets

Pension Fund accounts.

5.3 Review of Risk Register

The Board received and noted a report that outlined changes to the Fund's Risk Register. The main points of the discussion may be summarised as follows:

The Board:

- Noted the changes arising from the Covid 19 epidemic and the Council's response.
- Discussed the risks associated with fraud and Members transferring their pensions to private schemes e.g. the Council are working to ensure that Scheme Members can make informed decisions about their pensions to help protect them from scams.
- Noted the recent statement from the Minister of State regarding the progress in responding to the McCloud ruling as a possible risk.
- Noted that to facilitate successful delivery, the Fund will need to commence preliminary work to ensure successful processing implementation of McCloud ruling with regard to the identification of affected members, processing of arrears and interest as well as adjusting of records of affected members once final legislation is received.
- Noted it was noted felt that the scheme might be exposed to likelihood of Cyber Scams and Data Protection risks as staff migrated to remote working. However, as a part of the commitment to keep the wired and wireless network safe, the Council are applying the latest security measures to ensure the safe operation of these wired and wireless networks.

Accordingly, the Chair Moved and it was:

RESOLVED to:

1. Note and comment on the Pension Fund Risk Register;
2. Note the additional risks introduced during the quarter; and
3. Note amendments to existing risks.

5.4 Pension Fund Cash Flow Forecast 2020/21

The Board received and noted its report is an update on the Pension Fund's projected cash flow forecast for 2020/21 to 2022/23 from operational activities. The main points of the discussion may be summarised as follows:

The Board:

- Noted that the Fund is projecting a £0.584m projected surplus on its income and expenditure at the end of the financial year without any cash draw down from investments.
- Noted that the Fund is expecting a projected cash short fall in 2021/22, a request for cash draw down is presented .
- Was advised that a request for estimated cash drawdown of £20m from Equity Protection proceeds is being presented at the 27th July 2020 Pensions Committee meeting.
- Was informed that a significant cash flow short fall is estimated for 2021/22 and 2022/23. This is where the Fund expenditure exceeds the income from contributions.
- Welcomed the commendable reduction in the work outstanding at the end of June 2020. Which shows a considerable improvement compared with the position at the end of March 2020
- Commented that the initiative to implement the I connect system should be encouraged as this will enable data to be uploaded more easily and improve overall efficiency

Accordingly, the Chair Moved and it was:

RESOLVED to:

1. Note the cash flow forecast from operational activities.

5.5 Pensions Board Work Plan 2020/21

The Board received and noted a report that outlined considered the draft work programme for 2020/21. The main points of the discussion may be summarised as follows:

The Board:

- Noted that the indicative work plan for the board has been put together to assist in the management of the Fund, so that the Council is able to perform its role as the administering authority in a structured way.
- Was reminded that the Work Plan is not intended to cover all aspects of Pension Fund administration; rather it is designed to assist with meeting part of its delegated function as administering authority to the Fund.
- Noted that in designing the work plan, the priorities of the Council as the administering authority of the Fund have been considered and incorporated.
- Considered the review of investment management costs and a review of contracts.
- It was noted that an overall governance review should be carried out within the next 18 months once the position in the pension's administration team has stabilised.

Accordingly, the Chair Moved and it was:

RESOLVED to

- a) note the contents of this report;
- b) note the pension board terms of reference attached as Appendix 1; and
- c) agree the 2020/21 work plan attached as Appendix 2 to this report.

5.6 Knowledge Assessment Results and Training Plan for Pensions Committee and Pension Board Members

The Board received and noted proposals from Hymans Robertson for training and development. The findings of the report being intended to assist the Fund in quantitative knowledge level of members of the Board and Committee and aid in the development of targeted and tailored training plans for members of the Pension Board and Committee. The main points of the discussion may be summarised as follows:

The Board:

- Was advised that the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Pensions Regulator continue to emphasise the importance of knowledge and skills in the effective governance of the Pension Fund;
- Noted that in recent years there has been a marked increase in the scrutiny of public service pension schemes including the Local Government Pension Scheme (LGPS). Therefore, the training and development for Committee and Board Members is an important requirement,
- Was reminded that the introduction of Markets in Financial Instruments Directive II (MIFID II) in January 2018 **REQUIRED** Committee members to evidence their knowledge in order to be treated as professional investors. Also, in 2019 a review of governance arrangements for LGPS funds was commenced. This project termed 'Good Governance' addressed stakeholder knowledge and skills;
- Noted that a clear recommendation of the Good Governance project was that the knowledge levels already statutorily required by Board Members should also be required of Committee Members. The recent events having reaffirm that LGPS funds should evidence the training provided; current knowledge and understanding levels retained within both the Committee and Board;
- Was informed that all Members of the Board and Committee were invited to complete an online knowledge assessment. 2 respondents from the Pensions Committee and 5 from the Board participated. Each respondent was given 47 questions on the 8 following areas: (i) Committee role and pensions legislation; (ii) Pensions governance; (iii) Pensions administration; (iv) Pensions accounting and audit standards; (v) Procurement and relationship management; (vi) Investment

performance and risk management; (vii) Financial markets and product knowledge; and (viii) Actuarial methods, standard and practices.

- Noted that the Tower Hamlets Fund ranked 6th out of 18 Funds. The Board average score was 68.51% while the Committee average score was 59.57%. The Committee performed better in investment performance and financial matters. Both the Board and Committee demonstrated a good spread of knowledge.
- Were however, concerned that only two of the Committee Members had completed the Hymans assessment.
- Was advised that it is likely that most aspects of training will be delivered on a group basis, either at Committee and Board or through separate events to which all members will have the opportunity to attend. For this type of training, the training programme and assessment of needs will be based on a consideration of; new developments and legislation, topical/live issues, as well as member feedback and specific requests for training. Therefore, based on the results the suggestion is that there should be consideration to the establishment of a structured training plan for the next 18 months covering the main areas covered in the report as set out below:

Date	Event and Core Knowledge & Skills Areas Covered	Potential Attendees
Sep – Dec 20	<ul style="list-style-type: none"> • The impact of COVID-19 on the Fund • Pensions administration 	All
Jan – Mar 21	<ul style="list-style-type: none"> • Pensions Governance • ESG 	All
Apr – Jun 21	<ul style="list-style-type: none"> • Pension governance and good governance • Investment performance & risk management • Actuarial methods 	All
July – Sept 21	<ul style="list-style-type: none"> • Procurement • Relationship management 	All
Oct – Dec 21	<ul style="list-style-type: none"> • Valuation training – purpose, roles, outcomes 	

- Welcomed and agreed the proposals designed by Hymans Robertson for a bespoke training plan.
- Agreed that it would encourage Pension Committee Members to engage in this training programme and complete the Hymans knowledge assessment.

Accordingly, the Chair Moved and it was:

RESOLVED to:

1. Note the report);

2. Note the results including the overall ranking of the Board and Pensions Committee against other participating LGPS funds;
3. Note the suggested training plan picking out the key areas for development based on participant assessment results and the training requests; and
4. Recommend the structured training plan.

6. EXCLUSION OF THE PRESS AND PUBLIC

In view of the contents of the remaining items on the agenda the Board agreed 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.

6.1 Pension Fund Remediation Plan

The minutes for this item are restricted.

7.1 Restricted Minutes

The minutes for this item are restricted.

The meeting ended at 12.28 p.m.

**Chair, John Jones
Pension Board**

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Non-Executive Report of the: Pensions Board 13 October 2020	
Report of Neville Murton, Corporate Director, Resources	Classification: Unrestricted
Draft 2019/20 Statement of Accounts	

Originating Officer(s)	Miriam Adams, Pensions & Investments Manager
Wards affected	All wards

SUMMARY

The draft unaudited Statement of Accounts for the London Borough of Tower Hamlets Pension Fund for the year ended 31 March 2020 is attached as Appendix A, in light of the Council’s obligations as the administering authority under the Local Government Pension Scheme (LGPS) Regulations. The audit of the Pension Fund Accounts is expected to commence in September 2020.

RECOMMENDATIONS

The Pensions Board is recommended to:

- Note the unaudited 2019/20 Pension Fund Accounts.

1. REASONS FOR THE DECISION

- 1.1 Deloitte audits both the Council and Pension Fund accounts and is required to present separate audit opinions on each. The audit will commence in September 2020 before presenting their findings of the work carried out, the conclusions reached, and recommendations made.
- 1.2 The accounts are based on transactions accounted for within the Fund’s financial ledger, information received from Investment Managers and the Fund’s Custodian, assumptions and estimations utilising the professional judgement of Fund professional advisers in order to give a true and fair statements of the Fund’s financial position.
- 1.3 CIPFA has issued the Code of Practice on Local Authority Accounting in the United Kingdom 2019-2 (the Code), which governs the preparation of the financial statements for the Local Government Pension Scheme funds. The publication of the Accounts is an essential feature of public accountability and

stewardship as it provides information on how the Fund has used the members' funds for which it is responsible.

2. DETAILS OF REPORT

- 2.1 The Pension Fund sets out the transactions of the Pension Fund for the year and its financial position. The accounts comprise two main statements with supporting notes.
- The fund's revenue account which comprises of dealing with Members, Employers and Others. These show the financial transactions relating to the administration of the fund; and
 - The Net Assets Statement which can be considered as the fund's balance sheet. These are transactions relating its role as an investor.
- 2.2 The Pension Fund Account and Net Asset show that in the year to 31 March 2020, the value of the Pension Fund decreased by £33.3m to £1.520bn. This has been mainly due to the impact of covid-19 pandemic on investments during the month of March.

3. COMMENTS OF THE CHIEF FINANCE OFFICER

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

4. LEGAL COMMENTS

- 4.1 Part of the Council's duty as administering authority for the Tower Hamlets Pension Fund is to ensure that the annual accounts are properly audited, and the audit plan sets out how and when the audit will be carried out.
- 4.2 By virtue of section 20 of the Local Audit and Accountability Act 2014 ("the Act"), the auditor must be satisfied that the accounts comply with the requirements of the enactments that apply to them, and that proper practices have been observed in the preparation of the statement of accounts, the statement of accounts presents a true and fair view and that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

5. ONE TOWER HAMLETS CONSIDERATIONS

- 5.1 The Pension Fund Accounts demonstrate financial stewardship of the fund's assets. A financially viable and stable pension fund is a valuable recruitment and retention incentive for the Council.

6. BEST VALUE (BV) IMPLICATIONS

- 6.1 The monitoring arrangement for the Pension Fund and the work of the officers, advisers and consultants should ensure that the Fund optimises the use of its resources in achieving the best returns for members of the Fund.

7. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 7.1 There is no direct Sustainable Action for a Greener Environment implication arising from this report.

8. RISK MANAGEMENT IMPLICATIONS

- 8.1 Statement of accounts provide an effective mechanism to safeguard the Council's assets and assess the risk associated with its activities. There are not direct risk management impact arising from this report.

9. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 9.1 There are no crime and disorder reduction implications arising from this report.
-

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

Appendix A – Draft 2019/20 Tower Hamlets Pension Fund Accounts

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, Pensions & Investments Manager

Tel: 0207 3644248

Email: Miriam.adams@towerhamlets.gov.uk

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PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2018/19 £'000	2019/20 £'000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions			
From employers			
Normal	7	(31,885)	(35,145)
Augmentation	7	(1,796)	(2,321)
Deficit funding	7	(53)	(53)
From members	7	(11,102)	(11,156)
Transfers in			
Transfers in from other pension funds	8	(6,157)	(7,608)
Benefits			
Pensions	9	45,194	47,620
Lump sum benefits	9	13,580	12,798
Payments to and on account of leavers			
Refunds of contributions	10	224	756
Transfers out to other pension funds	10	4,848	6,079
Administrative expenses			
	11	1,151	1,196
NET (ADDITIONS)/DEDUCTIONS FROM DEALINGS WITH MEMBERS		14,004	12,166
RETURN ON INVESTMENTS			
		2018/19 £'000	2019/20 £'000
Investment income	12	(16,473)	(20,580)
Taxes on Income	12	73	7
Change in market value of investments			
Realised	14a	(7,530)	(44,152)
Unrealised	14a	(65,099)	75,782
Investment management expenses	11	2,774	10,121
NET RETURN ON INVESTMENTS		(86,254)	21,178
Net increase in the Fund during the year		(72,250)	33,344
Add: Opening net assets of the scheme		(1,480,656)	(1,552,906)
CLOSING NET ASSETS OF THE SCHEME		(1,552,906)	(1,519,562)
NET ASSETS STATEMENT AS AT 31ST MARCH			
		2018/19 £'000	2019/20 £'000
Long Term Investments			
London CIV Share capital		0	150
Investments Assets			
Pooled Investment Vehicles			
Unit Trusts	14	1,390,480	1,360,710
Property	14	157,351	147,556
Legacy	14	4	0
Other	14	(38)	(33)
Cash Deposits		1,547,798	1,508,233
Cash Balances (held directly by the Fund)	14	6,512	3,033
Cash Balances (held by the Fund's external managers)	14	2,710	8,894
Other investment balances	14	979	734
Current Assets			
	21	1,188	1,171
Current Liabilities			
	22	(6,280)	(2,653)
NET ASSETS		1,552,906	1,519,562

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 1 : DESCRIPTION OF THE FUND

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

a) General

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

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

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

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

b) Membership of the Fund

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the London Borough of Tower Hamlets Pension Fund include the following:

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

The following table sets out the membership of the London Borough of Tower Hamlets Pension Fund as at 31st March 2020

	31st March 2019	31st March 2020
Number of employees in the scheme		
LBTH	5,925	6,414
Other employers	815	887
	6,740	7,301
Number of pensioners		
LBTH	6,066	6,255
Other employers	399	428
	6,465	6,683
Number of deferred pensioners		
LBTH	7,287	7,407
Other employers	457	495
	7,744	7,902
Total number of members in pension scheme	20,949	21,886

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 1 : DESCRIPTION OF THE FUND

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Pension Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employers' contributions are set based on triennial actuarial valuations. The last such valuation was at 31 March 2019 although these rates will not apply until 2020/21. Currently, employer contribution rates range from 15.8% to 41.4% of pensionable pay.

d) Benefits

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

NOTE 2: BASIS OF PREPARATION

The statement of accounts summarises the fund's transactions for the 2019/20 financial year and its financial position at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The pension fund has opted to disclose information in Note 20.

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – revenue recognition

a) Contribution income

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

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

Employer deficit funding contributions are accounted for on the basis advised by the fund's actuary in the rates and adjustment certificate issued to the relevant employing body. Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

b) Transfers to and from other schemes

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

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement. This does not include insourcing of 323 Veolia employees back to the Fund which took place on 29th March 2020.

c) Investment income

Investment income arising from the underlying investments in pooled funds is either reinvested or taken as a cash dividend to support the Fund's cash requirements.

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an investment asset.

As at 31st March 2020 the Fund had no direct property holdings.

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Management expenses

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

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

Where an investment manager's fee has not been received by the year end date an estimate is used based upon the market value of the fund.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Administrative expenses

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

Oversight and governance

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

Investment management expenses

Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11A and grossed up to increase the change in value of investments or to increase income if netted off from income received. Transaction costs met from the net asset value of the fund are also grossed up and reported in Note 11A.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net assets statement

g) Financial assets

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

h) Freehold and leasehold properties

The Fund has no direct investment in property

j) Derivatives

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

k) Cash and cash equivalents

Cash comprises cash in hand and internally managed cash and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Loans and receivables

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

m) Financial liabilities

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

n) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standard (IAS26) and relevant actuarial standards. As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

o) Additional voluntary contributions

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

p) Contingent assets and contingent liabilities

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

q) Recharges from the General Fund

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension fund liability

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

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19.

Actuarial re-valuations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

In response to the government's guidance and criteria on pooling investments

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

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

Actuarial present value of promised retirement benefits

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

For example:

a 0.5% decrease in the discount rate used would result in a decrease in the pension liability of £181m.

a 0.5% increase in salary increase rate would increase the earnings inflation value of the liabilities by approximately £14m.

Valuation of Investments at Level 3

The Pension fund contains investments in unlisted pooled property funds that are classified within the financial statements as level 3 investments. These funds are valued at £148m according to non-exchange based market valuations. As a result of this, the final realised value of the pooled units may differ from the valuations presented in the accounts.

NOTE 6: EVENTS AFTER THE REPORTING DATE

The first quarter of 2020 saw global stock markets fall by over 20% in response to the emergence of a virus named COVID 19 with the World Health Organisation declaring a pandemic on 11 March 2020. The response of many governments was to declare 'lockdowns' to slow the spread of the virus. This resulted in many sectors of the economy effectively closing down for several months with the corresponding adverse impact on economic growth and the rise of government borrowing to support the economy. The expectation is that this will be a short, sharp shock to the global economy with global markets recovering by 20% in quarter 2. The Fund's investment assets have increased by £222m, or 15%, to stand at £1.743m at 30 June 2020. However, there are fears of a second wave later in the year unless a vaccine is developed. The longer term impact on individual asset classes is unclear.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 7: CONTRIBUTIONS RECEIVABLE

	2018/19 £000	2019/20 £000
Employees		
Council Employees Normal Contributions	(9,459)	(9,491)
Admitted Bodies Employees Normal Contributions	(115)	(119)
Scheduled Bodies Employees Normal Contributions	(1,529)	(1,546)
Total	(11,103)	(11,156)
Employers		
Council Normal Employer's Contributions	(27,059)	(30,462)
Admitted Bodies Normal Employer's Contribution	(602)	(517)
Scheduled Bodies Normal Employer's Contribution	(4,224)	(4,166)
Total	(31,885)	(35,145)
Special Employer's Contribution	(1,796)	(2,321)
Deficit Funding	(53)	(53)
Total	1,849	(2,374)

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

	2018/19 £000	2019/20 £000
Transfer Values		
Transfer Values Received - Individual	(6,157)	(7,608)
Total	(6,157)	(7,608)

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 9: BENEFITS PAYABLE

	2018-19 £000	2019-20 £000
Pensions	45,194	47,620
Lump Sums Retirement Benefits	11,910	11,486
Lump Sums Death Benefits	1,670	1,312
Total	58,774	60,418
By type of employer		
Administering authority	40,548	57,358
Scheduled bodies	1,402	1,983
Admitted bodies	761	1,077
Total	42,711	60,418

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2018-19 £000	2019-20 £000
Transfer values paid	4,848	6,079
Refunds to members leaving service	224	756
Total	5,072	6,835

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 11: MANAGEMENT EXPENSES

	2018-19 £000	2019-20 £000
Administration	398	742
Investment management expenses	3251	10,121
Oversight & Governance	111	454
Total	3,760	11,317

NOTE 11A: MANAGEMENT EXPENSES

	2018-19 £000	2019-20 £000
Management Fees	3191	6,105
Custody Fees	22	50
Transaction Costs	38	3,966
	3,251	10,121

NOTE 12: INVESTMENT INCOME

	2018-19 £000	2019-20 £000
Fixed interest securities	(10)	0
Equity dividends	(52)	0
Pooled property Investments	(5,188)	(6,425)
Pooled Investments -unit trusts and other managed funds	(11,168)	(14,094)
Interest on cash deposits	(55)	(61)
	0	0
	(16,473)	(20,580)

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 13: EXTERNAL AUDIT COSTS

	2018-19 £000	2019-20 £000
Audit Fees Payable in respect of external audit	21	21
Total	21	21

NOTE 14: INVESTMENTS

	2018-19 £000	2019-20 £000
Equities	4	0
Pooled Investments	1,390,480	1,360,710
Pooled Property Investments	157,351	147,556
Other	(38)	(33)
Total	1,547,798	1,508,233
Other Investment Balances		
Cash Deposits	2,710	8,894
Cash Deposits	6,512	3,033
Amounts Receivable for Sales of Investments	99	0
Investment Income Due	881	734
Total	10,201	12,661
Total Investment Assets	1,557,999	1,520,894

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market Value 31 Mar 2019 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Market Value 31 Mar 2020 £000
Fixed Interest Securities	0	0	0	0	0
Equities	4	0	0	(4)	0
Pooled Investments	1,390,480	53,362	(57,889)	(25,243)	1,360,710
Pooled Property Investments	157,351	4,896	(8,311)	(6,380)	147,556
Other	(38)	5			(33)
	1,547,797	58,263	(66,200)	(31,627)	1,508,233
Other Investment Balances					
Cash Deposits held by Managers	2,710			(2)	8,894
Cash Deposits held Internally	6,512				3,033
Amounts Receivable for Sales of Investments	0			0	0
Amounts Receivable for Sales of Investments	99				0
Investment Income Due	881			0	734
Net Investment Assets	1,557,999			(31,629)	1,520,894

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market Value 31 Mar 2018 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Market Value 31 Mar 2019 £000
Fixed Interest Securities	0	0	0	0	0
Equities	13	0	0	(9)	4
Pooled Investments	1,302,826	312,514	(222,767)	(2,092)	1,390,480
Pooled Property Investments	142,803	16,995	(5,178)	2,730	157,351
Other				(38)	(38)
	1,445,642	329,509	(227,945)	591	1,547,797
Other Investment Balances					
Cash Deposits held by Managers	8,733			(6,023)	2,710
Cash Deposits held Internally	26,484			(19,972)	6,512
Amounts Receivable for Sales of Investments	0			99	99
Investment Income Due	832			49	881
Net Investment Assets	1,481,691			(25,256)	1,557,998

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 14B: ANALYSIS OF INVESTMENTS

	2018-19 £000	2019-20 £000
Equities		
UK		
Quoted	4	0
	4	0
Pooled Funds - additional analysis		
UK		
Fixed income unit trust - quoted	91,800	79,089
Equity unit trust - quoted	130,574	234,063
Overseas		
Fixed income unit trust - quoted	334,399	367,686
Equity unit trust - quoted	696,885	536,384
UK & Overseas		
Diversified Growth	136,822	143,505
	1,390,480	1,360,727
UK Pooled property investments	157,351	147,556
	157,351	147,556
Other		
Investment Assets		
Cash Deposits held by Managers	2,710	8,894
Cash Deposits held Internally	6,512	3,033
Investment Income Due	99	734
	9,321	12,661
Net Investment Assets	1,557,156	1,520,944

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 14C: INVESTMENTS ANALYSED BY FUND MANAGER

	2018-19 £000	2019-20 £000
Investments managed by regional asset pool		
London LGPS CIV	705,087	673,356
	705,087	673,356
Investments managed outside of regional asset pool		
Schroder	395,040	428,391
Legal & General	350,994	319,684
Goldman Sachs	52,542	50,806
Insight Investment	46,901	45,051
Legacy	79	87
Internally managed cash	6,512	3,033
	852,068	847,052
	1,557,155	1,520,408

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

Security	Market value as at 31st March 2019 £000	% total of fund	Market value as at 31st March 2020 £000	% total of fund
London Lgps Civ Lt Global Alpha Growth A	345,890	22%	294,846	19%
Mfo Gpcu - Msciworldlowcarbtargetin Dgcurhofc	244,453	16%	241,537	16%
Schroder Matching Plus Bespoke Investment Fund 9 I Acc	234,956	15%	271,829	18%
London Lgps Civ Lt Diversified Growth A	136,822	9%	143,505	9%
London Lgps Civ Lt Rf Absolute Return A Gbp Di	130,574	8%	155,916	10%
Epoch Investment P Cqs Credit Multi-Asset A Gb	91,800	6%	0	0%
Gpcf - All World Index (Ofc)	83,774	5%	0	0%
LCIV CQS CREDIT MULT ASSET-A	0	0%	79,089	5%
GPCL - MSCIWORLDLOW CARBONTARGETINDOFC	0	0%	78,147	5%
	1,268,269		1,264,869	

NOTE 14D: STOCK LENDING

The Fund does not participate in stock lending

NOTE 14E: PROPERTY HOLDINGS

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 15A: ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

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

NOTE 16: FAIR VALUE – BASIS OF VALUATION

Description of asset	Valuation hierarchy 18/19	Valuation hierarchy 19/20	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Pooled Investments - Equity Funds UK and Overseas Managed Funds	Level 2	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets	Evaluated price feeds	Not required
Quoted UK and Overseas Bonds	Level 1	Level 2	Fixed income securities are priced based on evaluated price provided by independent pricing services	Evaluated price feeds	Not required
Pooled Investments - Property Funds	Level 3	Level 3	Closing bid price where bid and offer prices are published	Adjusted for net capital current assets	Estimated acquisition and disposal costs
Pooled Investments - Multi Asset Credit	Level 2	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services	Evaluated price feeds	Not required

Fair Value Hierarchy

	Market Value as at 31 Mar 2020	Quoted market price	Using observable inputs	With significant observable inputs	Total
	£000	Level 1 £000	Level 2 £000	Level 3 £000	£000
Financial assets at fair value	1,508,282	0	1,360,726	147,556	1,508,282
Loans and receivables	12,127	12,097	0	29	12,126
Financial liabilities at fair value	0	0	0	0	0
	1,520,409				1,520,408

	Market Value as at 31 Mar 2019	Quoted market Level 1	Using observable Level 2	With significant Level 3	Total
	£000	£000	£000	£000	£000
Financial assets at fair value	1,547,835	398,433	992,052	157,351	1,547,836
Loans and receivables	9,321	9,295	0	25	9,320
Financial liabilities at fair value	0	0	0	0	0
	1,557,156				1,557,156

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 16 : TRANSFERS BETWEEN LEVELS 1 AND 2

On the 1 April 2019 the Fund re-assessed the holdings in London CIV Global Equity Fund and Goldman Sachs STAR fund as Level 2 which have a value at 31 March 2020 of £295m and £51m respectively.

NOTE 16: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 Apr 2019 £000	Transfers in/out of level 3	Purchases £000	Sales £000	Unrealised gains (losses) £000	Realised gains (losses)	Market Value 31 Mar 2020 £000
UK Property Funds	157,351	0	4,896	(6,899)	(10,263)	2,472	147,557
Total	157,351						147,557

	Assessed valuation range (+/-) %	Value 31 Mar 2020 £000	Value on Increase £000	Value on Decrease £000
UK Property Funds	10%	147,556	162,312	132,800
Total				132,800

	Market Value 1 Apr 2018 £000	Transfers in/out of level 3	Purchases £000	Sales £000	Unrealised gains (losses) £000	Realised gains (losses)	Market Value 31 Mar 2019 £000
UK Property Funds	142,803						157,351
Total	142,803						157,351

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

Market Value as at 31 Mar 2019			Market Value as at 31 Mar 2020		
Designated as fair value through profit and loss £	Loans and receivables £000	Financial liabilities at amortised cost £000	Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
Financial assets					
4	0	0	0	0	0
1,390,480	0	0	1,360,726	0	0
157,351	0	0	147,556	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	2,710	0	0	8,894	0
0	6,512	0	0	3,033	0
0	0	0	0	734	0
0	1,188	0	0	1,171	0
1,547,835	10,410	0	1,508,282	13,832	0
Financial liabilities					
0	0	0	0	0	0
0	(38)	0	0	(33)	0
0	0	(6,280)	0	(2,653)	(2,653)
0	0	(6,280)	0	(2,686)	(2,653)
1,547,835	10,410	6,280	1,508,282	11,146	2,653
Total					
1,547,835	10,410	6,280	1,508,282	11,146	2,653
Grand Total					

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	2018-19 £000	2019-20 £000
Financial Assets		
Fair value through profit or loss	72,534	(31,627)
Loans and receivables	90	0
Financial assets at amortised cost	0	0
Total Financial Assets	72,624	(31,627)
Financial Liabilities		
Fair value through profit or loss	0	0
Loans and receivables	0	(2)
Financial liabilities at amortised cost	0	0
Total Financial Liabilities	0	(2)
Total	72,624	(31,629)

All realised gains and losses arise from the sale or disposal of financial assets which have been derecognised in the financial statements.

The fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

NOTES TO THE PENSION FUND ACCOUNTS

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

Risk and Risk Management

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

The aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund. Responsibility for the Fund's risk-management strategy rests with the Pensions Committee. Risk management policies are established that aim to identify and analyse the investment risks faced by the Fund and these are regularly reviewed by the Pensions Committee and Pensions Board in the light of changing market and other conditions.

Credit risk

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

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

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

Liquidity risk

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

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

Should the Fund have insufficient money available to meet its commitments it may, under Regulation 5.2 borrow cash for up to 90 days. If there was a longer term shortfall then the Fund's assets could be sold to provide additional cash. A significant proportion of the Fund is made up of readily realisable assets. As at 31 March 2020, liquid assets were £1,371m representing 90.3% of total assets of the Fund assets (£1,396m as at 31 March 2019). The majority of these investments can be in fact liquidated within a matter of days.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than Sterling. The Fund aims to mitigate this risk through the use of hedging. The Pensions Committee recognises that a strengthening /weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

Overseas equities, fixed interest securities and equity protection swaps and some elements of the pooled investment vehicles are exposed to currency risk. The currency risk table demonstrates the change in value of these assets had there been a 10% change strengthening/waekening of the pound against foreign currencies.

Market risk

This is the risk of loss emanating from general market fluctuations in equity and

Price risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities regardless of bring in a pool represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments with the exception of derivaties.

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

Interest rate risk

The Fund invests in financial assets for the primry purpose of obtaining a return on its investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market interest rates. The Pensions Committe and its advisors regularly monitor the Fund's interest rate risk exposure during the year.

Fixed interest securities, cash and cash equivalentns are exposed to interest rate risk.

Cash deposits held in the Pension Fund bank account are invested in accordance with the Council's approved Treasury Management Strategy.

The Fund holds a percentage of its portfolio in fixed interest securities to mitigate this risk should interest rates fall.

NOTES TO THE PENSION FUND ACCOUNTS

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

OTHER PRICE RISK - sensitivity analysis

Asset type	Market Value as at 31/03/2020 £000	Percentage change %	Value on increase £000	Value on decrease £000
Cash and cash equivalents	11,927	0.6%	11,999	11,855
Investment portfolio assets:				
UK fixed Income unit trusts	79,089	5.6%	83,518	74,660
Overseas fixed Income unit trusts	367,686	5.6%	388,276	347,096
UK equity unit trusts	234,063	13.3%	265,193	202,933
Overseas equity unit trusts	536,384	13.3%	607,723	465,045
Pooled property Investments	147,556	2.3%	150,950	144,162
Other PIV	143,505	5.8%	151,828	135,182
Investment income due	200	0.0%	200	200
Total assets available to pay benefits	1,520,410		1,659,687	1,381,133

Asset type	Market Value as at 31/03/2019 £000	Percentage change %	Value on increase £000	Value on decrease £000
Cash and cash equivalents	9,222	0.0%	9,222	9,222
Investment portfolio assets:				
UK equities	4	8.9%	0	
UK fixed Income unit trusts	91,800	5.9%	97,216	86,384
Overseas fixed Income unit trusts	334,399	5.9%	354,129	314,669
UK equity unit trusts	130,574	8.9%	142,195	118,953
Overseas equity unit trusts	696,885	9.3%	761,695	632,075
Pooled property Investments	157,351	2.0%	160,498	154,204
Other PIV	136,822	7.3%	146,755	126,889
Investment income due	99	0.0%	99	99
Total assets available to pay benefits	1,557,156		1,671,809	1,442,495

CURRENCY EXPOSURE - asset type

Asset type	Market Value as at 31/03/2020 £000	Change in year in the net assets available to pay benefits	
		7%	-7%
Overseas Equities			
Overseas Fixed Income Funds	367,686	394,895	340,477
Overseas Equity Funds	536,384	576,076	496,692
Total change in assets available	904,070	970,971	837,169

Asset type	Average	Market Value as at 31/03/2019 £000	Change in year in the net assets available to pay benefits	
			11%	-11%
Overseas Equities				
Overseas Fixed Income Funds		334,399	371,851	296,946
Overseas Equity Funds		696,885	774,936	618,834
Total change in assets available		1,031,283	1,146,787	915,780

NOTES TO THE PENSION FUND ACCOUNTS

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

INTEREST RATE RISK

Asset type	Market Value as at 31/03/2020	Market Value as at 31/03/2019
	£000	£000
Cash and cash equivalents		
Cash	11,927	9,222
Total	11,927	9,222

Interest rate risk sensitivity analysis

Asset type	Market Value as at 31/03/2020	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£000	£000	£000
Cash and cash equivalents			
Cash	11,927	119	-119
Total change in assets available	11,927	119	-119

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

CREDIT RISK

Summary	Rating	Market Value as at 31/03/2020	Market Value as at 31/03/2019
		£000	£000
Money Market Fund	AAA	0	6,000
Bank current accounts			
Northern Trust custody cash account	AA	8,894	2,710
National Westminster Bank Plc	AA	3,033	512
Total		8,894	9,222

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 19: FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The valuation that took place as at 31 March 2016 covered the period up to 31 March 2020. The latest triennial valuation of the Fund was carried out by Hymans Robertson, the Fund's actuary as at 31 March 2019. The results were published in the triennial valuation dated 31 March 2020, with the funding level rising to 102%. This report details fund assumptions and employer contributions for the three years following 2019/20.

The key elements of the funding policy are:

- 1) to ensure the long-term solvency of the fund, ie that sufficient funds are available to meet all pension liabilities as they fall due for payment
- 2) to ensure that employer contribution rates are as stable as possible
- 3) to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- 4) to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so and
- 5) to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

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

The triennial valuation undertaken as at 31 March 2016 covers the financial assumptions for 2019/20. The actuary estimated the deficit of the Fund to be £235m and the funding level to be 82.8%. This compared to a deficit at the previous valuation in 2013 of £365m and a corresponding funding level of 71.8%. The triennial valuation also sets the individual contribution rate to be paid by each employer from 1 April 2017 to 31 March 2020.

The contribution rates are made of two values, the Primary and Secondary rate. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer Secondary rates (before applying any pre-payment or capitalisation of future contributions).

The table below summarises the whole Fund Primary and Secondary Contribution rates at the 2016 triennial valuation:

Primary Rate (% of pay)	2017-18 £000	2018-19 £000	2019-20 £000
19.90%	13974	14603	15256
	13,974	14,603	15,256

50:50 option

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Actuarial Value of Promised Retirement Benefits

IAS26 requires the present value of the Fund's promised retirement benefits to be disclosed and for this purpose the actuarial assumptions and methodology should be based on IAS19.

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £1,949 million (£2,188 million in 2018/19). This includes both vested and non-vested benefits.

Year ended	31 Mar 2019 £m	31 Mar 2020 £m
Active members	933	684
Deferred members	554	475
Pensioners	701	790
	2,188	1,949

Assumptions

To assess the value of the employer's liabilities the actuary rolls forward the values from the liabilities calculated from the funding valuation as at March 2019 using financial assumptions that comply with IAS19. The figures at 31 March 2020 include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

Demographic assumptions

The demographic assumptions used are consistent with those used for the funding valuation as at March 2019

Average future life expectancies at age 65 years	Male	Female
Current pensioners	21.5	23.5
Future pensioners	22.6	25.0

Commutation assumptions

It is assumed that future retirees will take 50% of the maximum of the maximum additional tax-free lump sum up to HMRC limits for pre-April 2008 service and 75% of the maximum for post -April 2008 service.

Financial assumptions

The financial assumptions used for the purpose of the calculation is set out in the table below

Year ended	31 March 2019	31 March 2020
Inflation/pension increase rate assumption	2.5%	1.9%
Salary increase	2.3%	2.1%
Discount rate	2.4%	2.3%

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 21: CURRENT ASSETS

	2018-19 £000	2019-20 £000
Short term debtors		
Contributions due - employees	35	30
Contributions due - employers	124	920
Payroll	403	0
Sundry debtors	536	128
Other	89	93
Total	1,188	1,171

NOTE 22: CURRENT LIABILITIES

	2018-19 £000	2019-20 £000
Sundry creditors	(1,279)	(1,756)
Transfer values payable (leavers)	(1,548)	(22)
Benefits payable	(3,415)	(875)
Other investment	(38)	0
Total	(6,280)	(2,653)

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

	2018-19 £000	2019-20 £000
Aviva	19	27
Equitable Life / Utmost Life	2	2
	21	29

Additional voluntary contributions (AVC's) were paid to Aviva and Equitable Life (taken over by Utmost Life on 1 January 2020) during the year.

NOTE 24: AGENCY SERVICES

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 25: RELATED PARTY TRANSACTIONS

The LBTH pension fund is administered by the LBTH

The Council incurred costs of £669k (£669k 2018/19) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. All monies owing to and from the fund were paid in the year.

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

The pension fund cash held by London Borough of Tower Hamlets is invested on the money markets by the treasury management operations of the Council. During the year to 31 March 2020, the Fund held an average investment of £6.0m (£11.5m 31 March 2019), earning interest of £32k, (£55k 2018/19)

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £3.3m (£3.0m 2018/19) from this company.

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

Fund Administration Expenses

Payroll/HR Support
Central Finance

2018-19 £000	2019-20 £000
494	494
175	175
669	669

NOTE 25A: KEY MANAGEMENT PERSONNEL

Employees holding key positions in the financial management of the fund as at 31st March 2020 include:

Corporate Director Resources

As at 31 March 2019 this included:

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

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

Short term benefits

Long term/post retirement benefits

2018-19 £000	2019-20 £000
34	8
22	11

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

There were no contingent liabilities as at 31st March 2020.

Non-Executive Report of the: Pension Board 13 October 2020	 TOWER HAMLETS
Report of Corporate Director, Resources	Classification: Open (Unrestricted)
Quarterly Review of Risk Register	

Originating Officer(s)	Miriam Adams
Wards affected	All

Executive Summary

The Board reviewed the new Risk Register in March 2020. This report updates the Board on changes to the Fund’s Risk Register (see Appendix) since July.

Recommendations:

The Pensions Board is recommended to:

1. Note and comment on the Pension Fund Risk Register; and
2. Note amendments to existing risks.

1. REASONS FOR THE DECISIONS

- 1.1 Risk management is the practice of identifying, analysing and controlling in the most effective manner all threats to the achievement of the strategic objectives and operational activities of the London Borough of Tower Hamlets Pension Fund (“the Fund”). A certain level of risk is inevitable in achieving the Fund objectives, but it must be controlled.
- 1.2 A reconfiguration and review of the Risk Register took place in January 2020 to make it a more dynamic document. Risks were re-categorised and changed. Members of the Board requested that broad sections of the Risk Register are presented on a quarterly basis. Under this reconfigured version, the identification of risk is more evidence based.
- 1.3 Tower Hamlets Council, as the Fund administering authority recognises that effective risk management is an essential part of good governance in the LGPS.

2. ALTERNATIVE OPTIONS

- 2.1 There is no alternative option to the Risk Register. Not setting a policy in respect of risk management for the Pension Fund potentially exposes the Fund and the Council to action by The Pensions Regulator.
- 2.2 The aim of the Risk Register is to ensure that the Pensions Committee and Pensions Board (and other stakeholders) can easily see the risks that the Fund is exposed to, the likelihood and possible impact of these risks, what action is being taken to manage/mitigate them, and how these risks are moving over time.

3. DETAILS OF THE REPORT

- 3.1 The risk register is a tool to effectively identify, prioritise, manage and monitor risks associated with the Tower Hamlets Pension Fund. It assists the Fund by identifying managed and unmanaged risks, providing a systematic approach for managing risks, implementing effective and efficient control, identifying responsibilities, identifying risks at the planning stage and monitoring the risks helping the Fund to achieve its objectives.
- 3.2 Pensions Regulator Code of Practice 14 – Governance and administration of Public service pension scheme requires the scheme manager of a public Service pension scheme to establish and operate internal controls. These must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.
- 3.3 The Regulator also recommends that the scheme manager should take a holistic view to risks and understand how they are connected. The full risk register (Appendix A) is a standing agenda item at each Board meeting. This allows for constructive oversight and challenge, along with a clear process to act on feedback provided.

4. REVISIONS TO THE RISK REGISTER

- 4.1 Three new risks FI 10 and AG9 were added to the register during the June quarter in relation to covid-19. The onset of covid-19 placed significant pressures on both employers in the Fund and the Pension Administration Service. The scheme was exposed to the likelihood of Cyber Scams and Data Protection risks as staff migrated to remote working.
- 4.2 Status for Governance risk G1 has been updated as red due to expected complexity of McCloud and reliance on good data as well as the ability of the Fund to obtain data from employers who have left the scheme.
- 4.3 In line with the complexities surrounding McCloud, the impact of Funding & Investment risk F11 was revised to moderate from minor.

4.4 Risk FI 11 has been included to ensure the Fund monitors the impact of the cost of implementing the McCloud judgement while AG8 monitors the inability to meet Guaranteed Minimum Pension (GMP) reconciliation deadlines.

4.5 Target date for risk FI6 has been extended to 2023 as the Fund recognises that the London CIV pool may not in the short to medium term meet the requirements of the Fund.

5. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 There are no direct financial implications arising as a result of this report. Regular monitoring minimises the chance of financial and reputational loss occurring.

6. COMMENTS OF LEGAL SERVICES

6.1 Section 249B of the Pensions Act 2004 requires the administering authority to manage risk by establishing and operating internal controls which are adequate for the purpose of securing that the scheme is administered and managed: -

(a) in accordance with the scheme rules

(b) in accordance with the requirements of the law

6.2 The Risk Register which is the subject of this report is designed to ensure compliance with the Council's statutory duties regarding managing risk related to the administration and management of the Pension Fund.

7. ONE TOWER HAMLETS CONSIDERATIONS

7.1 Any costs associated with meeting the policy and related legal changes are immaterial in the context of the Pension Fund and any such costs are recharged to the Pension Fund.

8. BEST VALUE (BV) IMPLICATIONS

8.1 The costs of not adhering to either the legislation or indeed applying best practice could be significantly higher and pose risks to the financial management of the Pension Fund.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

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

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 10.1 There are no crime and disorder reduction implications arising from this report.
-

Linked Reports, Appendices and Background Documents

Linked Report

- There are no linked reports to this agenda item

Appendices

- Appendix – Risk Register

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

List of “Background Papers” used in the preparation of this report

- None

Officer contact details for documents:

Miriam Adams – Pensions & Investment Manager

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Governance

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Current Impact (see key)	Current Likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
G1	The Fund's objectives/legal responsibilities are not met or are compromised - external factors	Externally led influence and change such as scheme change, national reorganisation, cybercrime and asset pooling	Catastrophic	Possible	High	1 - Continued discussions at PC and PB regarding this risk 2 - Fund's consultants involved at national level/regularly reporting back to PC 3 - Key areas of potential change and expected tasks identified as part of business plan (ensuring ongoing monitoring) 4 - Asset pooling IAA in place 5 - Officers on London CIV Working Group 6 - Ongoing monitoring of cybercrime risk by Officers and PC	Major	Unlikely	Low	K 2	31/03/2021	Mar 2021	1 - Regular ongoing monitoring to consider if any action is necessary around asset pooling, cost cap and McCloud judgement (MA) 2 - Identify further actions to manage Cybercrime risk (MA)	Pension and Investments Manager	30/09/2020	30/06/2020
G3	Services are not being delivered to meet legal and policy objectives	Insufficient staff numbers (e.g. sickness, resignation, retirement, unable to recruit) - current issues include age profile, implementation of asset pools and local authority pay grades. Weak procurement process or failure to review existing contracts leads to poor value, sub-optimal providers. Pension Fund admin contract is managed by LBTH IT leading to the Fund paying for services which are not in place, contracts agreed to without legislative understanding and pensions experience	Major	Possible	High	1 - Business plan includes workforce matters 2 - Review of administration team structure 3 - Quarterly update reports consider resourcing matters 4 - Additional resources, such as outsourcing, considered as part of business plan 5 - Staff reviews implemented and most vacant positions now recruited to 6 - All procurement carried out in line with the Council's procurement rules and guidance 7 - Contracts reviewed annually (including market testing where applicable) to ensure Fund receives good value 8 - Pension Fund contracts should be agreed and managed by staff with pension fund experience and LGPS Framework used where available	Major	Rare	Low	K 2	31/03/2021	Dec 2020	1 - Recruit to any vacant roles (MA) 2 - Ongoing consideration of succession planning (MA) 3 - Continue training of new and newly promoted staff (MA) 4. Complete team restructuring (MA) 5. Liaise with LBTH IT on Heywood contract	Pension and Investments Manager	30/06/2020	25/02/2020
G4	Appropriate objectives are not agreed or monitored - internal factors	Policies not in place or not being monitored	Moderate	Possible	Medium	1- Range of policies in place and all reviewed regularly (work in progress) 2 - Review of policy dates included in business plan 3 - Monitoring of all objectives at least annually (work in progress) 4 - Policies stipulate how monitoring is carried out and frequency 5 - Business plan in place and regularly monitored 6 - PC has approved a mission statement which summarises the overarching objectives of the Fund	Insignificant	Rare	Low	K 1	30/06/2021	Mar 2021	1- Ensure objectives agreed for each policy (MA) 2- Ensure all policies are finalised, approved and regularly reviewed (MA) 3 - Resolution on pensions admin contract (MA)	Pension and Investments Manager	30/06/2020	25/02/2020
G5	Inappropriate or no decisions are made	Governance (particularly at PC) is poor including due to: - turnover of PC members - lack of knowledge and appropriate skills at PC - failure to take appropriate advice - poor engagement /preparation / commitment - poor oversight / lack of officer skills & knowledge - PC members have undisclosed Conflicts of Interest - PC decision making process is too rigid	Major	Possible	Medium	1 - Renewed Officer focus on decision-making / governance including considering structure, behaviour and knowledge 2 - Oversight by Local Pension Board 3 - Training Policy, Plan and monitoring in place for PC and PB members. Training needs analysis undertaken annually 4 - Range of professional advisors covering Fund responsibilities guiding the PC, PB and officers in their responsibilities 5 - Induction training in place for new PC members covering CIPFA Knowledge and Skills requirements and TPR toolkit 6 - Training / improvement plans in place for all officers as part of the Council's performance appraisal programme 7 - Declaration of conflict of interest is standing item on agenda. PC members required to complete annual declaration of interest 8 - Process exists to allow urgent decisions outside of PC meetings	Minor	Unlikely	Low	K 1	25/02/2021	Mar 2021	1 - Revise and update Conflicts of Interest Policy (MA) 2 - Board and Pensions Committee to participate in Hymans Knowledge & Skills Assessment Survey (MA)	Pension and Investments Manager	31/03/2021	25/02/2020
G6	Losses or other detrimental impact on the Fund or its stakeholders	Risk is not identified and/or appropriately monitored (recognising that many risks can be identified but not managed to any degree of certainty)	Major	Unlikely	Medium	1 - Risk policy in place 2 - Risk register in place and key risks/movements considered quarterly and reported to PC meeting 3 - Attendance at regional / national forums to keep abreast of current issues and their potential impact on the Fund. 4 - Fundamental review of risk register annually 5 - TPR Code Compliance review completed annually 6 - Annual internal and external audit reviews 7 - Breaches procedure also assists in identifying key risks	Moderate	Unlikely	Low	K 2	25/02/2020	Jun 2020	1 - Revise / update Risk Policy (MA) 2 - Revise / update Risk Register (MA) 3 - Ensure Annual Reviews of Risk Register / TPR Compliance (MA) 4 - Revise / update Breaches procedure (MA)	Pension and Investments Manager	30/06/2020	15/09/2020

G7	Legal requirements and/or guidance are not complied with, leading to financial loss and / or reputational damage - internal factors	Those tasked with managing the Fund are not appropriately trained or do not understand their responsibilities (including recording and reporting breaches), or there is a lack of access to appropriate legislation / guidance.	Major	Unlikely		1 - TPR Code Compliance review completed annually 2 - Annual internal and external audit reviews 3 - Breaches procedure also assists in identifying non-compliant areas 4 - Training policy in place (fundamental to understanding legal requirements) 5 - Use of nationally developed administration system 6 - Documented processes and procedures to ensure compliance 7 - Strategies and policies include statements or measures around legal requirements/guidance 8 - Wide range of expert advisers in place 9 - Officers maintain knowledge of legal framework for routine decisions. Council's legal team is involved in reviewing PC papers and other legal documents. 10 - Access to LGA material, use of specialist advisors, membership on national and regional forums and attending training. 11 - Collaborative working with other Funds to assess requirement and impact of new legislation.	Moderate	Rare		K	1	25/02/2020	Jun 2020	1 - Ensure Annual Reviews of Risk Register / TPR Compliance (MA) 2 - Revise / update Breaches procedure (MA)	Pension and Investments Manager	30/06/2020	25/02/2020
G8	Material misstatement of accounts and potentially a qualified audit opinion	Poor internal monitoring and reconciliation process leads to incorrect financing / assets recorded in the Statement of Accounts	Catastrophic	Unlikely		1 - Qualified Accountant produces accounts using most recent SORP, Accounting Code of Practice, Disclosure Checklist and other relevant CIPFA training materials/publications. Attendance at Pensions Officers Group Meetings 2 - Draft Statement of Accounts and working papers reviewed by the Investment & Treasury Manager and the Chief Accountant. 3 - Reconciliation undertaken between the book cost and market values to the custodians book of records received quarterly. Further reconciliation undertaken between the custodian and investment managers' records. 4 - A checklist of all daily, weekly, monthly and quarterly reconciliations is maintained. Full reconciliation and interim accounts are prepared on a quarterly basis. 5 - All reconciliations are independently reviewed and signed off by a second officer. 6 - All adjustments (including unrealised profits) posted into the general ledger so that accounts can be reported created directly from AGGRESSO.	Catastrophic	Unlikely		J	1	25/02/2020	Jun 2020	1 - Consider controls and whether further actions are required (MA)	Pension and Investments Manager	30/06/2020	25/02/2020

NEW RISK

G9	Pensions administration contract agreed and managed by non pensions and non finance staff	Several key risks on data. Services paid for which the Fund had not implemented. Lack of Pensions regulatory and legislative knowledge of staff agreeing contract	Moderate	Possible		1.) Raise concerns with appropriate LBTH IT staff and resolve	Moderate	Possible		⊕	2	01/04/2020	Dec-20	Contract management reassigned to pensions current for the duration of the Interim Pensions & Investment managers stay with LBTH . Negotiate possibility of moving current contract to LGPS Framework terms and conditions	Pension and Investments Manager	31/05/2021	15/09/2020
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Funding & Investment Risks (includes accounting and audit)

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated	
AI 1	Investment and/or funding objectives and/or strategies are inappropriate, inconsistent or otherwise no longer fit for purpose such that asset values fall/liabilities rise and funding levels fall and/or employer costs rise unexpectedly	Investment and funding strategies are considered in isolation or without proper advice or without considering legislative changes such as LGPS regulations (e.g. asset pooling), external factors (e.g. McCloud) and other funding and investment related requirements	Catastrophic	Unlikely		1 - ISS / FSS are set in line with legislation /guidance, approved by PC, reviewed regularly and contain links to each other 2 - Close liaison between the Fund's actuary and strategic investment adviser 3 - Fund commissions stochastic modelling from the actuary to test the likelihood of success of achieving required returns 4 - The Fund uses Strategic Investment consultant, but has also engaged an independent adviser to challenge/confirm investment/investment strategy decisions 5 - The Investment Consultant / Independent Adviser along with officers have regular meetings to review the investment strategy and present options to the Committee for approval. 6 - The Fund subscribes to a number of organisations that assist officers to keep abreast of development / changes to the LGPS which may affect funding	Minor	Unlikely		⊕	2	25/02/2020	Jun 2020	1 - Ensure strategies reviewed in response to external changes (MA) 2 - Consider whether any controls set out in this point are not currently done, and consider implementing (MA)	Pension and Investments Manager	30/06/2020	25/02/2020

FI 2	Employer contributions are insufficient and/or inappropriate relative to the employer's risk profile, potentially leading to other employers having to meet their liabilities	- Funding and/or investment strategy doesn't take into account changes to employer risk characteristics or the strength of employers' covenant. - Employer contributions not in line with Rates and Adjustments Certificate from actuarial valuation - Fund fails to recover other Employer income adding to the deficit.	Major	Unlikely		1 - Ensuring appropriately prudent assumptions on ongoing basis 2 - Employer covenant analyses undertaken by the actuary, along with employer profiling to help understand employer specifics. This is carried out on admission and periodically and the actuary uses this information when contribution rates are being set triennially. 3 - Employer monitoring database developed / updated quarterly to capture key metrics that drive an employer's liabilities. 4 - Regular profiling of employers' characteristics to ensure that assumptions are still relevant and the FSS is fit for purpose. 5 - Employer contribution payment is monitored against expected payment quarterly and late payers reported to PC. 6 - All employer expenditure incurred by the fund is recharged to the relevant employer via itemised invoices. All income recoverable is itemised in the custodian reports. 7 - Recovery / timing of invoices is regularly monitored. 8 - Actuarial / Investment advice provided by qualified professionals and subject to peer review to ensure that it is fit for purpose.	Moderate	Unlikely		⊖ 1	25/02/2020	Jun 2020	1 - Ensure employer covenant monitoring remains fit for purpose (MA) 2 - Consider whether any controls set out in this point are not currently done, and consider implementing (MA)	Pension and Investments Manager	30/06/2020	25/02/2020
FI 3	Investment targets are not achieved therefore materially reducing solvency / increasing contributions	- Markets perform below actuarial assumptions - Fund managers and/or in-house investments don't meet their targets - Market opportunities are not identified and/or implemented.	Major	Possible		1 - Use of a diversified portfolio (regularly monitored) 2 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the PC 3 - On going monitoring of appointed managers (including in house investments) managed through regular updates and meetings with key personnel 4 - Officers regularly meet with Fund Managers, attend seminars and conferences to continually gain knowledge of investment opportunities available 5 - Consideration / understanding of potential Brexit implications 6 - Equity Protection and Currency Hedging Strategy in place to protect equity gains and potentially reduce volatility of contributions.	Moderate	Unlikely		⊖ Current impact 1 too high	25/02/2020	Jun 2020	1 - Consider whether any actions set out in this point are not currently done, and consider implementing (MA)	Pension and Investments Manager	30/06/2020	25/02/2020
FI 4	Value of liabilities increase due to market yields/inflation moving out of line from actuarial assumptions	Market factors impact on inflation and interest rates	Moderate	Possible		1 - Use of a diversified portfolio which is regularly monitored. 2 - Monthly monitoring of funding and hedge ratio position versus targets. 3 - Annual formal reviews of the continued appropriateness of the funding/investment strategies by the PC. 4 - Consideration / understanding of potential Brexit implications.	Moderate	Unlikely		⊖ 1	25/02/2020	Jun 2020	1 - Consider whether any controls set out in this point are not currently done, and consider implementing (MA)	Pension and Investments Manager	30/06/2020	25/02/2020
FI 5	Investment Strategy fails to deliver appropriate returns	Long-term Investment Strategy issues caused by: - Responsible Investment (including Climate Change) is not properly considered - Actual asset allocations move away from strategic benchmark - Relevant information relating to investments is not communicated to the PC - The risks associated with the Fund's assets are not fully understood resulting in taking either too much or too little risk	Catastrophic	Unlikely		1. Fund has in place Responsible Investment (RI) Strategy 2. RI Policy has Strategic RI Priorities 3. London CIV has RI policy in place 4. Asset Allocations formally reviewed as part of quarterly report to PC and necessary action taken to correct imbalance 5 - PC receives formal quarterly reports on both the overall performance of the Fund and individual investment managers 6 - Full Investment Strategy review undertaken by Investment Consultant after triennial valuation with Annual/Ad-hoc Strategy reviews undertaken in intervening years to ensure the Strategy is still appropriate to achieve long term funding objectives	Catastrophic	Unlikely		⊖ 2	25/02/2020	Jun 2020	1 - Consider whether any controls set out in this point are not currently done, and consider implementing (MA)	Pension and Investments Manager	30/06/2020	25/02/2020
FI 6	The Asset Pool fails to meet the Fund's needs	Issues with the London CIV including: - The investment strategy adopted by London CIV through fund manager appointments - Asset pooling restricts Fund's ability to fully implement a desired mandate	Major	Unlikely		1 - The Fund is a founding member of London CIV and is an active participant at all levels (Executive and Officer) of London CIV. 2 - Specifically, the Fund has representation at the Investment Advisory Committee and Officer's business meetings where strategies and fund manager appointments that align with the Fund's investment strategy are promoted. 3 - The London CIV will have as wide a range of mandates as possible and also that there will be a choice of manager for each mandate/asset class. However, because the CIV has to reach consensus among its 32 members, there is a risk that the full complement of mandates in the Fund may not be replicated by London CIV. 4- The London CIV is planning to appoint investment managers to all asset classes that the Fund is currently invested in. 5 - Fund will be able to retain mandates not currently appointed to by the London CIV and may invest in other pools if they have a desired mandate	Moderate	Unlikely		⊖ Current impact 1 too high	25/02/2024	Jun 2023	1 - Keep abreast of asset pooling developments generally and London CIV issues specifically, and ensure the Fund is well placed to act accordingly (MA)	Pension and Investments Manager	30/06/2020	25/02/2020

FI 7	Value of liabilities/contributions change due to demographics being out of line with assumptions	Employer related assumptions (early retirements, pay increases, 50:50 take up), life expectancy and other demographic assumptions are out of line with assumptions	Moderate	Unlikely		1 - Regular monitoring of actual membership experience carried out by the Fund. 2 - Actuarial valuation assumptions based on evidential analysis and discussions with the Fund/employers. 3 - Ensure employers made aware of the financial consequences of their decisions 4 - In the case of early retirements, employers pay capital sums to fund the costs for non-ill health cases. 5 - Employer monitoring project commissioned with Hymans to review employers close to cessation.	Moderate	Unlikely		⊕ 1	31/03/2022	Jun 2023	1 - Consider whether any controls set out in this point are not currently done, and consider implementing (MA)	Pension and Investments Manager	30/06/2020	25/02/2020
FI 8	Insufficient cash to pay benefits as they fall due, resulting in disinvestment at depressed asset prices	Increases in benefit outflow, including new retirements, or inadequate monitoring, or reductions in contributions not anticipated/expected and/or investment income is less than expected	Minor	Rare		1 - Annual cashflow monitoring undertaken and utilised to inform Investment Strategy to ensure that Fund is always able to meet liabilities as they fall due 2 - Ensuring all payments due are received on time including employer contributions (to avoid breaching Regulations) 3 - Employer contribution payments monitored on a monthly basis; including a full reconciliation between expected and actual 4 - Late payers are identified and reported to the PC as part of quarterly pensions administration report. 5 - Holding sufficient liquid assets as part of agreed cashflow management policy 6 - Monitor cashflow requirements 7 - Treasury management policy is documented	Minor	Rare		⊕ 1	25/02/2021	Jun 2021	1 - Consider whether any controls set out in this point are not currently done, and consider implementing (MA) 2 - £20m cash requested from Schroders equity protection proceeds to meet cashflow gap for 2021/22 and 22/23	Pension and Investments Manager	30/06/2022	16/09/2020
FI 9	Loss of employer income and/or other employers become liable for their deficits	Employer ceasing to exist or otherwise exiting (e.g. when contract ends) with insufficient funding (bond or guarantee).	Moderate	Unlikely		1 - Employer monitoring database developed and updated quarterly to capture key metrics that drive an employers' liabilities and status within the Fund. 2 - Contract dates for admitted bodies are monitored, so that officers are aware and able to identify employers that are due to leave the Scheme. 3 - Fund Actuary is notified of the need to calculate a cessation valuation 3 months before an employer is due to leave the Fund. 4 - Admission agreements policy requires a guarantee or bond. 5 - Fund Actuary undertakes periodic review of employer profiles which are factored into employer contribution rates.	Minor	Unlikely		⊕ 1	25/02/2021	Jun 2020	1 - Consider whether any controls set out in this point are not currently done, and consider implementing (MA)	Pension and Investments Manager	30/06/2021	25/02/2020

NEW RISK

FI 10	COVID-19 Pandemic	The Council is the main employer in the Fund. There are a number of small employers mainly from outsourcing of school catering and cleaning over the years. Employers unable to pay employer contributions. Ceding employers unable to support outsourced operations. Investment environment changes radically, and Fund is slow to respond, leading to lower solvency	Moderate	Possible		1.) Draft contribution deferral policy submitted to Committee for consideration in July 2020 2.) Convenant reviews and review of high risk employers in the fund. 3.) Active investment monitoring, possible implementation of Equity Protection by Pensions Committee	Moderate	Possible		⊕ 2	01/04/2020	Dec-20	update draft contribution deferral policy once SAB update is issued. Continuous monitoring (MA)	Pension and Investments Manager	30/09/2020	01/04/2020
FI 11	McCloud Judgement	Remedies relating to the McCloud judgement that need to be made in relation to the LGPS - Court of Appeal ruling that the transitional protections awarded to some scheme members were unlawful on the grounds of age discrimination and could not be justified.	Minor	Possible		1.) Adjustments were made to the 2019 valuation to account for any possible McCloud impact 2.) Quarterly update to Pensions Committee and Pensions Board 3.) Officers to commence with McCloud project implementation	Moderate	Unlikely		⊕ 1	01/04/2022	Mar-22	1 - Continuous monitoring in intervaluation updates (MA) 2 - Set up McCloud project 3 - commence communications with scheme members and employers.	Pension and Investments Manager	31/03/2021	15/09/2020

Administration & Communication Risks

Risk no:	Risk Overview (this will happen)	Strategic objectives at risk (see key)	Current impact (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back On Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
AG 1	Unable to meet legal and performance expectations due to external factors		Major		1 - Ongoing reporting to management/PC/PB to quickly identify issues (For example on transfers - Monitor numbers and values of transfers out being processed and report regularly) 2 - External consultants available to assist if required 3 - Recruitment to new posts	Minor	Unlikely		K Current impact of 2 to remain	25/02/2020	Mar 2021	1 - Ongoing consideration of resource levels post recruitment of new posts (MA) 2 - Ongoing consideration of likely national changes and impact on resource (MA)	Pension and Investments Manager	30/12/2020	30/06/2020

AG 2	Unable to meet legal and performance expectations (including inaccuracies and delays in benefit calculations) leading to potential member complaints and poor data security		Major	<ul style="list-style-type: none"> 1 - Training Policy, Plan and monitoring in place 2 - External consultants available to assist if required 3 - Data protection training, policies and processes in place 4 - Business plan includes workforce matters 5 - Review of administration team structure 6 - Quarterly update reports consider resourcing matters 7 - Staff reviews implemented and most vacant positions now recruited to 8 - Ongoing training within the team 	Minor	Unlikely	K	Current impact of 2 to remain	30/12/2020	Jun 2022	<ul style="list-style-type: none"> 1 - Recruit to any vacant roles (MA) 2 - Ongoing consideration of succession planning (MA) 3 - Continue training of new and newly promoted staff (MA) 4. Complete team restructuring (MA) 	Pension and Investments Manager	30/06/2020	25/02/2020
AG 3	Unable to meet legal and performance expectations (including inaccuracies and delays and potential legal breaches) due to lack of or poor quality data from the council and other employers.		Major	<ul style="list-style-type: none"> 1 - Administration strategy updated and consulted upon 2 - Communications Strategy (to be reviewed) sets out how Fund will engage with all Stakeholders 3 - Ensure information communicated to Employers is clear, concise and relevant 4 - Where available use standard templates/information from the LGPS employers association 5 - Provide training to employers that is specific to their roles and responsibilities in the LGPS 6 - Employer access to the i-Connect portal (roll-out in progress), and forms available on website 7 - Employers can access specialist support from Fund Officers 	Minor	Unlikely	K	Current impact to remain 2 as high risk	31/12/2020	31/12/2020	<ul style="list-style-type: none"> 1 - Ongoing roll out of i-connect (MA) 2 - Revise / update Admin / Comms Strategies (MA) 3 - Identify other employer data issues and engage with employers on these (MA) 	Pension and Investments Manager	30/09/2020	25/02/2020
AG 4	High administration costs and/or errors (including rectification costs and IDR costs or fraud) and reputational damage if Ombudsman rules against the Fund		Major	<ul style="list-style-type: none"> 1- Business plan has number of forthcoming improvements (i-connect/MSS etc) 2 - Use of Altair which is a nationally recognised software with plentiful guidance / support 3 - Ongoing training on how to use systems within the Administration team 4- Fund has (PC approved) Internal Dispute Resolution Policy (IDRP) 5 - Robust checks / adherence with best practice including undertaking regular reconciliation of payments 	Minor	Unlikely	K	Current impact 2 to remain	31/03/2022	Jun 2021	<ul style="list-style-type: none"> 1 - Ongoing roll out of iConnect and MSS (MA) 2 - Assessment of Team skills / capabilities once restructure is complete (MA) 	Pension and Investments Manager	30/09/2020	25/02/2020
AG 5	Scheme members do not understand or appreciate their benefits and cannot make informed decisions		Moderate	<ul style="list-style-type: none"> 1 - Communications Strategy (to be reviewed) 2 - Members provided with explanatory notes and guidance and given access to further pension support 3 - Website provides information on the Scheme and on Members' benefits 4 - Member self service to be launched in 2020 	Insignificant	Unlikely	K	Current impact of to remain until resolved	31/03/2021	Jun 2020	<ul style="list-style-type: none"> 1 - Implementation of member self service (MA) 2 - Ensure all communication and literature is up to date / relevant (MA) 3 - Revise / update Admin / Comms Strategies (MA) 4 - Consider annual communications survey (MA) 	Pension and Investments Manager	30/09/2020	25/02/2020
AG 6	Service provision is interrupted or incorrect benefits paid and/or records are lost, including data breaches		Major	<ul style="list-style-type: none"> 1 - Disaster recovery plan in place and allows the pension administration system to be run from an alternative site 2 - Altair administration system is subject to daily software backups and off-site duplication of records 3 - Pensioner payroll system is subject to daily software backups and off-site duplication of records 4 - Robust checks / adherence with best practice including undertaking regular reconciliation of payments 5 - Internal Audit plan includes dedicated hours for review of internal controls in relation to the management and accounting of the Pension Fund. The plan is designed on a risk basis, so that areas of high risk will be subject to more frequent internal audits 6 - Recommendations from internal audits of processes and controls are implemented in a timely manner 	Moderate	Rare	K	Current impact 1 too high	31/12/2020	Dec 2020	<ul style="list-style-type: none"> 1 - Ongoing checks relating to suitability of disaster recovery plan (MA) 2 - Review of cybercrime risk controls (MA) 	Pension and Investments Manager	30/06/2020	25/02/2020

NEW RISKS

AG 7	COVID-19 affecting the day to day functions of the Pensions Administration services including customer telephony service, payment of pensions, retirements, death benefits, transfers and refunds. 2		Major	TREAT 1) The Pensions Administration team have shifted to working from home. 2) The administrators have prioritised death benefits, retirements including ill health and refunds. If there is any spare capacity the administrators will prioritise transfers and divorce cases. 3) Revision of processes to enable electronic signatures and configure the telephone helpdesk system to work from home. 4) Sending additional and follow up letters to overseas pensioners. 5) All members of the Pensions & Investments teams have phones diverted to mobiles to maintain required level of customer contact. This includes main team member which was also diverted to mobile.	Minor	Unlikely	K	New risk	31/12/2020	31/12/2020	1. Implement council procedures for staff home working (MA) 2.) Implement Pensions Regulator directive on covid-19 (MA)	Pension and Investments Manager	30/09/2020	31/03/2020
AG 8	Guaranteed Minimum Pension (GMP) reconciliation. In accurate record keeping		Major	1.) Establish internal controls 2.) resolve contract with ITM. 3.) Identify terms of LBTH IT procurement of GMP reconciliation in Aquila Heywood contract 3.) Possible impact on pensions team resources	Minor	Unlikely	K	1	01/04/2020	Mar-22	1 - Data analysis carried out and action taken to reconcile and adjust paid pension paid to retired members. 2. to review GMP amounts allocated to active and deferred members 3. Internal Audit	Pension and Investments Manager	31/03/2021	01/04/2020
AG 9	Impact of covid-19 on scheme employers		Moderate	1 - Develop Policy to address eventualities 2 - Monitor employer contributions 3 - Review admission agreements and employer covenants	Insignificant	Unlikely	K	New risk	31/12/2020	31/3/2021	1 - Continuous monitoring of employer contributions (MA) 2 - Liaise with employers experiencing difficulty paying contributions (MA)	Pension and Investments Manager	30/09/2020	31/03/2020

Non-Executive Report of the: Pensions Board 23 SEPTEMBER 2020	 TOWER HAMLETS
Report of Neville Murton, Corporate Director, Resources	Classification: Unrestricted
McCloud Consultation	

Originating Officer(s)	Miriam Adams, Pensions & Investments Manager
Wards affected	All wards

Summary

This report sets out the key changes to the scheme proposed by the Government in their recent consultation document in response to the McCloud judgement concerning age discrimination.

The Courts determined that the protections afforded to some members of the Local Government Pension Scheme (LGPS) and other public service pension schemes, following the review by Lord Hutton and introduced in 2014 (for the LGPS and 2015 for other schemes), were age discriminatory and unlawful.

The Government accepted the findings of the Court and has issued a consultation as to how best to amend the LGPS regulations.

Recommendations

The Board is asked:

- To comment and review the draft (Appendix A); and
- Note the potential effects on pensions administration workload.

1. REASONS FOR THE DECISION

- 1.1 Resulting legislation will have significant administrative burden for the administration of the Council's pension scheme.

2. ALTERNATIVE OPTION

- 2.1 There are no alternative options.

3. DETAILS OF REPORT

- 3.1 The new CARE scheme was introduced for the LGPS in England and Wales on 1 April 2014, all active members in the LGPS started to accrue benefits on a Career Average (CARE) basis, but members within ten years of their 2008 Scheme normal pension age on 31 March 2012 are granted transitional protection by means of a final salary underpin. Similar protections were provided when the other public service pension scheme were reformed in April 2015.
- 3.2 In December 2018, in what became known as McCloud and Argent judgements, the Court of Appeal found that protections introduced to the judges and firefighters' pension schemes were unlawful. The Government confirmed in July 2019 that the judgements had implications for all public service pension schemes (including the LGPS) and that they would address discrimination for all affected members, not just those who made a claim.
- 3.3 The Ministry of Housing, Communities and Local Government (MHCLG) published its consultation on draft Regulations introducing amendments to the statutory underpin for the LGPS in England and Wales on 16 July 2020. The proposals are designed to remedy the unlawful discrimination caused by the protection of older members when the scheme was reformed in April 2014. The consultation is estimated to affect around 1.2 million members of the LGPS by extending the underpin to all qualifying members, regardless of their age. The consultation period ends on 8 October 2020.

Consultation Proposals

- 3.4 The consultation extends the 'transitional protections underpin (that was promised to active members in 2012 who were within 10 years of normal retirement age) to all other active members, regardless of age. The underpin gives the member the better of CARE or final salary benefits for the eligible period of service.
- 3.5 The new underpin calculation also includes the difference in when the benefits are payable without reduction. This was not in the original underpin. Benefits under the final salary scheme are payable from age 65 without reduction, whereas under the CARE scheme they are linked to State Pension Age. If a member takes early retirement, the impact of actuarial reductions may lead to their final salary benefit being higher.
- 3.6 The changes will be retrospective and will apply to anyone who has left, retired or died and who did not meet the old underpin criteria but meets the new one. In some cases, this will mean retrospectively recalculating benefits for pensioners, and paying arrears and interest.

The original intention of the underpin was for it to apply on service from 1 April 2014 to the earlier of 31 March 2022 or the member's date of leaving.

- 3.7 The draft regulations state that Members who meet the criteria will have an “underpin date” and an “underpin crystallisation date”. The underpin test will be applied:
- a) On an indicative basis (without actually changing the member’s benefits) at “the underpin date”, being the date at which the member dies, leaves or reaches their 2008 Scheme Normal Pension Age (normally 65), whichever is earlier.
 - b) On a finalised basis at the “underpin crystallisation date”, which is when the member retires.
- 3.8 The test will be based on the member’s final salary at leaving/retirement, thus preserving the final salary link beyond 2022, for so long as they are accruing benefits.
- Where a member retires from active service (whether on an early, normal or ill health basis) the underpin date and underpin crystallisation date will be the same. The underpin test will be applied and if the underpin calculation results in an increase in benefits, the member will receive an underpin addition.

A copy of the full consultation document can be found at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/901173/Condoc - amendments to LGPS underpin - FOR PUBLICATION.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/901173/Condoc_-_amendments_to_LGPS_underpin_-_FOR_PUBLICATION.pdf)

- 3.9 Appendix 1 provides a copy of the consultation questions and responses which Hymans Robertson have drafted. This has along with the LGA consultation response has been used as the basis of Tower Hamlets draft response to the consultation.

Implications for Tower Hamlets Pension Fund

- 3.10 The consultation proposes some significant changes to the administration of the Fund. It does not just extend the underpin calculation to all members that were active before March 2012. It also changes the basis of the calculation.

This means that all retirement and transfers of benefit calculations which have occurred since 2014 will need to be recalculated to ensure that the correct amount of benefits have been paid. This is a far greater task than had been originally envisaged.

The recalculation is not envisaged to significantly increase the cost of benefits, so the overall effects on the cost of the scheme is not likely to materially change. When the Committee set contribution rates for the three years starting April 2020, a higher probability threshold was set to ensure that contribution rates were slightly higher to allow for the potential effects of the McCloud remedy. This was also reflected in the Funding Strategy Statement.

- 3.11 it should be noted that the suggestion to extend the final salary protections to all eligible active members beyond 2022, and until they leave active service,

does prolong the final salary scheme and may result in potentially higher cost of benefits. This again further complicates the administration of the Fund.

Since 2014, the data requirements from employers has been geared towards the CARE scheme. Only those eligible for the original underpin needed data concerning the changes in the numbers of hours that they worked. This does require additional data from scheme employers in order that Pensions staff are able to undertake these calculations in the future. This will be raised with the scheme employers at the employers Forum scheduled for 22 October 2020.

3.12 In July 2020, the Pensions Committee and Board were presented with a summary of the key tasks involved in the planning for this project and once the final timescales for implementation have been confirmed, both the Committee and Board will be updated on when this will be achieved. This may require additional resources in order to complete this work.

3.13 It is imperative that the Administering Authority responds to the consultation.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

4.1 Although the Scheme Actuary made an allowance in the assumptions used in determining the results of the 2019 triennial valuation of the Tower Hamlets Pension Fund, the costs will vary by employer. Proposed amendments are retrospective to 2014 there will therefore be additional administrative costs in calculating the benefit entitlement for retired and dependent members, early leavers with preserved entitlement and members who have transferred their entitlement to other pension schemes

5. LEGAL COMMENTS

5.1 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. The administering authority must take steps to implement the changes to fund members entitlements as a result of the judgement in the McCloud case and the resulting regulations once they come into force. This report sets out the changes to be implemented and the implications for the pension fund.

6. ONE TOWER HAMLETS CONSIDERATIONS

6.1 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. BEST VALUE (BV) IMPLICATIONS

7.1 There is no direct best value implication arising from this report.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 There is no Sustainable Action for a Greener Environment implication arising from this report.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 There are no direct no immediate risk management implications arising from this report. The Funding Strategy Statement made provision for claims which may arise from McCloud underpin. There are risks associated with employers failure to provide necessary data.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 10.1 There are no crime and disorder reduction implications arising from this report.
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Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- Tower Hamlets Pension Fund Draft Consultation response (Appendix A)

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

List of “Background Papers” used in the preparation of this report

- Consultation

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/901173/Condoc - amendments to LGPS underpin - FOR PUBLICATION.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/901173/Condoc_-_amendments_to_LGPS_underpin_-_FOR_PUBLICATION.pdf)

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Local Government Finance Stewardship
Ministry of Housing, Communities and Local Government
2nd Floor, Fry Building
2 Marsham Street
London
SW1P 4DF

7 August 2020

Dear Sir/Madam

Local Government Pension Scheme (England and Wales)

The London Borough of Tower Hamlets Administering Authority to the London Borough of Tower Hamlets Pension Fund (the Fund) is pleased to respond to the consultation on the above topic attached as annex to this letter.

Yours Faithfully

Neville Murton

Corporate Director Resources

For and on behalf of London Borough of Tower Hamlets Pension Fund

Question 1 – Do you agree with our proposal to remove the discrimination found in the McCloud and Sargeant cases by extending the underpin to younger scheme members

It is our belief that this will be consistent with the Court of Appeal's ruling

Question 2 – Do you agree that the underpin period should end in March 2022?

We see no case to extend the underpin period beyond 31 March 2022

Question 3 – Do you agree that the revised regulations should apply retrospectively to 1st April 2014?

Yes

Question 4 – Do the draft regulations implement the revised underpin which we describe in this paper?

Yes

Question 5 – Do the draft regulations provide for a framework of protection which would work effectively for members, employers and administrators?

Yes, however it is our belief that the administrative work required will be extensive.

Question 6 – Do you have other comments on technical matters related to the draft regulations?

We will welcome clarity in relation to death in service after 2008

Question 7 – Do you agree that members should not need to have an immediate entitlement to a pension at the date they leave the scheme for underpin protection to apply?

We agree that the underpin should be extended to those members who leave without an immediate entitlement to pension.

Question 8 – Are there any other comments regarding the proposed underpin qualifying criteria you would like to make?

We believe further clarification is required on dealing with aggregation cases

Question 9 – Do you agree that members should meet the underpin qualifying criteria in a single scheme membership for underpin protection to apply?

We agree that the underpin qualifying criteria should have to apply in a single record.

Question 10 – Do you agree with our proposal that certain active and deferred members should have an additional 12 month period to decide to aggregate previous LGPS benefits as a consequence of the proposed changes?

We believe there should be a discretion to allow administering authorities to extend the 12-month aggregation window. While we hope the exercise can be completed within 12 months, in reality this may not be the case as there may be cases where through no fault of the member the exercise is not completed in time and it would be unreasonable for the member to miss out.

Question 11 – Do you consider that the proposals outlined in paragraphs 50 to 52 would have ‘significant adverse effects’ in relation to the pension payable to or in respect of affected members, as described in section 23 of the Public Service Pensions Act 2013?

The proposed changes seem to suggest that the aggregation window will not be extended to members who opted out after 11 April 2015 and then re-joined the scheme.

Question 12 – Do you have any comments on the proposed amendments described in paragraphs 56 to 59?

It is our belief that the proposed amendments to the protection will result in additional work for administrators as it would involve them having to visit underpin calculations where a protected member leaves active service, returns without a disqualifying break in service and elects to aggregate the two membership periods.

Question 13 – Do you agree with the two-stage underpin process proposed?

This is consistent with the governments stated policy intentions

Question 14 – Do you have any comments regarding the proposed approaches outlined above?

We believe a consistent approach is required to assist members

Question 15 – Do you consider there to be any notable omissions in our proposals on the changes to the underpin?

No

Question 16 – Do you agree that annual benefit statements should include information about a qualifying member’s underpin protection?

It would be useful for members who may be impacted by the underpin to receive underpin information in their annual benefit statements.

Question 17 – Do you have any comments regarding how the underpin should be presented on annual benefit statements?

Explaining the new process and underpin calculations may prove difficult as affected members may see their underpin value change in some years and not others

Question 18 – Do you have any comments on the potential issue identified in paragraph 110?

It is our belief that annual assessment of the underpin will not be necessary. The appropriate annual allowance test should be applied at crystallisation date

Question 19 – Do the proposals contained in this consultation adequately address the discrimination found in the ‘McCloud’ and ‘Sargeant’ cases?

We believe proposals address the discrimination found in the ‘McCloud’ and ‘Sergent’ cases

Question 20 – Do you agree with our equalities impact assessment?

It is our understanding that the underpin seeks to address the equalities impact

Question 21 - Are you aware of additional data sets that would help assess the potential impacts of the proposed changes on the LGPS membership, in particular for the protected characteristics not covered by the GAD analysis (age and sex)?

No

Question 22 – Are there other comments or observations on equalities impacts you would wish to make?

No

Question 23 – What principles should be adopted to help members and employers understand the implications of the proposals outlined in this paper?

We believe that our members will seek assurance that the underpin process is fair and will be accurately applied

Central communication from the SAB to all employers will help a great deal.

Question 24 – Do you have any comments to make on the administrative impacts of the proposals outlined in this paper?

Although the underpin does not immediately take effect for most members, such members will require on going record maintenance by employers and Funds, this will inevitably impact administration resources. Obtaining data from employers also remain challenging issue.

Question 25 – What principles should be adopted in determining how to prioritise cases

It is our opinion that the following priorities should be extended:

- In the calculation of death and survivor benefits
- Retirements
- Actives should be prioritised by those close to their underpin crystallisation dates first

Question 26 – Are there material ways in which the proposals could be simplified to ease the impacts on employers, software systems and scheme administrators

It is our belief that removing the underpin for ill health cases would simplify calculations although it could lead to a possibility of future discriminations or policy not being fully realised.

Question 27 – What issues should be covered in administrative guidance issued by the Scheme Advisory Board, in particular regarding the potential additional data requirements that would apply to employers?

Additional guidance would be welcome on salary service history where:

- Employers are unable to provide historic data
- Employers have changed payroll providers
- Employers no longer existing

Question 28 – On what matters should there be a consistent approach to implementation of the changes proposed?

Overall it will benefit Funds if clarity is provided through guidance or legislation on standard ways to deal with employers who cannot provide data, are no longer in existence or outsourced.

Standardised data gathering templates and communications from the SAB will be beneficial.

Question 29 – Do you have any comments regarding the potential costs of McCloud remedy, and steps that should be taken to prevent increased costs being passed to local taxpayers?

Whilst the Fund allowed for McCloud in the 2019 valuation and Funding Strategy Statement, the actual and exact translation is not currently known due to the membership of employers in the Fund. It is the opinion of the Fund that the administrative and implementation costs will be significant.

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Non-Executive Report of the: Pensions Committee 22 September 2020	
Report of: Corporate Director, Resources	Classification: Open (Unrestricted)
Pensions Administration and LGPS Update	

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 since the July meeting and key recent LGPS issues and initiatives which impact the Fund.

Recommendations:

The Pensions Board is recommended to:

1. Note the report contents; and
2. Note that three employers are in the process of joining the scheme - Taylor Shaw Cleaning, Ridgecrest cleaning and Atlantic cleaning following successful joint tender process involving a number of primary and secondary schools including Ian Mikado Academy.

1. REASONS FOR THE DECISIONS

- 1.1 The report asks the Committee to note the content of this report which covers the activities relating to Pensions administration since July; and
- 1.2 Approve in principles the admitted body status requests following various successful group and individual tenders involving Taylor Shaw catering, Ridgecrest cleaning and Atlantic cleaning.

2. ALTERNATIVE OPTIONS

- 2.1 There are no alternative options to this report

3. **ADMINISTRATION**

3.1 A core part of the role 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. Officers presented the June quarterly performance update during the July meeting. This paper covers administrative activity updates since July.

4. **EMPLOYER DEVELOPMENTS – ADMISSIONS AND CESSATIONS**

4.1 There are employers joining and leaving the scheme on a regular basis. A list of active employers was reported in July.

New Employers

4.2 Since the July meeting three employers are in the process of participating in the scheme.

Applications for Admitted Body status were received following several contract services tenders conducted by schools. The Committee is asked to note the admission requests pending the completion of the legal process with the Fund. Initial discussions between the Council and the Fund included clarification and agreement of the broad actuarial principles.

Secondary school catering group tender	Bow School	LBTH-maintained	Staff will transfer to Taylor Shaw
	Central Foundation Girls School	LBTH-maintained	
	Morpeth	LBTH-maintained	
	Stepney Green Maths & Computing College	Academy	
Primary school cleaning group tender	Bonner Mile End	LBTH-maintained	Staff will transfer to Ridgecrest Cleaning
	Cubitt Town Primary School	LBTH-maintained	
	Ian Mikardo High Academy School	Academy	
	Old Palace Primary School	LBTH-maintained	
	St Edmunds Primary School	Diocesan	
	St Elizabeth RC Primary School	Diocesan	
Cleaning - managing own tender	Noah's Ark Nursery LEYF	Private	Staff will transfer to Atlantic Cleaning

Employer Cessations

4.3 There have been no employer cessations since the last Committee meeting.

Report to the Pensions Regulator

- 4.4 There has been no reports to the Pensions Regulator in the period and no response from the regulator to the December report on the delay to the issue of Annual Allowance and Annual Benefit statements.

Internal Audit

- 4.5 An Internal audit report on the Pensions Administration system commenced at the end of June, the findings will be presented to Committee and Board at the earliest possible meeting once a report is received.

5. COVID -19 RESPONSE

- 5.1 Consistent with the guidance provided by the Government, most members of the team are working remotely with a few choosing to come to the office for convenience.

External post is only sent where necessary and the sorting of post has been on a voluntary basis for a single officer to attend to sort, scan and post such items.

A letter was issued to all scheme employers containing information to issue to their employees. This document was also made available on the Council's website.

6. LGPS UPDATES

Consultation on Reforming Local Government Exit Pay (£95k Cap)

- 6.1 The Ministry of Housing Communities and Local Government (MHCLG) on 7th September published a consultation on changes to pension and compensation regulations to introduce the £95k cap and elements of further reform of exit payments. A detailed consultation response will be presented to both the Pensions Committee and Board in November.

- 6.1.2 The early retirement strain payment is expected to still be included in the £95k cap calculation. This is often perceived as the costliest element which is ultimately funded by the taxpayer. The consultation seems to indicate that pension schemes, employment contracts and compensation schemes will be amended to reflect the introduction of the cap.

- 6.1.3 Although the Treasury have now acknowledged that the £95k figure should increase over time in their response, there is currently no further detail about how this will be achieved.
With no allowance for inflationary increases more individuals will inevitably be affected as a result.

- 6.1.4 The discretionary waiver system for exceptional circumstances is also welcomed in the LGPS community. Currently there is no further detail about how this would work in practice.
The Consultation now includes a list of affected public sector bodies proposed to be within the scope of the cap.
- 6.1.5 Due to the current economic climate, Public Sector employers in the LGPS are going through or might go through redundancy exercises so although the cap will not apply at the moment, and with no certainty around the implementation date, Funds are at risk if advice is given to scheme members or scheme employers.

On 27 August, MHCLG laid the regulations on employer contribution and exit payment flexibility which will come into force on 23rd September.

6.2 **Review of Employer Contributions and Flexibility on Exit Payments**

Following the receipt of consultation responses, MHCLG published a partial response to last year's consultation on proposed changes in the valuation cycle and management of employer risk. The responses are expected to be followed by regulations which are likely to come into force in early autumn. The response includes the review of employer contributions between valuations, spreading exit payments and deferred debt arrangements. The regulation (The LGPS (Amendment) (No2) Regulations 2020) will be accompanied by guidance on the necessary revisions to Funding Strategy Statements.

The Government will work with the Scheme Advisory Board (SAB) and CIPFA to amend the regulations/guidance so that there will now effectively be three options for an existing employer (subject to agreement from the Administering Authority).

- As currently, calculate and recover an exit payment for employers ready and able to leave and make a clean break;
- Agree a repayment schedule for an exit payment with employers who wish to leave the scheme but need to be able to spread the payment; and
- Agree a Deferred Debt Agreement (DDA) with employers to enable them to continue paying deficit contributions without any active members where the administering authority is confident that the employer would fully meet its obligations.

The DDA option is expected to have a profound shift in the way exiting employer's responsibilities will be the same as for employers of active members but excluding the requirement to pay primary contributions.

6.3 **Preparing for McCloud**

On March 25 2020, the Minister of State made a statement regarding the progress in responding to the McCloud ruling. The statement confirmed that no qualifying scheme member will need to make a claim for the McCloud remedy to apply to them. The LGPS has only one CARE scheme with a final salary underpin for protected members and so no claim would be required unlike other Public Service Pensions like Teachers, Police and Fire.

To facilitate successful delivery, the Fund will need to commence preliminary work to ensure successful processing for the implementation of McCloud i.e. identification of affected members, understanding the underpin, processing of arrears and interest as well as adjusting of records of affected members once final legislation is received.

Preliminary work will include:

- Understanding of technical requirements
- Establish data which will be required and analyse membership in scope
- Engage with employers to ensure receipt of member data when required
- Identify scheme members who may be affected
- Establish delivery format
- Set up McCloud project plan and identify project team
- Identify stakeholders
- Member communication
- Identify workstream for McCloud
- Start planning early

6.4 **SAB statement on Local Pension Board meeting cancellations during covid-19**

The SAB issued a statement on 27 July following concerns raised at a recent Local Pension Board workshop. The statement clarified that the SAB was satisfied that arranging a virtual meeting of a local pension board would facilitate the discharging of its duty to conduct business during the emergency.

7. **SCHEME UPDATES**

7.1 **Annual Benefit Statement (ABS) 2019/20**

The ABS process is carried out annually and its purpose is to actively manage and monitor all employers associated with the Fund. The employers are required to submit their end of year pay information by the set deadline. This

requirement to submit end of year pay information is not required for employers who submit payroll data via i-Connect. The ABS statement to all active and deferred members is required be produced by the regulatory deadline of August 31. Statement for deferred members were dispatched in July 2020 while active members are expected to be dispatched on 21 September.

7.2 i-Connect

Although the Council is the pre-eminent employer within the Scheme, there are 34 employers in the scheme. The Fund commenced the use of i-Connect in April 2017. The Majority of employers including the council continue to rely on pension fund staff to upload their monthly payroll data on the portal. A drive to get employers signed up and using the portal for data submission will commence in September.

Report on Breaches

- 7.3 The Fund is required to report on breaches of policies. Other than the slight delay to the issuing of active members ABS referenced above, there were no known breaches since the last reporting period.

Employers Forum

- 7.4 An online employer's forum via teams is scheduled for 22nd October and is expected to last around 4 hours. Hymans Robertson the Fund Actuary will be the key note speaker addressing employers on a range of topics while Heywood iConnect will be presenting on how to use iConnect, its benefits and signing up of employers for training.

- Date – October 22nd (max 3 to 4 hours)
- Meeting – via Teams call
- Theme – Collaboration and Partnership (Past, Present and Future)
- Key issues – Data and best practice administration procedures
- Goals –
 - Get 90% of employers signed up and using iConnect for payroll data submission
 - Systems and procedures are used properly
 - Clear delineation between employer admin responsibility and fund officer admin responsibility

- Employers understand impact of poor data (Resource (for them and the Fund), administration performance and pension funding impact)
- Get them in place to deal with McCloud expectations

8. RISK MANAGEMENT IMPLICATIONS

- 8.1 Risks arising from poor administration tend to be reputational but can include additional expenditure through inaccurate benefits, delays in collecting contribution, fines and interest on late payments. This and future reports are designed to provide the Pensions Committee with assurance that pension risks are being adequately managed.

9. COMMENTS OF THE CHIEF FINANCE OFFICER

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

10. COMMENTS OF LEGAL SERVICES

- 10.1 The Pensions Committee is required to consider pension matters and ensure that the Council meets its 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. The report also provides the Committee with updates on various other matters relevant to the administration of the Pension Fund. There are no immediate legal implications arising from the report.

- 10.2 When carrying out its functions as the administering authority of its pension 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).

11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 11.1 There are no Sustainable Action for A Greener Environment implication arising from this report.

12. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 12.1 There are no crime and disorder reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

NONE

Appendices

None

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

List of “Background Papers” used in the preparation of this report

- NONE

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Non-Executive Report of the: PENSIONS BOARD 23 SEPTEMBER 2020	 TOWER HAMLET
Report of Neville Murton, Corporate Director, Resources	Classification: Unrestricted
Contribution Deferral Policy Statement	

Originating Officer(s)	Miriam Adams, Pensions & Investments Manager
Wards affected	All

Introduction

This report provides the Board with policy on how the Fund will make its determination in respect of deferral of employer contributions during COVID-19 lockdown and gradual unwinding of social distancing and related restrictions.

Recommendations:

The Board is asked to note:

- the content of this report and admission contribution deferral policy:
- that the period of deferral is limited to 3 months after which extensions may be granted on a monthly basis:
- that the total annual contributions must be paid by 31 March of the applicable year and interest may apply:
- the decision to consider and approve requests was delegated to the S151 Officer: and

1. REASONS FOR THE DECISIONS

1.1 To ensure consistent treatment is applied across employers over time and enable employers, guarantors and the Fund understand the risks associated with granting contribution flexibility. It also enables the Fund to consider appropriate measures to manage the risks where possible.

2. ALTERNATIVE OPTIONS

2.1 There are no alternative options to this report.

3. DETAILS OF REPORT

- 3.1 The Pensions Regulator published on 27 March 2020 Scheme administration COVID-19 guidance for trustees and public service setting out the critical processes for administrators including paying members' benefits, retirement processing, bereavement services as well as any administration functions required to support this function. A revised statement was published on 16 June 2020. On 25 June, the Corporate Insolvency and Governance Act 2020 received royal assent and came into force on 26 June. The measure introduced by the Act which is designed to assist companies during the pandemic includes provisions for a moratorium during which companies can defer debts. The Scheme Advisory Board (SAB) is seeking legal advice on the potential impact of a moratorium on employer deficit contributions. In addition, LGPS administrators can access the LGPS guidance under frequently asked questions for administrators.

This policy covers delay of contribution payment or temporary reduction of rates payable.

- 3.2 COVID-19 has led to an extraordinary period of lockdown and social distancing measures which has put many employers with LGPS liabilities under considerable financial pressure as their sources of revenue have reduced. This pressure on employers is expected to continue over the short to medium term as Government measures to curb the spread of the infection are gradually lifted and public confidence improves. In addition, where employers have opted to furlough staff, pay continues to be pensionable (i.e. if a member receives 80% of their pay under furlough, employee and employer contributions are due on this level of pay). However, the Government furlough scheme only compensates employers by 3% of pay towards employer pension contributions (the minimum employer contribution under auto-enrolment rules). Therefore, the balance of employer pension contributions must be found by the employer through other sources which may deplete any cash reserves held by employers, putting their businesses at risk.
- 3.3 LGPS frequently asked questions for administrators does state that employers cannot delay or pause paying employee contributions. Employee contributions must be submitted to the administering authority in line with the timescales in the Pensions Act 1995. That is, by either the 22nd (where they are paid electronically) or the 19th of the month following the last day of the month in which the contributions are deducted. If an employer fails to submit employee contributions on time, paragraph 148 of TPR Code 14 states that where 'the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, they may give notice of the failure to the regulator and the member within a reasonable period after the end of the prescribed period.
- 3.4 There are several risks to the operation of the Fund to consider, such as:
- Cashflow

- Fund returns
- Administrative complexity

Several considerations which may help protect the Fund from taking excess risks are required at employer level:

- Covenant and solvency
- Interest
- Redundancy
- Guarantors/letting employer
- Employee contributions
- Evidence that the LGPS is not the only avenue being used to preserve cash.
- Evidence that where applicable the Guarantor is aware of the application

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications. However, the outcomes could have financial implications for the Fund.

5. LEGAL COMMENTS

- 5.1 There are no immediate legal implications arising this policy

6. ONE TOWER HAMLETS CONSIDERATIONS

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

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 The effective and efficient management of scheme costs is key to the achievement of the funding strategy objectives and this is considered to be a good decision which can result in greater cost savings to the fund.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 There is no direct Sustainable Action for A Greener Environment implication arising from this report.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 The rigorous robust management of LBTH Pension Fund results in better quicker and more effective decision making which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents

Linked Reports

- Appendix A – Hymans Robertson LLP advice paper on COVID-19 contribution deferral

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

List of “Background Papers” used in the preparation of this report

- [LGPS Scheme Advisory Board - Covid-19 and LGPS](#)
- [DB scheme funding and investment: COVID-19 guidance for trustees | The Pensions Regulator](#)
- <https://www.lgpsregs.org/news/covid-AFAQs.php>

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London Borough of Tower Hamlets COVID-19 Contribution Deferral Policy Statement

COVID-19 – Policy on the deferment of employer contributions

As a result of Government policies to manage the spread of COVID-19, many employers are experiencing a severe impact on their immediate and ongoing revenues. The London Borough of Tower Hamlets Pension Fund (“the Fund”) recognises the challenges this may bring in respect of meeting employer pension costs over the shorter term. This document sets out the Fund’s policy on granting flexibility in respect of the payment of employer contributions during these unprecedented times.

The Fund is restricted by the LGPS Regulations in granting flexibility as there are limited circumstances where contribution rates certified in the Rates and Adjustments Certificate can be amended. In addition, the Regulations require that employer contributions in line with the Rates and Adjustments Certificate must be paid within each 12 month period.

As a result, the Fund is not able to consider reducing contributions or granting contribution holidays to employers. However, the Fund is able to consider the deferral (or temporary reduction) of employer contributions whereby an employer delays payment of employer contributions at the full rate for the current year that are owed to the Fund.

The Fund will only consider deferral where an employer makes a formal request. All other circumstances will be considered as late payments to the Fund and handled in accordance with the Fund’s administration policy. In making a request for deferral, the Fund requires:

1. A clear business case and rationale for the request, including evidence that the employer will likely be able to meet the deferred contributions at the end of the deferment period;
2. Assurances that other financial obligations, such as dividend payments, will also be suspended during the period of deferral;
3. Evidence the employer is seeking relief from other creditors, including any other pension arrangements, to ensure the Fund is being treated consistently; and
4. Evidence of discussions with their letting employer or any employer providing a guarantee.

Failure to provide the above will result in the Fund being unable to provide a deferral of contributions.

The request and accompanying evidence will be considered on a case by case basis and, if successful, would be approved by Neville Murton, the Section 151 officer with responsibility for the Fund, after the Fund has taken covenant, legal

and actuarial advice.

The Fund will also consult with any associated employer that is providing a guarantee to the employer seeking deferral.

The Fund will respond to a request for contribution deferment as quickly as possible and usually within a 21 day period.

Employer contributions should be remitted as usual during the period that a deferment request is being considered.

Where a request for deferral is not approved in the first instance, the Fund may require additional evidence or security to reconsider the request. There is no explicit appeals process for contribution deferment requests. If an employer feels they have been treated unfairly by the Fund, they may refer to the Fund's standard complaints and Internal Dispute Resolution Procedure (IDRP) processes.

Where a request for deferral is accepted, employers will be able to defer contributions for up to 3 months.

Following the 3-month period, 1-month extensions may be granted on request subject to submission of updated evidence of the employer's financial position. Extensions cannot go beyond 31 March 2021 at which point annual employer contributions for the whole 2020/21 year are due in full. Where contributions are not received in full by 31 March 2021, the Fund has a statutory obligation to consider reporting the failure to make employer contributions to the Pensions Regulator.

It should be noted that employee contributions should be remitted as usual during the period of deferment, and are unaffected by the employer's decision to request (or not) any deferral.

Non-Executive Report of the: PENSIONS BOARD 23 SEPTEMBER 2020	 TOWER HAMLET
Report of Neville Murton, Corporate Director, Resources	Classification: Unrestricted
Admission Employer Exit Credit Policy	

Originating Officer(s)	Miriam Adams, Pensions & Investments Manager
Wards affected	All Wards

Introduction

This Admission Employer Exit Credit Policy demonstrates the steps the Fund will consider such that a consistent approach is taken between employers over time and the interests of all parties, including any employer providing a guarantee, are taken into consideration.

Recommendations:

The Board is asked to

- note the admission employer exit credit policy agreed in principle by the Pensions Committee pending finalised guidance from MHCLG.

1. REASONS FOR THE DECISIONS

- 1.1 To inform the Board of the recently approve policy and keep the Board updated on recent and key developments in the LGPS. The policy was approved by the Pensions Committee during their July meeting and became immediately applicable to existing employers who joined the Fund before 14 May 2018 who are subject to a risk sharing arrangement as per point 3 in the policy.
- 1.2 This policy also applies to any pre-14 May 2018 admission which has been extended or ‘rolled over’ on the same terms that applied on joining the Fund to ensure a consistent approach is take between employers over time and the interests of all parties, including any employer providing a guarantee, are taken into account.

2. ALTERNATIVE OPTIONS

- 2.1 There are no alternative options to this report.

3. DETAILS OF REPORT

- 3.1 In light of concerns raised in the consultation document, the government has amended its proposals and published the LGPS (Amendment Regulations 2020) (the 'Amending Regulations').
- 3.2 Exit credits were first introduced to the LGPS in the Local Government Pension Scheme (LGPS) (Amendment) Regulation 2018 and came into effect from 14 May 2018. This brought the ability for LGPS Funds to pay money to an employer exiting the LGPS where a surplus was revealed on cessation. Although this gave Funds more flexibility in dealing with employers participation in the Fund, one of the key issues in practice was that it also gave rise to the potential for employers to receive an exit credit without taken on any pensions risk (i.e. the financial risk remained the responsibility of another employer).
- 3.3 Previously when an employer leaves the Fund, the Actuary will calculate their cessation position on a minimum risk basis unless it can be shown that there is another employer in the Fund who will take on financial responsibilities in the future. If the Fund is satisfied that there is another employer willing to take on responsibility for the liabilities, for example a guarantor then the cessation position may be calculated on the ongoing/long term funding basis. If there is no other employer to take on responsibility for the liabilities, then the exit credit policy will apply.
- 3.4 The updated Regulations while still requiring the Actuary to carry out an exit valuation, place the responsibility for determining the level of any exit credit on the Administering Authority having considered various factors.

The new amendments addressed short falls of the previous regulations by addressing the fact that contractors were getting surpluses that was in some cases more than the total contributions paid in the period or surpluses which was due to Fund investment performance

- 3.5 The new amendments for exit credits include:
- Administering authorities will be able to determine, at their discretion, the amount of any exit credit due, having regard to any relevant consideration
 - The period in which an exit credit (when due) is payable will be extended from three to six months. This will help offer administering authorities a more appropriate length of time for managing the cessation process and arranging any payment.
- 3.6 The effect of the changes has been backdated to 14 May 2018 (when exit credits were introduced) – unless an exit credit has already been paid, in which case the old rules apply. Making legislation with retrospective effect is unusual this gives room for possible challenge from employers.

A review of employers in the Fund likely to come up to exit is ongoing to enable the Fund to establish whether there might be an exit credit (or indeed an exit debit event).

- 3.7 In the Ministry of Housing Communities & Local Government (MHCLG) partial response to the consultation on changes to the Local Valuation Cycle and the Management of Employer Risk any disputes in respect of the Fund's determination should first be routed through the Fund's internal dispute resolution process (IDRP). It is also possible for disagreements to be escalated to the pensions Ombudsman if the IDRP is not successful in settling the matters. Advice is being taken to review the possibility of amending the current IDRP process which applies to individual disputes or establishing a separate IDRP process for non-individual disputes.
- 3.7 Updated Funding Strategy Statement will be presented to the Committee at the earliest time once MHCLG clarification is received.
- 3.9 The Fund will seek legal and actuarial advice when making each final exit credit determination.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications. However, the outcomes could have financial implications for the Fund.

5. LEGAL COMMENTS

- 5.1 There are no immediate legal implications arising from this policy. If in due course an employer claims an exit credit and disputes the administering authority's calculation of that credit, they would need to raise this via the Internal Dispute Resolution Process (IDRP). As an Administering Authority of LGPS pension funds, the Council must ensure adherence to the new regulations when making exit credit determinations.

6. ONE TOWER HAMLETS CONSIDERATIONS

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

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 The effective and efficient management of scheme costs is key to the achievement of the funding strategy objectives and this is considered to be a good decision which can result in greater cost savings to the fund.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 There is no direct Sustainable Action for A Greener Environment implication arising from this report.

9. RISK MANAGEMENT IMPLICATIONS

9.1 The rigorous robust management of LBTH Pension Fund results in better quicker and more effective decision making which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

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

Linked Reports, Appendices and Background Documents

Linked Reports

- None

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

List of “Background Papers” used in the preparation of this report

- None

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London Borough of Tower Hamlets Exit Credit Policy Statement

The below sets out the general guidelines that the London Borough of Tower Hamlets Pension Fund (“the Fund”) will follow when determining the amount of an exit credit payable to a ceasing employer in line with Regulation 64 of the Local Government Pension Scheme Regulations 2013 (“the Regulations”). Please note that these are guidelines only and the Fund will also consider any other factors that are relevant on a case-by-case basis.

These considerations may result in a determination that would be different if these guidelines were rigorously adhered to. In all cases, the Fund will make clear its reasoning for any decision.

Admitted bodies

1. No exit credit will be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per point 3 below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and the Fund assumes this was reflected in the commercial terms agreed between the admission body and the letting authority. This will also apply to any pre-14 May 2018 admission which has been extended or ‘rolled over’ on the same terms that applied on joining the Fund.

2 No exit credit will be payable to any admission body who participates in the Fund via a pass through approach.

3 The Fund will make an exit credit payment (if any) in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the Fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority within one month of the admission body ceasing participation in the Fund.

4 If there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in 3, the Fund will withhold payment of the exit credit until such disputes are resolved.

5 The Fund will also consider any representations made by the letting authority regarding monies owed to them by the admission body in respect of the contract that is ceasing or any other contractual arrangement between the two parties. The letting authority must make such representations in a clear and unambiguous document within one month of the admission body ceasing participation in the Fund.

6 Where a guarantor or similar arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

7 If the admission agreement ends early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the Fund's determination of the value of any exit credit payment. In these cases, the Fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.

8 The decision of the Fund is final in interpreting how any arrangement described under 3, 5, 6 and 7 applies to the value of an exit credit payment.

9 If an admitted body leaves on a gilts-exit basis (because no guarantor is in place) as set out in the Funding Strategy Statement, then any exit credit will normally be paid in full to the employer.

Scheduled bodies and resolution bodies

1 Where a guarantor or similar arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

2 Where no formal guarantor or risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

3 The decision of the Fund is final in interpreting how any arrangement described under 1 and 2 applies to the value of an exit credit payment.

4 If a scheduled body or resolution body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.

5 If a scheduled body or resolution body leaves on a gilts-exit basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

The Fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64. Subject to any risk sharing or other

arrangements and factors discussed above, when determining the cessation funding position the Fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the Fund and the respective investment returns earned on both.

The Fund will also factor in if any contributions due or monies owed to the Fund that remain unpaid by the employer at the cessation date. The Fund's default position will be to deduct these from any exit credit payment. The final decision will be made by Neville Murton, the Section 151 officer with responsibility for the Fund, in conjunction with advice from the Fund's Actuary and/or legal advisors where necessary, in consideration of the points held within this policy.

The Fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations, the Fund will discuss its approach to determining an exit credit with all affected parties. The decision of the Fund in these instances is final.

The Fund will advise the exiting employer of the amount due to be repaid and seek to make the payment within six months of the exit date. In order to meet the six-month timeframe, the Fund requires prompt notification of an employer's exit and all data and relevant information as requested. The Fund is unable to make any exit credit payment until it has received all data and information requested.

If the exiting employer or letting authority wishes to dispute the determination of the amount of an exit credit, this must be routed through the Fund's internal dispute resolution process in the first instance.

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Agenda Item 6.2

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Agenda Item 6.3

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