

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 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 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.