TOWER HAMLETS

London Borough of Tower Hamlets Pension Fund Draft Annual Report and Accounts 2020/21

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Foreword by Chair, Pensions Committee

It is my privilege as the Chair of the Pensions Committee to introduce the annual report and accounts for a second year following my appointment as Chair in May 2019. The principal role of the Pensions Committee is to steer the main policies of the Pension Fund in order to provide good governance and stewardship of the Local Government Pension Scheme.

The Pensions Committee has the responsibility for all aspects of the Pension Fund including managing the investments, ensuring governance arrangements are appropriate and scheme members and employers are kept informed of key information. The Committee carries a considerable responsibility to ensure that the Pension Fund is managed in an efficient and effective way.

The past 12 months has seen a considerable improvement in financial markets following the downturn experienced at the onset of the COVID pandemic nearly 2 years ago. The Fund's value has increased by £436m (+29%) to just under £2 billion. The Fund's holdings in global equities and diversified growth funds have been responsible for most of this increase.

The Fund continues to work with the London Collective Investment Vehicle (LCIV) to provide suitable strategies to invest in. LCIV was set up in 2015 as the 'asset pool' for London under a direction by the government with the objective of achieving savings in investment management costs as well as to enable investments in alternative asset classes such as infrastructure. The Fund currently has an allocation of 47% to 4 of the LCIV funds with an additional 24% in low cost index-tracker funds managed by Legal and General.

At the committee meeting on 19 November 2020, the Tower Hamlets Pension Fund considered how it can meet the challenge of climate change. A target date for net zero emissions from the Fund's investment has been set at 2040 to align with the requirements of the Climate Change Act. The Fund has taken steps to reduce its carbon footprint by investing with Legal and General low carbon funds. The Committee will be looking to invest in the LCIV renewable fund in 2021/22 to support the provision of wind and solar power. Investments in sustainable equities and funds aligned to the Paris Agreement are planned to enable the Fund to reach "net zero".

The Pensions Administration team has been strengthened with additional staff to deal with its increasing workload. The Fund's membership now stands at just under 22,000 members comprising of active members, deferred members, pensioners and dependents.

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

Councillor Kyrsten Perry

Chair, Pensions Committee

December 2021

Governance of the Pension Scheme

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

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

MANAGEMENT AND ADVISERS TO THE PENSION FUND as at 31st March 2021

The Pensions Committee during 2020/21 was made up of seven Councillor Members, an Employer Representative and a Scheme Member representative.

Pensions Committee:
Councillors:
Chair: Councillor Kyrsten Perry
Vice Chair: Councillor Rachel Blake
Councillor David Edgar
Councillor Ayas Miah
Councillor Puru Miah
Councillor Helal Uddin
Councillor Andrew Wood

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

Admitted Bodies Representative (non-voting):
Vacant

Contact details for the Pensions Committee:-
Head of Pensions and Treasury
London Borough of Tower Hamlets
Town Hall,
Mulberry Place
5 Clove Crescent
London, E14 2BG

Staff, Advisers & Investment Managers

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

London Borough of Tower Hamlets Responsible Officers:

Miriam Adams – Pensions & Investments Manager

Kevin Bartle – Divisional Director Finance, Procurement & Audit

Neville Murton – Corporate Director, Resources

Advisers:

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

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

Independent Investment Adviser - Colin Robertson

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

Legal Advisers - Legal Services
London Borough of Tower Hamlets, Town Hall, Mulberry Place, 5 Clove Crescent, London, E14 2BG

Auditor - Deloitte LLP
3 Victoria Square, Victoria Street,
St Albans, AL1 3TF

Investment Managers:

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

Insight Investment
160 Queen Victoria Street, London EC4V 4LA

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

London LGPS CIV Ltd
22 Lavington Street London SE1 0NZ

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

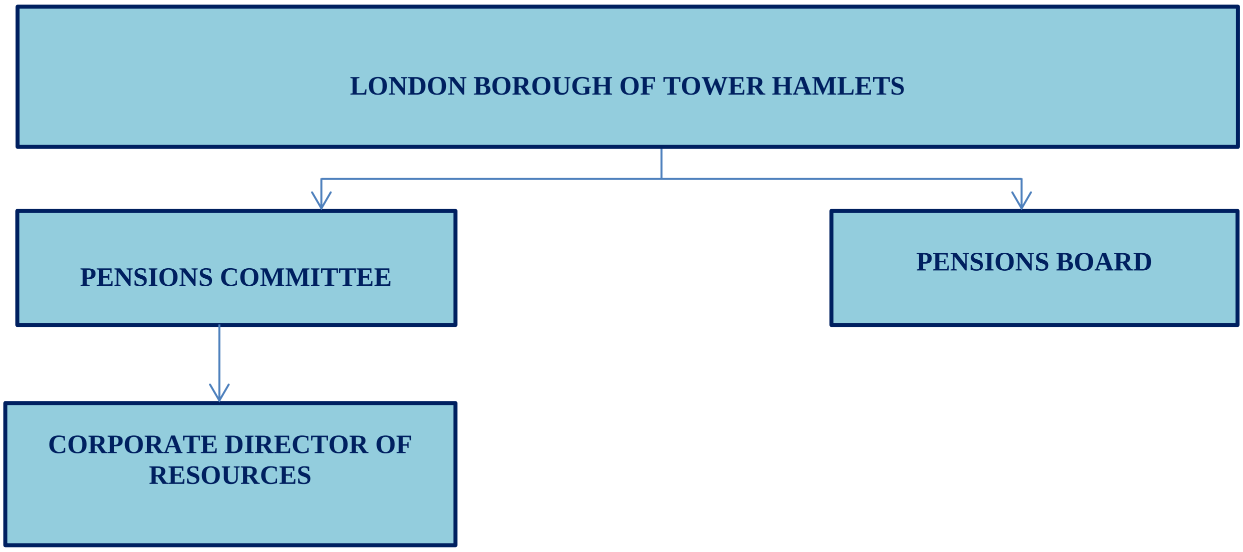
Governance and Oversight Review

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

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

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

Please see below chart illustrating the new governance arrangement with effect from 1 April 2018.



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

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

Pensions Committee Attendance 2020/21

Attendee	Voting Rights	18-Jun	27-Jul	24-Aug	22-Sep	19-Nov	09-Dec	25-Mar
Member								
Chair: Cllr Kyrsten Perry	√	Present	Present	Present	Present	Absent	Present	Present
Vice Chair: Cllr Rachel Blake	√	Present	Present	Present	Present	Present	Present	Present
Cllr Mohammed Ahbab Hossain	√	Present	Present	Present	Present	N/A	N/A	N/A
Cllr Eve McQuillan	√	Present	Absent	Present	Present	N/A	N/A	N/A
Cllr Ayas Miah	√	Absent	Absent	Absent	Present	Absent	Present	Present
Cllr Abdal Ullah	√	Present	Present	Present	Present	Present	Present	N/A
Cllr Andrew Wood	√	Present	Present	Present	Present	Present	Present	Present
Cllr Puru Miah	√	N/A	N/A	N/A	N/A	Absent	Absent	Present
Cllr Helal Uddin	√	N/A	N/A	N/A	N/A	Present	Present	Present
Cllr David Edgar	√	N/A	N/A	N/A	N/A	N/A	N/A	Present
Substitute								
Cllr Kevin Brady	√	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cllr Faroque Ahmed	√	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cllr Peter Golds	√	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Non-voting Member								
Kehinde Akintunde	x	Present	Present	Present	Present	Present	Present	Present

Training was provided to the Committee during 2020/21. The topics covered in the training programme for the Committee were in line with the Knowledge and Skills Framework to help ensure that the Committee are able to achieve high levels of the specialist knowledge required of them.

Topics covered during the financial year were:

- Roles and Responsibilities in the Local Government Pension Scheme (LGPS)
- Hymans Online Academy
- Asset Allocation
- Paris-aligned investments
- Pension Scheme Investment Strategy
- Equity Protection
- Sustainable Equities
- Funding Strategy Statement
- Retail Price Index
- ESG and impact investing

Knowledge and Skills Policy Statement

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

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

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

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

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

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

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

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

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

PENSIONS KNOWLEDGE AND SKILLS FRAMEWORK FOR PENSIONS COMMITTEE MEMBERS

Core technical areas and areas of knowledge

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

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

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

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

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

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

Risk Management

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

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

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

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

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

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

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

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

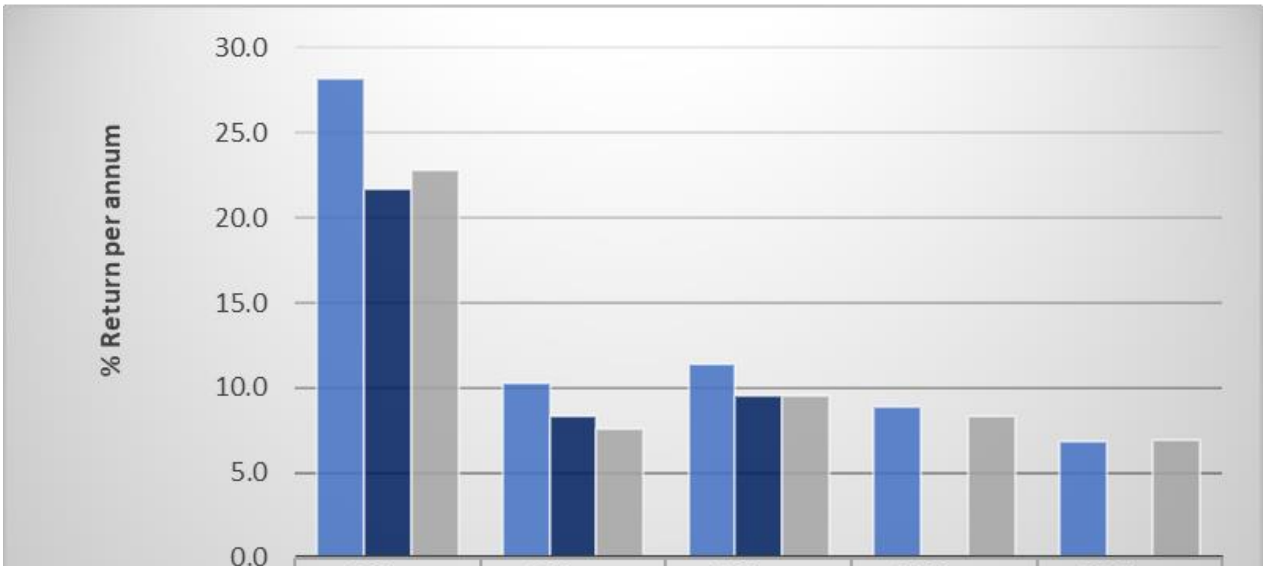
Investment Performance Review

This section comments on the annual performance and long-term results of the Fund to 31 March 2021 based on information from the Pensions Investments Research Consultants Limited (PIRC) which compares the activity of the Fund against the Funds customised benchmark and the PIRC measure of Local Authority average based on some 64 Local Government Pension Scheme Funds. Overall, the Fund's performance was ranked 25 over the year to 31 March 2021.

Over the last twelve months the PIRC measure of the local authority (LA) average returned 22.8% in what has been an excellent year following the downturn last year with the onset of the COVID pandemic. The Fund's investment assets returned 28.2% over the past year and over 10% per annum over 3 and 5 years. The equity funds within the portfolio delivered a return of 52% over the year although the equity protection fund was some way behind with only 8% return. The diversified growth funds returned 19% due to a high allocation to equities with the individual funds. All other asset classes delivered positive returns over the year with bonds funds at 8%, multi-asset credit 25% and property 3%.

The Fund performance over the 10 and 20 years has been below average, ranking 20 and 45 respectively. In the medium term the Fund has performed better, ranking 8 and 7 over the last three and five years respectively.

<u>Fund Performance (One, Three, Five Ten and 20 Years)</u>



	1 Year	3 Years	5 Years	10 Years	20 Years
Fund	28.2	10.3	11.4	8.9	6.8
Benchmark	21.7	8.3	9.6		
LGPS Average	22.8	7.6	9.5	8.3	6.9

Fund Management Activity

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

London Common Investment Vehicle (LCIV)

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

a) **LCIV (Baillie Gifford) Global Alpha Equity Fund** had a value of £118.9m at the start of the mandate in July 2007. The performance target for this mandate is 2% to 3% above the benchmark (Morgan Stanley Composite Index All Country (MSCI AC) World Index gross of fees over a rolling 3-5 year period). This mandate was transferred to LCIV on 22 April 2016 at market value of £214.1m and named LCIV (BG) GA. The market value of the assets as at 31 March 2021 was £403.2m. The portfolio outperformed the one year benchmark return by 17.34% with an absolute return of 56.28%. The fund has also outperformed the 3 year benchmark return by 6.14% per annum and the 5 year benchmark return by 6.35% per annum.

b) **LCIV (BG) Diversified Growth Fund** - the original Tower Hamlets mandate was opened in February 2011 with a contract value of £40m. £6.409m was added to this portfolio in June 2015. The performance target for this mandate is to outperform the benchmark (3% p.a. above the 3 month London Interbank Offered Rate (LIBOR) net of fees over rolling 5 years with annual volatility of less than 10%). This mandate was transferred to LCIV on 15 February 2016 at market value of £54.177m and named as LCIV (BG) DGF. A further capital contribution of £70m was paid into this portfolio on 23 August 2017. The market value of assets as at 31 March 2021 was £192.2. This portfolio outperformed the one year benchmark by 14.6% but has disappointed over the longer term with excess returns over three years of -1.24% per annum and +0.71% per annum over 5 years.

c) **LCIV (Ruffer) Absolute Return -** Ruffer LLP manages an Absolute Return Fund; the value of this contract on the 28 February 2011 was £40m. £6.474m was added to this portfolio on 2 June 2015. The management of this portfolio was transferred to the LCIV on 20 June 2016 at market value of £54m and the portfolio is named LCIV Ruffer (AR). A capital contribution of £70m was added to this portfolio on 23 August 2017. The performance target for this mandate is to outperform the benchmark (3.5%

p.a. above 3 month LIBOR) net of fees over rolling 5 years with annual volatility of less than 10%. The value of assets under management as of 31 March 2021 was £205.8m. The portfolio outperformed the benchmark for one year by 17.35% and for 3 years by 3.62% and 5 years 3.17%.

d) **LCIV Multi Asset Credit LCIV (MAC) Fund** – LCIV invest in CQS Credit Multi Asset Fund with an objective to return London Interbank Offered Rate (LIBOR) +4-5% per annum over a 4-year rolling period and the expected volatility for this fund is 4-6% over a 4-year rolling period. Multi Asset Credit (MAC) – are strategies that make investments in multiple areas of credit. This involves bonds and loans from non-government issuers. Investments can be held as long or short. A long position is when the portfolio manager hold assets the manager expected to rise in price. The short position is when the manager sell assets in advance as the manager expected a fall in price. The manager also uses this long / short positions to tailor risk exposures of the portfolio.
Tower Hamlets Pension Fund transferred £90m on 29 May 2018 to London CIV to invest in LCIV (CQS) MAC which was launched 31 May 2018. CQS MAC Fund had arguably been the London CIV's most successful fund launch to date. The portfolio had a market value of £117.2m at 31 March 2021. This portfolio has outperformed the benchmark by 20.9% over one year and underperformed by -1.32%p.a. since inception.

Schroder's Investment Management

Schroder currently manage two investment portfolios for the Fund.

a) **Property Investment** - The value of this mandate on 20 September 2004 was £90m. The performance target for this mandate is to outperform the Investment Property Databank (IPD) UK Pooled Property Fund Indices All Balanced Funds Median benchmark by 0.75% net of fees over a rolling three year period. The market value of assets at 31 March 2021 was £161.4m.

The fund has delivered excess returns over 1, 3 and 5 years of 0.76%, 0.62% and 0.75% respectively.

b) **Equity Protection Strategy** – In September 2018 the Fund implemented the equity protection strategy by investing in Schroders Bespoke Pooled Vehicle to manage equity downside risk on the Fund total equity holdings of £718m at the time with an option overlay, also establishing long synthetic equity positions of some £142m.

The equity protection strategy is designed, on average, to help protect against losses of some 15% on a portfolio of the Fund global equities, after suffering an initial 5% loss. The Fund would start experiencing losses again should performance of equities fall by 20% below benchmark. The exact levels of protection vary by equity region but the US is the most important one.

The objective of the strategy is to provide more certainty around the value of the equity assets during the Actuarial Valuation review in 2019 and in effect help protect strong gains in recent years. As a result of market volatility arising from the global pandemic together with the next actuarial valuation due in March 2022, the equity protection has been extended to the end of September 2022.

As at 31 March 2021 the Schroders synthetic equity portfolio was valued at £274.4m and over one year has underperformed the benchmark by -15.29%.

Goldman Sachs - On 4 April 2016, the fund invested £75m in Goldman Sachs Strategic Absolute Return Bond II (STAR II). The performance target is to outperform the benchmark (3 Month LIBOR) by 4.0% per annum net of fees over a rolling three year period. £24.5m was disinvested from this portfolio on 25 May 2018 to fund the LCIV (CQS) MAC portfolio. The portfolio had a market value of £54.8m at 31 March 2021.

The portfolio has outperformed its target by 3.49% over 1 year but under performed over 3 and 5 years with excess returns of -3.36% and -3.09% respectively.

Insight Investment Management - On 1 July 2016, the Fund invested £70m with Insight Investment Management in BNY Mellon Global Funds. £21.7m was disinvested from this portfolio on 25 May 2018 to fund the LCIV (CQS) MAC portfolio. The portfolio had a market value of £48.6m at 31 March 2021. The performance target is to outperform the benchmark (3 Month LIBOR) by 3-4% per annum net of fees over a rolling three year period.

Over the past year the fund has outperformed by 3.6%. However, it has struggled over 3 years and since inception with excess returns of -5.45%pa and -4.57% pa respectively.

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

Fund	Allocation (21% of total LBTH Fund)
MSCI World Low Carbon Target Index GBP unHedged	5%
MSCI World Low Carbon Target Index GBP Hedged	16%

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

In December 2019 the LGIM allocation was amended to invest entirely in low carbon indices, with 75% in MSCI World Low Carbon GBP Hedged and 25% in MSCI World Low Carbon Index.

At 31 March 2021, the Low Carbon Hedged fund had a market value of £241.7m and the Low Carbon unhedged fund had a market value of £78.2m. As expected from a tracking manager, all the portfolios matched the benchmark returns with a maximum tracking error of 0.03%.

Asset Allocation

The asset allocation within the portfolio is in line with or within the agreed tolerance of the benchmark asset allocation as set out in the latest Investment Strategy Statement at Appendix 2. The Committee has agreed to take corrective action and rebalance asset allocation where bond to equity allocation moves by +/-5%.

Analysis of Asset Allocation

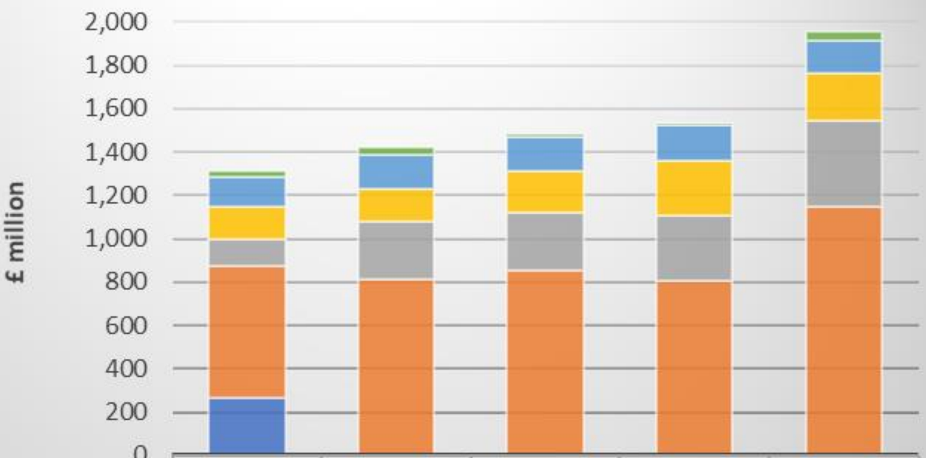
Asset Class	Benchmark	Fund Position	Variance
Global Equities	56.0%	60.5%	4.5%
Absolute Return Bonds	6.0%	5.7%	-0.3%
Multi Asset Credit*	6.0%	5.3%	-0.7%
Property	12.0%	8.9%	-3.1%
Diversified Growth	20.0%	18.9%	-1.1%
Cash	0.0%	0.6%	0.6%

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

Financial Accounts

During the financial year 2020/21 the value of the Fund increased by £436m (28.7%) from £1,520m to £1,956m.

ANALYSIS OF ASSET CLASS



	2017	2018	2019	2020	2021
Cash	23.9	35.3	10.5	3.0	37.3
Pooled Property	140.3	155.6	161.7	159.3	149.2
Pooled Bonds and Credit	149.6	148.9	191.2	254.6	220.6
Diversified Growth	124.0	267.7	267.4	299.4	398.0
Global Equities	606.5	812.1	852.6	808.1	1148.5
UK Equities	266.3	0.0	0.0	0.0	0.0

Fund Income

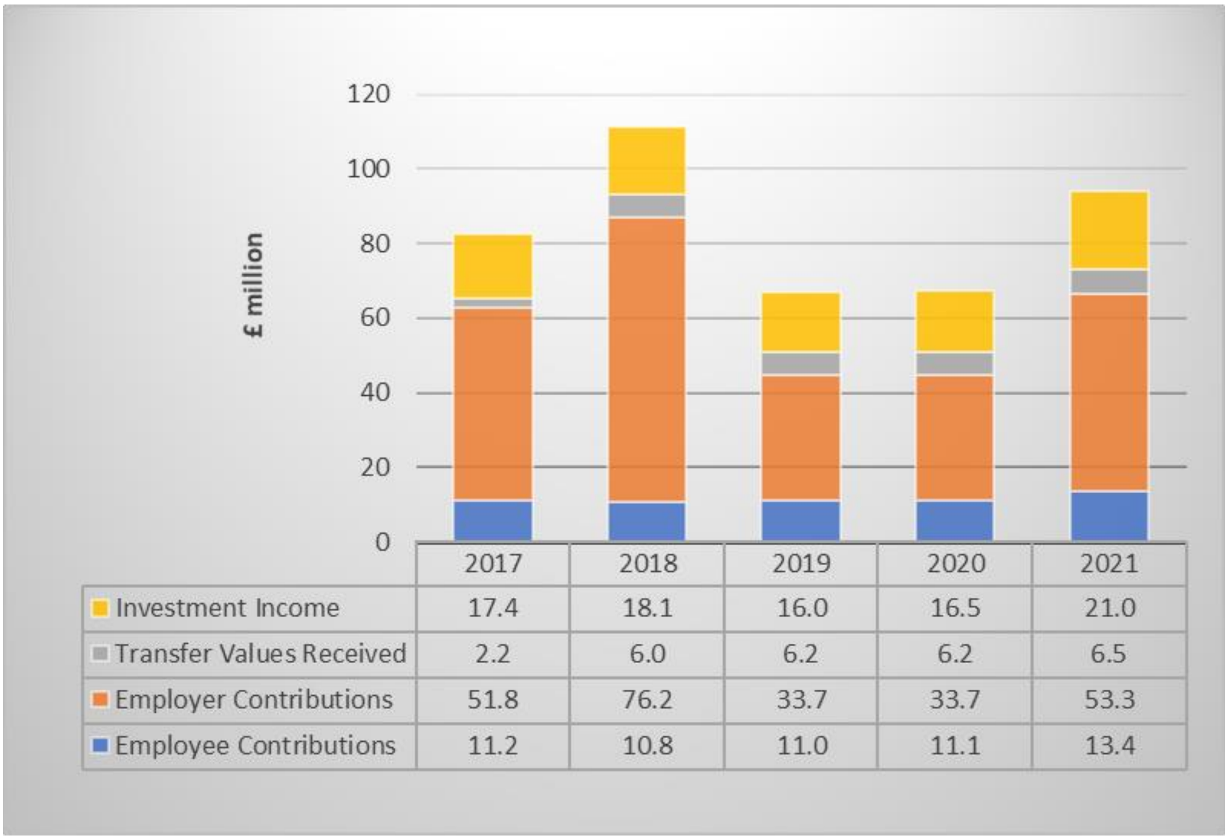
There was an overall increase of £17.3m in the amount of income received by the Fund in 2020/21 compared to 2019/20.

Fund Income Variance Analysis

Type of Income	2020 £m	2021 £m	Variance %
Employee Contributions	-11.2	-13.4	20.0%
Employer Contributions	-37.5	-53.3	42.1%
Transfer Values Received	-7.6	-6.5	-14.4%
Investment Income	-20.6	-21.0	2.1%
Total Fund Income	**-76.9**	**-94.2**	**22.6%**

Employer contributions show the largest increase of £15.8m which reflects the new contribution rates following the 2019 Actuarial Valuation. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) decreased by £0.9m. It is not possible to predict the value of transfer value payments as they are dependent on individual's length of service and salary and as such may vary significantly. Investment income increased over the year by £0.4m.

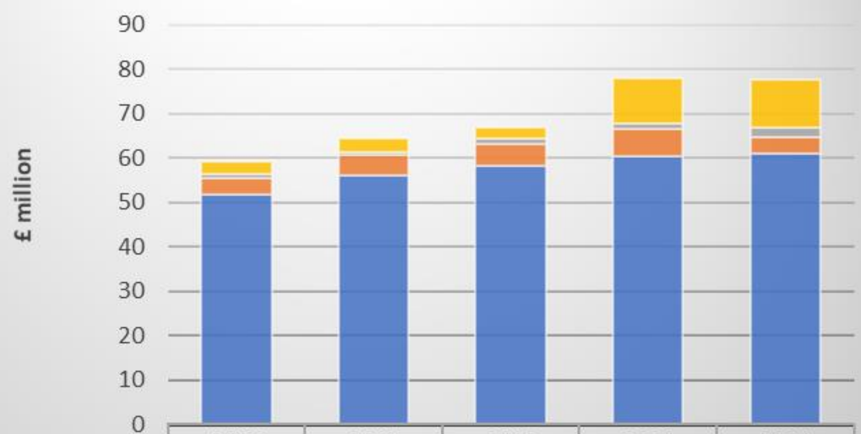
Fund Income Analysis



Fund Expenditure

In 2020/21 the overall Fund expenditure decreased by £0.3m (0.4%). The biggest increase was in administration costs, up £0.9m (72.3%). This was more than offset by fall in Transfer values of £2.4m (38.9%) but these are highly variable year on year as they reflect not just the number of staff leaving the Council but also the value of their accrued benefits. Benefits payable increase in line with inflation each year plus change in the average value of benefits paid to pensioners.

Fund Expenditure Analysis Chart



	2017	2018	2019	2020	2021
Investment Management	2.9	3.3	2.4	10.1	10.8
Administration	1.0	0.5	1.2	1.2	2.1
Transfer Values	3.5	4.8	4.8	6.1	3.7
Benefits	51.8	55.9	58.3	60.4	61.0

Expenditure Variance Analysis

Type of Expenditure	2020 £m	2021 £m	Variance %
Benefits	60.4	61.0	0.9%
Transfer Values	6.1	3.7	-38.9%
Administration	1.2	2.1	72.3%
Investment Management	10.1	10.8	6.2%
Total Fund Expenditure	**77.8**	**77.5**	**-0.4%**

Management Costs

Management costs of the Fund are classified into 3 categories: investment management, administration and oversight and governance. The table below shows these costs over the past 5 years and the cost per member. (Note that from 2020 the investment costs included additional costs of pooled investments not previoulsy reported).

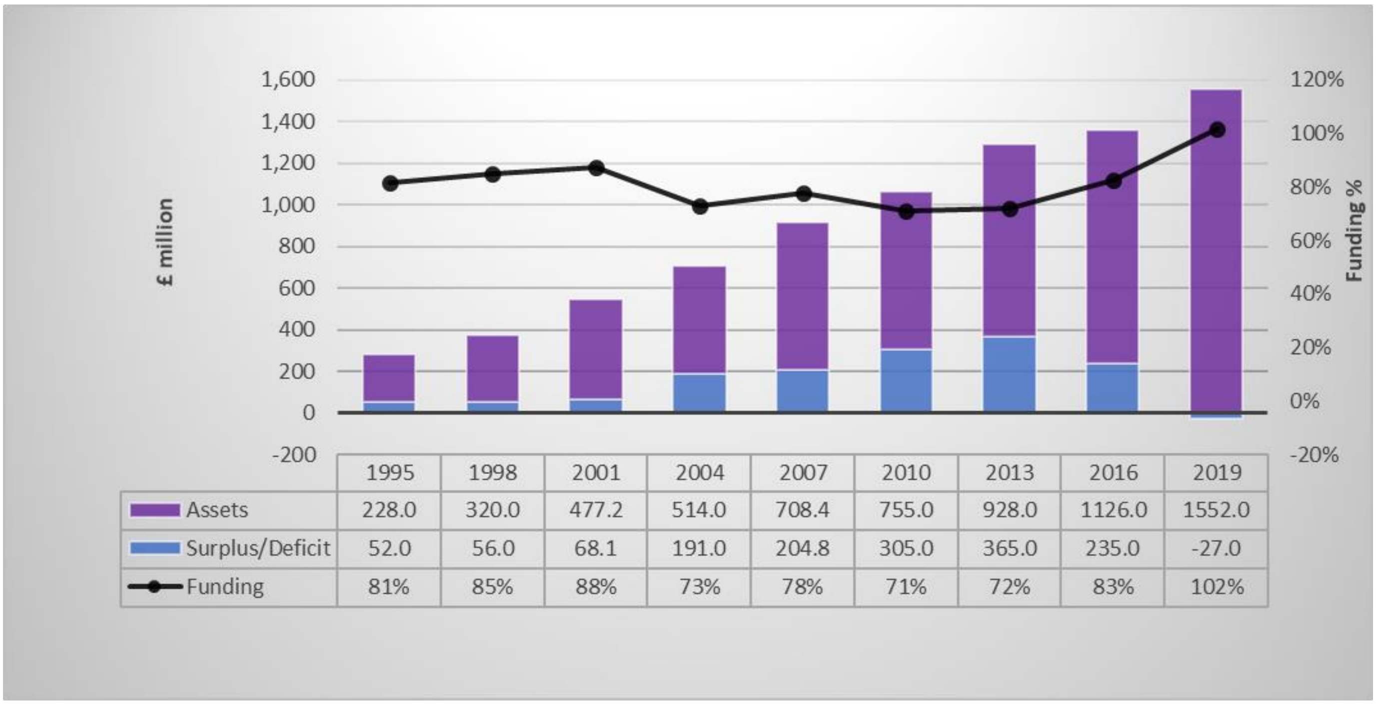
Management Expenses	2017	2018	2019	2020	2021
Members (average during year)	20,209	20,634	20,756	21,438	21,972
Investment Management	£2.9m	£3.3m	£2.4m	£10.1m	£10.8m
cost per member	£143.50	£159.93	£115.63	£471.13	£491.53
Administration	£0.9m	£0.3m	£1.1m	£1.0m	£1.6m
cost per member	£45.23	£15.36	£52.47	£47.81	£74.91
Oversight and Governance	£0.1m	£0.2m	£0.1m	£0.2m	£0.5m
cost per member	£4.26	£8.87	£5.35	£8.16	£20.66
Total Fund Management Expenses	**£3.9m**	**£3.8m**	**£3.6m**	**£11.3m**	**£12.9m**
cost per member	**£193.0**	**£184.2**	**£173.4**	**£527.1**	**£587.1**

Funding Level

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

The Fund was valued by the scheme actuary Hymans Robertson LLP as at the 31st March 2019. The Actuary calculated that the Pension Fund is 102% funded which equates to a surplus of £27m.

Movement in Funding Level



The funding level has improved from 83% in 2016 to 102% in 2019. The main reasons for the change in the funding level over the period were better than anticipated investment returns, receipt of deficit repair contributions, and positive membership experience.

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

For the Fund as a whole, the Primary rate remains unchanged from the 2016 valuation at 19.9% of pensionable pay. The Secondary rate per annum is marginally less than that due for 2019/20, although over the 3 years of the valuation there will be an additional £1m compared to previously.

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

It should be emphasised that the deficit does not affect employees' pension entitlement. The Council is under a statutory obligation to provide sufficient funds to pay pensions and has adopted a strategy recommended by the Actuary to achieve full funding in twenty years. Councils can take a long-term perspective because of their financial stability and statutory backing. The 2019 valuation exercise has shown the Fund to be gradually maturing as the proportion of employee members has fallen whilst the deferred and pensioner numbers have risen.

The Scheme Details

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

The London Borough of Tower Hamlets is the Administering Authority for the Pension Fund and pensions and entitlement to benefits are fully protected in law. Membership of the Fund is open to all employees of the Council including school employees with the exception of teachers (who have their own pension scheme). Other employers are admitted to the Pension Fund and depending on their status; their employees may also be able to participate in the LGPS. Employee contributions are determined by central government and are between 5.5% and 12.5% of pensionable pay. Employer rates are set by the Fund actuary every 3 years following a valuation of the assets and liabilities of the Fund, with the next valuation due to take place as at 31 March 2022.

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

The Pension Scheme as applying during the financial year 2020/21 was a defined benefit career average revalued earnings scheme which aligns LGPS retirement age with an individual's state pension age. The key benefits of the scheme are outlined below:

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

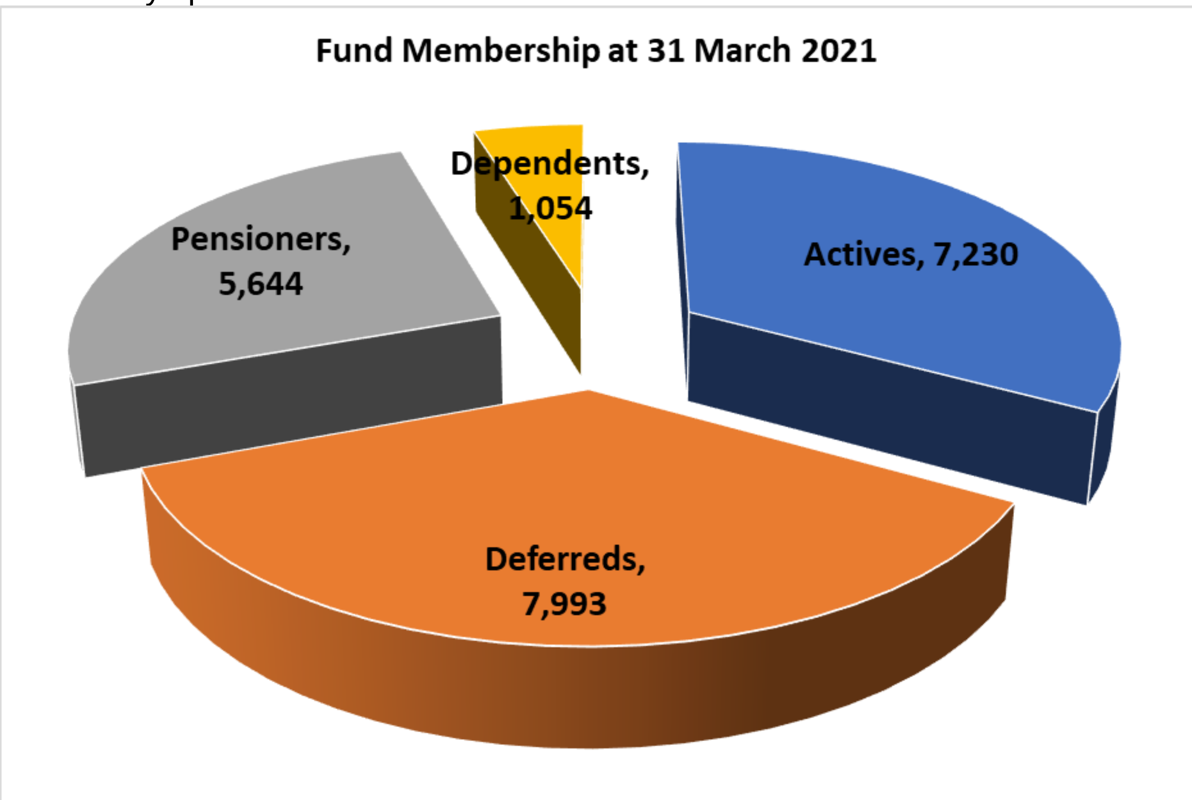
It should be noted that the foregoing is not an exhaustive list and that certain conditions have to be met for an individual to be entitled to the benefits outlined.

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

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

Scheme Membership

The Fund currently has a membership of 21,921 comprising the following categories as set out in the below chart. Membership to the Fund is automatic for full and part-time employees unless they opt out.



The total pension fund membership has decreased by -0.5% between 2019/20 and 2020/21. The number of active members (those currently contributing to the fund) has decreased by 293 members (3.9%). The deferred membership category (members who have contributed in the past but who have not yet become entitled to their benefits) has increased by 33 (0.4%) Pensioners and dependents have increased by 135 (2.5%) and by 23 (2.2%).

Movement in Fund Membership

Membership Type	31-Mar-20	31-Mar-21	Variance	Variance %
Actives	7,523	7,230	-293	-3.9%
Deferreds	7,960	7,993	33	0.4%
Pensioners	5,509	5,644	135	2.5%
Dependants	1,031	1,054	23	2.2%
Total	22,023	21,921	-102	-0.5%

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

Membership Type	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21
Actives	7,256	6,635	6,780	7,523	7,230
Deferreds	7,482	7,899	7,829	7,960	7,993
Pensioners	4,811	5,055	5,220	5,509	5,644
Dependants	1,059	1,070	1,024	1,031	1,054
Total	20,608	20,659	20,853	22,023	21,921

Fund Employers

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

Admitted Bodies

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

Scheduled Bodies

- Attwood Academy *(Ian Mikardo High School)*
- Canary Wharf College
- East London Arts and Music

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

Contributions to the Fund

Employees pay contributions based on the level of pay they receive with rates being set between 5.5% to 12.5% of pensionable pay. The employers contribution rate used during the financial year ranged from 16.0% to 41.4% of pensionable pay. In addition, employers also made contributions for deficit lumps sums and costs of early retirement.

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

Contributing Employers	Active Members	Contributions from Members £	Contributions from Employers £
London Borough of Tower Hamlets	6,258	11,460,168.88	47,783,798.36
Agilisys	1	10,940.71	0.00
Atlantic Cleaning Services	1	42.54	153.96
Attwood Academy (Ian Mikardo School)	13	29,444.06	93,018.63
Letta Trust (Bygrove and Stebon Schools)	66	56,242.62	199,452.17
Canary Wharf College	22	35,844.31	64,496.16
Compass Contract Services (U.K.) Limited	7	35,818.20	223,151.94
South Quay (City Gateway)	14	20,808.57	52,484.61
Tower Trust (Clara Grant and Stepney Green)	62	70,608.37	263,057.33
East End Homes	18	60,108.13	235,071.32
East London Arts and Music	16	29,668.10	74,895.15
Gateway Housing Association	1	2,038.68	37,409.63
Greenwich Leisure Ltd	3	10,837.98	37,611.62
London Enterprise Academy	16	19,900.12	59,532.22
Medequip	1	1,684.83	9,020.28
Mulberry Academy	114	179,587.45	590,664.97
Paradigm Trust	82	70,922.86	237,054.00
Purgo St Pauls	7	0.00	0.00
Sir William Burrough School	16	24,123.29	62,096.01
St Paul's Way Trust	77	133,705.60	341,714.57
Swan Housing Association	0	0.00	-3,136.94
Tower Hamlets Homes Ltd	414	1,087,502.54	2,775,110.23
Toynbee Island Homes Ltd (One Housing)	5	8,968.31	57,135.73
Vibrance (Redbridge Community Housing)	2	3,850.07	10,483.88
Wapping High School	6	17,792.01	25,555.39

Contributing Employers	Active Members	Contributions from Members £	Contributions from Employers £
Wetton Cleaning Services Ltd	4	1,867.25	11,699.96
Total	**7,230**	**13,383,234.80**	**53,297,416.38**

The full accounts are as set out in Appendix 1.

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

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

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

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

PENSIONS ADMINISTRATION

The main processes undetaken by the Pensions Administration team are shown in the table below together the number of cases dealt with in 2020/21. The table also shows key performance data (KPI) such as number of cases per staff member and the percentage of cases completed within the approved time period.

Process	No of Cases commenced in year	No. of cases completed in year	% completed in year	Average cases per fte staff member	KPI (days)	Target met %
Death - initial letter acknowledging death	323	273	85	91	10	77
Retirements - letter notifying estimate of retirement benefits	490	441	90	110	10	89
Retirements - letter notifying actual retirement benefits	221	188	85	63	10	79
Deferment - calculate and notify deferred benefits	108	144	100	36	30	40
Transfers in/out - letter detailing transfer quote	189	154	81	77	10	47
Refund - process and pay refund	430	346	80	173	10	68
Divorce quote - letter detailing cash equivalent value and other benefits	4	6	100	3	10	50
Joiners - notification date of enrolment	1369	1270	93	318	60	93

ASSET POOLS

The London Borough of Tower Hamlets Pension Fund is a shareholder in the London Collective Investment Vehicle (LCIV) along with 30 other London boroughs and the City of London. LCIV was set up in 2015 as one of 8 regional pools in England and Wales to deliver investment strategies for individual LGPS funds. The table below shows how the Fund's investments are managed as part of the LCIV.

FUND INVESTMENTS 2020/21		**£m**	**% of Fund**
MANAGER	**FUND**		
Investments Within Asset Pool			
London LGPS CIV	Global Alpha Equity	403.2	20.6%
	Multi-Asset Credit	117.2	6.0%
	Diversified Growth	192.2	9.8%
	Absolute Return	205.8	10.5%
Sub-total		**918.4**	**46.9%**
Investments Outside Asset Pool			
Schroder	Synthetic Equities	274.4	14.0%
	Real Estate	161.4	8.2%
Legal & General	MSCI World Low Carbon Index (GBP Hedged)	362.3	18.5%
	MSCI World Low Carbon Index (unHedged)	108.6	5.5%
Goldman Sachs	Strategic Absolute Return Bonds	54.8	2.8%
Insight Investment	Absolute Return Bonds	48.6	2.5%
Legacy	Miscellaneous	0.5	0.0%
LBTH	Internally managed cash	28.1	1.4%
Sub-total		**1,038.7**	**53.1%**
Grand Total		**1,957.1**	**100.0%**

Investment Costs Comparison

The table below shows the costs of investments held by the asset pool and those held outside of it. Overall, investment management costs represent 0.5% of Fund assets with those of LCIV more than twice than other managers. This difference reflects the more complex strategies managed by LCIV such as diversified growth funds and credit funds. The costs outside of LCIV have been kept lower partly due to investments in low cost tracker funds.

	London CIV Asset Pool				**Non-Asset Pool**				**Whole Fund**	
Category	**Direct Costs £000**	**Indirect Costs £000**	**Total Costs £000**	**% of Asset Value**	**Direct Costs £000**	**Indirect Costs £000**	**Total Costs £000**	**% of Asset Value**	**Total Costs £000**	**% of Asset Value**
Asset Pool Costs	128.5		128.5	0.014%					128.5	0.007%
Management Fees		4,695.6	4,695.6	0.511%	616.0	2,880.3	3,496.3	0.337%	8,191.9	0.419%
Transaction Costs		2,752.0	2,752.0	0.300%		-258.2	-258.2	-0.025%	2,493.8	0.127%
Custody Fees					65.1		65.1	0.006%	65.1	0.003%
Total	**128.5**	**7,447.6**	**7,576.1**	**0.825%**	**681.1**	**2,622.1**	**3,303.2**	**0.318%**	**10,879.3**	**0.556%**

ACTUARIAL VALUATION

1. Actuarial Valuation March 2019

An actuarial valuation of the London Borough of Tower Hamlets Pension Fund was carried out by Hymans Robertson LLP as at 31 March 2019 to determine the contribution rates that should be paid into the Fund by the employing authorities as from 1 April 2020 to 31 March 2023 in order to maintain the solvency of the Fund.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets represented 102% of the Funding Target and the estimated surplus on the Fund at the valuation date was £27m. The Actuary has determined that any deficit for individual emploers can be recovered over a period of 20 years and the agreed monetary contribution to recover the deficit for the term of the revaluation is approximately £15m per annum.

Individual employer rates are required under Regulation 62(4) for the period 1 April 2020 to 31 March 2023 resulting in a Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

	Minimum Contribution for the year ending					
Employer Name as per 31 March 2019	Year ending 31 March 2021	Additional Monetary Deficit Payment	Year ending 31 March 2022	Additional Monetary Deficit Payment	Year ending 31 March 2023	Additional Monetary Deficit Payment
London Borough of Tower Hamlets (non-schools)	19.9%	£13.7m	19.3%	£13.7m	18.6%	£13.7m
London Borough of Tower Hamlets (schools)	20.3%		21.8%		23.3%	
Tower Hamlets Community Housing Limited	37.6%		37.6%		37.6%	
Mulberry Trust	23.5%		23.5%		23.5%	
Paradigm Trust	20.8%		20.8%		20.8%	
Redbridge Community Housing Limited	34.5%		34.5%		34.5%	
East End Homes Limited	29.4%		34.7%		34.7%	
Greenwich Leisure Limited	28.6%		28.6%		28.6%	
Gateway Housing Association (Bethnal Green & Victoria Park)	30.0%	£28k	30.0%	£28k	30.0%	£28k
One Housing Group (Toynbee Island Homes)	41.4%		41.4%		41.4%	
Tower Hamlets Homes	18.4%		18.4%		18.4%	
Sir William Burrough School	16.0%		16.0%		16.0%	
St Pauls Way Community School	17.3%		17.3%		17.3%	
Canary Wharf College	19.7%		19.7%		19.7%	
Agilisys	0.0%		0.0%		0.0%	
London Enterprise Academy	19.5%		19.5%		19.5%	
Wapping High School	18.2%		18.2%		18.2%	
City Gateway	15.5%		15.5%		15.5%	
Compass contract services	34.8%		34.8%		34.8%	
The LETTA Trust	22.9%		22.9%		22.9%	
Ian Mikardo Academy	23.9%		23.9%		23.9%	

	Minimum Contribution for the year ending					
Employer Name as per 31 March 2019	Year ending 31 March 2021	Additional Monetary Deficit Payment	Year ending 31 March 2022	Additional Monetary Deficit Payment	Year ending 31 March 2023	Additional Monetary Deficit Payment
East London Arts and Music	19.4%		19.4%		19.4%	
Tower Trust	25.1%		25.1%		25.1%	
Wettons Cleaning Services Ltd	37.0%		37.0%		37.0%	
Medequip	34.8%		34.8%		34.8%	

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

The results of the triennial valuation depend on the actuarial assumptions made about various factors impacting on the Fund. The table below shows the main assumptions used in the 2019 valuation.

Valuation Assumptions:

Funding Target

Assumption	Economic Indicator
Benefit increases	Future CPI inflation expectations
CARE revaluation	Future CPI inflation expectations
Salary increases	As above plus 0.2% p.a.
Future investment returns	Prevailing risk free rate of return plus margin

Salary and Benefits

Financial assumptions (per annum)	31 March 2016	31 March 2019
Benefit increase and CARE revaluation (CPI)	2.1%	2.3%
Salary increase	2.0%	2.5%

Life Expectancy

Assumed Life Expectancy		31 March 2016	31 March 2019
Male	Pensioners	22.1 years	21.5 years
	Non-Pensioners	23.9 years	22.6 years
Female	Pensioners	24.1 years	23.5 years
	Non-Pensioners	25.8 years	25.0 years

The next triennial valuation of the Fund is due as at 31 March 2022. The contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

Statement of Responsibilities

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

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

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

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

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

The Corporate Director, Resources has:

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

Responsible Financial Officer's Certificate
I certify that the Accounts as set out on pages 34 to 62 have been prepared in accordance with proper practices and that they give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2020 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2020.

Neville Murton
Corporate Director, Resources

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

The London Borough of Tower Hamlets Pension Fund

Appendix 1

Draft Statement of Accounts 2020/21

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2019/20 £'000	2020/21 £'000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions	7	(48,675)	(66,681)
Transfers in	8	(7,608)	(6,512)
Benefits	9	60,418	60,989
Payments to and on account of leavers	10	6,835	3,925
NET (ADDITIONS)/DEDUCTIONS FROM DEALINGS WITH MEMBERS		**10,970**	**(8,279)**
Management expenses	11	11,317	12,812
NET (ADDITIONS)/DEDUCTIONS INCLUDING FUND MANAGEMENT EXPENSES		**22,287**	**4,533**
RETURN ON INVESTMENTS			
Investment Income	12	(20,580)	(21,013)
Taxes on Income		7	5
Change in market value of investments	14a	31,630	(420,070)
NET RETURN ON INVESTMENTS		**11,057**	**(441,078)**
Net increase in the Fund during the year		33,344	(436,545)
Add: Opening net assets of the scheme		(1,552,906)	(1,519,562)
CLOSING NET ASSETS OF THE SCHEME		**(1,519,562)**	**(1,956,107)**

NET ASSETS STATEMENT AS AT 31ST MARCH		2019/20 £'000	2020/21 £'000
Long Term Investments	14	150	150
Investments Assets	14	1,520,894	1,957,072
Current Assets	21	1,171	2,407
Current Liabilities	22	(2,653)	(3,522)
NET ASSETS		**1,519,562**	**1,956,107**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 1 : DESCRIPTION OF THE FUND

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

a) General

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

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

The Fund is a contributory defined benefit pension scheme administered by London Borough of Tower Hamlets to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies.
Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Fund is overseen by the London Borough of Tower Hamlets Pension Committee which is a Committee of the London Borough of Tower Hamlets Pension Fund.

b) Membership of the Fund

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

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

The following table sets out the membership of the London Borough of Tower Hamlets Pension Fund as at 31st March 2021

	31st March 2020	31st March 2021
Number of employees in the scheme		
LBTH	6,602	6,256
Other employers	921	974
	7,523	**7,230**
Number of pensioners		
LBTH	6,108	6,242
Other employers	432	456
	6,540	**6,698**
Number of deferred pensioners		
LBTH	7,437	7,455
Other employers	523	538
	7,960	**7,993**
Total number of members in pension scheme	**22,023**	**21,921**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 1 : DESCRIPTION OF THE FUND

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the Local Government Pension Scheme Regulations 2013 and ranged from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employers' contributions are set based on triennial actuarial valuations. The last such valuation was at 31 March 2019 and these rates have been applied from 1 April 2020. Currently, employer contribution rates range from 15.8% to 41.4% of pensionable pay.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the LGPS became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices 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 2020/21 financial year and its financial position at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

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

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

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

b) Transfers to and from other schemes

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

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

Changes in the value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year. The valuations of the Fund's property holdings as been particularly impacted by the on-going COVID pandemic.

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 mangement 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

i) Derivatives

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

j) Cash and cash equivalents

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

k) Financial assets at amortised cost

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

l) Financial liabilities

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

m) Actuarial present value of promised retirement benefits

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

n) Additional voluntary contributions

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

o) Contingent assets and contingent liabilities

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

p) Recharges from the General Fund

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund liability

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

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

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

In response to the government's guidance and criteria on pooling investments issued in 2015, the London Borough of Tower Hamlets Pension Fund is a founding member of the London Collective Investment Vehicle (LCIV) established as a Collective Investment Vehicle for LGPS Funds. At the end of 31 March 2021, the Fund has £918m (46.9%) under LCIV management. A further £471m (24.1%) is invested in Legal and General Passive Pool.

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

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

a) Actuarial present value of promised retirement benefits

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

For example:

„a 0.5% decrease in the discount rate used would result in an increase in the pension liability of £247m.

„a 0.5% increase in salary increase rate would increase the earnings inflation value of the liabilities by approximately £18m.

b) Valuation of Investments at Level 3

The Pension Fund contains investments in unitised pooled property funds that are classified within the financial statements as level 3 investments. These funds are valued at £149m 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 benefits payable under the LGPS are under review following legal challenges successfully brought against the Government's reform of public service pensions in 2014 (the McCloud / Sargeant cases). The Government will be bringing in revised LGPS regulations later this year to apply retrospectively from 1 April 2014. It is not possible at this time to assess the financial impact on the Fund.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 7: CONTRIBUTIONS RECEIVABLE

	2019/20 £'000	2020/21 £'000
Employees		
Council Employees' Normal Contributions	(9,491)	(11,460)
Admitted Bodies Employees' Normal Contributions	(119)	(147)
Scheduled Bodies Employees' Normal Contributions	(1,546)	(1,776)
Total	**(11,156)**	**(13,383)**
Employers		
Council Employers' Normal Contributions	(30,462)	(33,173)
Admitted Bodies Employers' Normal Contributions	(517)	(628)
Scheduled Bodies Employers' Normal Contributions	(4,166)	(4,839)
Total	**(35,145)**	**(38,640)**
Employers' Special Contributions	(2,321)	(980)
Deficit Funding	(53)	(13,678)
Total	**(2,374)**	**(14,658)**

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

	2019/20 £'000	2020/21 £'000
Transfer Values		
Transfer Values Received - Individual	(7,608)	(6,512)
Total	**(7,608)**	**(6,512)**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 9: BENEFITS PAYABLE

	2019/20 £'000	2020/21 £'000
Pensions	47,620	49,418
Lump Sums Retirement Benefits	11,486	9,016
Lump Sums Death Benefits	1,312	2,555
Total	**60,418**	**60,989**
By type of employer		
Administering authority	57,358	56,028
Scheduled bodies	1,983	2,628
Admitted bodies	1,077	2,333
Total	**60,418**	**60,989**

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2019/20 £'000	2020/21 £'000
Transfer values paid	6,079	3,712
Refunds to members leaving service	756	213
Total	**6,835**	**3,925**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 11: MANAGEMENT EXPENSES

	2019/20 £'000	2020/21 £'000
Administration	742	1,465
Investment management expenses	10,121	10,751
Oversight & Governance	454	596
Total	**11,317**	**12,812**

NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

	Management Fees	Transaction Costs	2020/21
	£'000	£'000	£'000
Pooled Investments	6,311	2,464	8,775
Pooled Property Investments	1,881	30	1,911
	8,192	**2,494**	**10,686**
Custody Fees			65
			10,751

	Management Fees	Transaction Costs	2019/20
	£'000	£'000	£'000
Pooled Investments	4,504	3,367	7,871
Pooled Property Investments	1,601	599	2,200
	6,105	**3,966**	**10,071**
Custody Fees			50
			10,121

NOTE 12: INVESTMENT INCOME

	2019/20 £'000	2020/21 £'000
Pooled property Investments	(6,425)	(4,906)
Pooled Investments -unit trusts and other managed funds	(14,094)	(15,574)
Interest on cash deposits	(61)	(533)
	(20,580)	**(21,013)**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 13: EXTERNAL AUDIT COSTS

	2019/20 £'000	2020/21 £'000
Audit Fees Payable in respect of external audit	21	21
Total	**21**	**21**

NOTE 14: INVESTMENTS

		2019/20 £'000	2020/21 £'000
Long Term Investments			
UK unquoted Equities	London CIV Ltd	150	150
Total Long Term Investments		**150**	**150**
Investment assets			
Pooled Funds	Fixed Income	446,775	495,076
	Global Equity	614,515	874,109
	Diversified Growth	299,420	397,959
	Property	147,556	149,166
Other		(33)	0
Sub-Total		**1,508,233**	**1,916,310**
Other Investment Balances			
Cash Deposits		11,927	37,283
Amounts Receivable for Sales of Investments		0	2,814
Investment Income Due		734	665
Sub-Total		**12,661**	**40,762**
Total Investment Assets		**1,520,894**	**1,957,072**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market Value 31 Mar 2020 £'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 2021 £'000
Investment Assets					
Pooled Investments	1,360,710	68,113	(80,826)	419,147	1,767,144
Pooled Property Investments	147,556	5,457	(4,759)	912	149,166
	1,508,266	**73,570**	**(85,585)**	**420,059**	**1,916,310**
Other Investment Balances					
Cash Deposits	11,927			11	37,283
Amounts Receivable for Sales of Investments	0			0	2,814
Investment Income Due	734			0	665
Other	(33)				0
Net Investment Assets	**1,520,894**			**420,070**	**1,957,072**

	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
Investment Assets					
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
	1,547,835	**58,258**	**(66,200)**	**(31,627)**	**1,508,266**
Other Investment Balances					
Cash Deposits	9,222			(3)	11,927
Amounts Receivable for Sales of Investments	99				0
Investment Income Due	832				734
Other	(38)				(33)
Net Investment Assets	**1,557,950**			**(31,630)**	**1,520,894**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 14B: INVESTMENTS ANALYSED BY FUND MANAGER

	2019/20 £'000		2020/21 £'000	
Investments managed by regional asset pool (London CIV)				
London LGPS CIV Lt Global Alpha Growth A	294,846	19.4%	403,177	20.6%
London LGPS CIV Lt Rf Absolute Return A Gbp Di	155,916	10.3%	205,790	10.5%
London LGPS CIV Lt Diversified Growth A	143,505	9.4%	192,169	9.8%
LCIV CQS Credit Mult Asset-A	79,089	5.2%	117,231	6.0%
	673,356	44.3%	918,367	46.9%
Investments managed outside of regional asset pool				
Schroder	428,391	28.2%	435,766	22.3%
Legal & General	319,684	21.0%	470,932	24.1%
Goldman Sachs	50,806	3.3%	54,792	2.8%
Insight Investment	45,051	3.0%	48,635	2.5%
Legacy	87	0.0%	460	0.0%
Internally managed cash	3,033	0.2%	28,120	1.4%
	847,052	55.7%	1,038,705	53.1%
	1,520,408	100.0%	1,957,072	100.0%

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 2020 £'000	% total of fund	Market value as at 31st March 2021 £'000	% total of fund
London LGPS CIV Lt Global Alpha Growth A	294,846	19%	403,177	21%
Mfo GPCU - Msciworldlowcarbtarin Dgcurhofc	241,537	16%	362,285	19%
Schroder Inv Mg E Bespoke Investment Fund 9 I	271,829	18%	274,417	14%
London LGPS CIV Lt Rf Absolute Return A Gbp Di	155,916	10%	205,790	11%
London LGPS CIV Lt Diversified Growth A	143,505	9%	192,169	10%
LCIV CQS Credit Mult Asset-A	79,089	5%	117,231	6%
Gpcl - Msciworldlw Carbontargetindofc	78,147	5%	108,646	6%
	1,264,869	82%	1,663,715	87%

NOTE 14C: STOCK LENDING

The Fund does not participate in stock lending.

NOTE 14D: PROPERTY HOLDINGS

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 15: ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

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

NOTE 16: FAIR VALUE – BASIS OF VALUATION

Description of asset	Valuation hierarchy 19/20	Valuation hierarchy 20/21	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 2	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 2021 £'000	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant observable inputs Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss					
Equities	150	0	150	0	150
Pooled investments	1,767,144	457,969	1,309,175	0	1,767,144
Pooled Property Investments	149,166	0	0	149,166	149,166
Cash deposits	37,283	37,283	0	0	37,283
Investment income due	665	625	0	40	665
Amounts Receivable for Sales	2,814	0	2,814	0	2,814
	1,957,222	**495,877**	**1,312,139**	**149,206**	**1,957,222**

	Market Value as at 31 Mar 2020 £'000	Quoted Level 1 £'000	Using observable Level 2 £'000	With significant Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss					
Equities	150	0	150	0	150
Pooled investments	1,360,710	345,652	1,015,058	0	1,360,710
Pooled Property Investments	147,556	0	0	147,556	147,556
Cash deposits	11,927	11,927	0	0	11,927
Investment income due	734	705	0	29	734
Amounts Receivable for Sales	0				0
Other	(33)	(33)			(33)
	1,521,044	**358,251**	**1,015,208**	**147,585**	**1,521,044**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 16 : TRANSFERS BETWEEN LEVELS 1 AND 2

There were no transfers in the year.

NOTE 16: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 Apr 2020 £'000	Transfers in/out of level 3 £'000	Purchases £'000	Sales £'000	Unrealised gains (losses) £'000	Realised gains (losses) £'000	Market Value 31 Mar 2021 £'000
Pooled Property Funds	147,556	0	5,457	(4,759)	637	275	149,166
Total	**147,556**	**0**	**5,457**	**(4,759)**	**637**	**275**	**149,166**

	Assessed valuation range (+/-) %	Value 31 Mar 2021 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled Property Funds	10%	149,166	164,083	134,249
Total		**149,166**	**164,083**	**134,249**

	Market Value 1 Apr 2019 £'000	Transfers in/out of level 3 £'000	Purchases £'000	Sales £'000	Unrealised gains (losses) £'000	Realised gains (losses) £'000	Market Value 31 Mar 2020 £'000
Pooled Property Funds	157,351	0	4,896	(6,900)	(10,263)	2,472	147,556
Total	**157,351**	**0**	**4,896**	**(6,900)**	**(10,263)**	**2,472**	**147,556**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

Market Value as at 31 Mar 2020				Market Value as at 31 Mar 2021		
Designated as fair value through profit and loss £'000	Financial Assets at amortised cost £'000	Financial liabilities at amortised cost £'000		Designated as fair value through profit and loss £'000	Financial Assets at amortised cost £'000	Financial liabilities at amortised cost £'000
			Financial assets			
150	0	0	Equities	150	0	0
1,360,710	0	0	Pooled investments	1,767,144	0	0
147,556	0	0	Pooled property Investments	149,166	0	0
0	8,894	0	Cash held with External Managers	0	9,163	0
0	3,033	0	Cash held Internally	0	28,120	0
0	734	0	Other investment balances	0	3,479	0
0	1,171	0	Debtors	0	2,407	0
1,508,416	**13,832**	**0**		**1,916,460**	**43,169**	**0**
			Financial liabilities			
0	(33)	0	Other Investment balances	0	0	0
0		(2,653)	Creditors	0	0	(3,522)
0	**(33)**	**(2,653)**		**0**	**0**	**(3,522)**
1,508,416	**13,799**	**(2,653)**	**Total**	**1,916,460**	**43,169**	**(3,522)**
1,519,562			**Grand Total**	**1,956,107**		

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

Financial Assets	2019/20 £'000	2020/21 £'000
Fair value through profit or loss	31,627	(420,059)
Amortised cost – realised gains on derecognition of assets	0	1
Amortised cost – unrealised gains	3	(12)
Total Financial Assets	**31,630**	**(420,070)**

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 2021, liquid assets were £1,956m representing 92.4% of total assets of the Fund assets (£1,371m as at 31 March 2020). 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.

NOTES TO THE PENSION FUND ACCOUNTS

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

Currency risk cont.

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

Market risk

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

Price risk

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

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities regardless of 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 derivatives.

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

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

Interest rate risk

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

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

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

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

NOTES TO THE PENSION FUND ACCOUNTS

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

OTHER PRICE RISK - sensitivity analysis

Asset type	Market Value as at 31/03/2021 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	37,283	0.8%	37,581	36,985
Pooled Investments:				
Fixed Income	495,076	6.8%	528,741	461,411
Global Equity	874,109	15.7%	1,011,344	736,874
Diversified Growth	397,959	6.5%	423,826	372,092
Property	149,166	2.1%	152,256	146,076
Investment income due	665	0.8%	670	660
Amounts receivable for sales	2,814	0.8%	2,837	2,791
Total investment assets	**1,957,072**		**2,157,255**	**1,756,889**

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
Pooled Investments:				
Fixed Income	446,775	5.6%	471,794	421,756
Global Equity	614,515	13.3%	696,245	532,785
Diversified Growth	299,420	5.8%	316,786	282,054
Property	147,556	2.3%	150,950	144,162
Other	(33)	0.6%	(33)	(33)
Investment income due	734	0.0%	734	734
Total investment assets	**1,520,894**		**1,648,475**	**1,393,313**

CURRENCY EXPOSURE - asset type

Asset type	Market Value as at 31/03/2021 £'000	Change in year in the net assets available to pay benefits 7.7%	7.7%
Overseas Equities			
Overseas Fixed Inome Funds	377,845	406,947	348,743
Overseas Equity Funds	765,463	824,420	706,506
Total change in assets available	**1,143,308**	**1,231,368**	**1,055,248**

Asset type	Market Value as at 31/03/2020 £'000	Change in year in the net assets available to pay benefits 7.4%	-7.4%
Overseas Equities			
Overseas Fixed 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**

NOTES TO THE PENSION FUND ACCOUNTS

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

INTEREST RATE RISK

Asset type	Market Value as at 31/03/2021	Market Value as at 31/03/2020
	£'000	£'000
Cash and cash equivalents		
Cash	37,283	11,927
Total	**37,283**	**11,927**

Interest rate risk sensitivity analysis

Asset type	Market Value as at 31/03/2021	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps
	£'000	£'000	£'000
Cash and cash equivalents			
Cash	37,283	373	-373
Total change in assets available	**37,283**	**373**	**-373**

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**

CREDIT RISK

Summary	Rating	Market Value as at 31/03/2021	Market Value as at 31/03/2020
		£'000	**£'000**
Money Market Funds			
Schroder special situations sterling liquidity plus	A	8,922	0
Bank current accounts			
Northern Trust custody cash account	A	241	8,894
National Westminster Bank Plc	A	28,120	3,033
Total		**37,283**	**11,927**

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 2019 covered the period up to 31 March 2023. This report details Fund assumptions and employer contributions for the three years covered by the 2019 valuation.

The key elements of the funding policy are:

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

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

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

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

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

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

The triennial valuation undertaken as at 31 March 2019 covers the financial assumptions for 2020/21. The actuary estimated the surplus of the Fund to be £27m and the funding level to be 102%. This compared to a deficit at the previous valuation in 2016 of £235m and a corresponding funding level of 82.8%. The triennial valuation also sets the individual contribution rate to be paid by each employer from 1 April 2020 to 31 March 2023.

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 2019 triennial valuation:

Primary Rate (% of pay)	2020-21 £'000	2021-22 £'000	2022-23 £'000
19.90%	15,019	15,137	15,103
	15,019	**15,137**	**15,103**

50:50 option
It is assumed that 0.5% 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 £2,535 million (£1,949 million in 2019/20). This includes both vested and non-vested benefits.

Year ended	31 Mar 2020 £m	31 Mar 2021 £m
Active members	684	1,026
Deferred members	475	644
Pensioners	790	865
	1,949	**2,535**

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 2021 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	21.7	23.9
Future pensioners	23.0	25.7

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 2020	31 March 2021
Inflation/pension increase rate assumption	1.9%	2.9%
Salary increase rate	2.1%	3.1%
Discount rate	2.3%	2.0%

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 21: CURRENT ASSETS

	2019/20 £'000	2020/21 £'000
Short term debtors		
Contributions due	950	1,209
Sundry debtors	221	869
Prepayments	0	329
Total	**1,171**	**2,407**

NOTE 22: CURRENT LIABILITIES

	2019/20 £'000	2020/21 £'000
Sundry creditors	(1,756)	(1,645)
Transfer values payable (leavers)	(22)	0
Benefits payable	(875)	(1,877)
Total	**(2,653)**	**(3,522)**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

	2019/20		2020/21	
	Market Value* £'000	Contributions Paid £'000	Market Value* £'000	Contributions Paid £'000
Aviva	1,150	27	1,251	26
Equitable Life / Utmost Life	671	2	708	3
	1,821	**29**	**1,959**	**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.
* The market value is as at 5/6 April for Utmost and 30 April for Aviva.

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 £1,227k (£669k 2019/20) 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 Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £3.9m (£3.3m 2019/20) from this company.

NOTE 25A: KEY MANAGEMENT PERSONNEL

Key management personnel for the pension fund include pension fund committee members, the Corporate Director Resources and the Head of Pensions and Treasury. There were no permanent employees holding key positions in the financial management of the fund as at 31st March 2021.

(At 31 March 2020 there was one permanent employee, the Corporate Director Resources, with short term benefits valued at £8k and long term post retirement benefits valued at £11k).

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund may be required by government regulations to increase benefits paid on the guarranted minimum pension (GMP) for new penionsers after 6 April 2021. This will increase the pension liability of the Fund as detailed in Note20.

The London Borough of Tower Hamlets Pension Fund

Appendix 2

Investment Strategy Statement

2021

Investment Strategy Statement

1. Introduction and background

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

1.2 The Administering Authority has delegated all its functions as administering authority to the Pensions Committee ("the Committee"). The ISS is subject to periodic review at least every three years or after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate – for example, pensions board, independent adviser, local authority employers such as admitted bodies and scheduled bodies.

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

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

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

2.0 Long-term view of investments

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

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

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

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

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

2.6 The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund (see section 4). This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

2.7 The Fund carried out an Asset Outperformance Assumption modelling exercise in conjunction with the 2019 actuarial valuation. In order to maintain a funding position of 100% the Fund would need to achieve investment returns of c. 3.9% p.a. In general, higher probabilities of success are achieved by paying higher contributions and relying less on volatile investment returns. The probability required for each employer is largely based on each employer's assessed covenant. For instance, a lower probability of success (e.g. 66%) may be required for a secure body as they may be considered to be able to pay higher contributions (or current rates for longer) should they not reach their funding target over their time horizon.

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

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

2.10 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation, and will take rebalancing action as deemed appropriate.

3.0 The investment objectives of the Fund

a) The long-term objective is for the Fund to be fully funded and be able to pay pensions as they fall due in an affordable way. This target will be reviewed following each triennial actuarial valuation and consultation with Fund employers.

b) The actuarial valuation, at 31 March 2019, was prepared on the basis of an expected real return on assets of 1.7 p.a.% over the long term, a nominal return of 4.0 p.a.% assuming inflation (CPI) to be 2.3 p.a.%.

c) The Fund's objective is to perform in line with this target over the long-term, by investing in a diversified portfolio of return-generating assets.

d) In order to monitor the investment objective, the Committee requires the provision of detailed performance measurement of the Fund's investments. This is provided by the Fund's investment advisor, on a quarterly basis.

4. Strategy Review and Strategic Benchmark

4.1 The investment strategy (including the core investment objectives and asset allocations) will be sufficiently flexible to meet longer term prevailing market conditions and address any short term cash flow requirements. Interim reviews may be undertaken to ensure that the Strategy remains appropriate.

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

4.3 As is appropriate all asset classes and products will be kept under regular review. In addition to considering the benefits of individual products and asset classes for introduction into the strategy, consideration will be given to how the inclusion affects the overall risk/return characteristics of the total portfolio.

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

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

4.6 The Fund's target investment strategy is set out below.

Asset class	Targeted Strategic Asset Allocation %	Investments Range (%)
Active Global Equities	29%	(24% - 34%)
Passive Low Carbon Global Equities	21%	(16% - 26%)
Total Global Equities	**50%**	**(45% - 55%)**
Property	9%	(6% - 12%)
Diversified Growth Funds	20%	(15% - 25%)
Multi-Asset Credit	6%	(3% - 9%)
Renewable Energy Infrastructure	6%	(3% - 9%)
Index Linked Gilts	6%	(3% - 9%)
To be confirmed*	3%	-
Total	**100%**	**100%**

** At the time of writing the Committee is in the process of deciding upon an appropriate long term target for these assets*

5. Restrictions on investment

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

6.0 Managers

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

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

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

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

Manager	Mandate	Benchmark Allocation	Performance Target
Legal & General	UK Index Linked Gilts	6%	FTSE A Gov Index Linked >5yrs
	Global Equities (Passive Low Carbon Hedged)	16%	MSCI World Low Carbon Target Index GBP Hedged
	Global Equities (Passive Low Carbon)	5%	MSCI World Low Carbon Target Index
LCIV (Baillie Gifford)	Global Paris Aligned Equities	20%	MSCI ACWI + 2%
	Diversified Growth	10%	3 Months LIBOR +3%
LCIV (Royal Bank of Canada)	Global Sustainable Equities	9%	MSCI World + 2%
LCIV (Ruffer)	Diversified Growth	10%	3 Months LIBOR +3%
LCIV	Renewable Energy Infrastructure	6%	Internal Rate of Return of 7% - 10%
LCIV (CQS)	Multi Asset Credit	6%	3 Months LIBOR +4%
Schroders	Property	9%	MSCI UK Quarterly Property Funds Indices Weighted Average benchmark + 0.75% over a rolling 3 year period
TBC		3%	

7.0 The approach to risk

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

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

Funding risks

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

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

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

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

7.6 Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance ("ESG"), including Climate Change related risks - the risk that ESG related factors reduce the Fund's ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

7.7 The Committee measure and manage asset risks as follows:

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

b) The Fund invests in a range of overseas markets which provides a diversified approach to currency markets.

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

7.8 Other provider risk

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

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

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

8. Pooling of investments

8.1 The Fund is a participating scheme in the London Collective Investment Vehicle (LCIV) Pool.

8.2 The Fund has made strong progress transitioning assets to the London CIV, and will look to invest further via this platform as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

8.3 The performance of the pooling arrangements is monitored via regular reporting and through periodic meetings.

8.4 Where performance falls short of expectations the Committee, Officers and the Investment Advisers for the Fund will identify the cause of this underperformance and will respond appropriately.

9. Environmental Social, and Governance ("ESG")

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

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

Sustainable investment / ESG

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

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

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

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

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

9.7 Where appropriate, the Committee considers how it wishes to approach specific ESG factors in the context of its role in asset allocation and investment strategy setting. The Committee considers exposure to carbon risk in the context of its role in asset allocation and investment strategy setting. The Fund has limited exposure to fossil fuel companies given the proactive approach taken to lower the carbon footprint. However, some limited fossil fuel exposure remains in the equity portfolio and the investments in Diversified Growth Funds.

9.8 Taking into account the ratification in October 2016 of the Paris Agreement, the Committee considers that significant exposure to fossil fuel reserves within the Fund's portfolio could pose a material financial risk. Each year since 2017, a Carbon Risk Audit for the Fund has been carried out, quantifying the Fund's exposure through its equity portfolio to fossil fuel reserves and power generation and where the greatest risks lie. This analysis has led to the implementation of more carbon aware strategies. Regular analysis shows that the carbon intensity of the equity portfolio is materially lower than the benchmark.

9.9 Where necessary, the Fund will also engage with its Investment Managers and or the London CIV to address specific areas of carbon risk. The Fund expects its investment managers to integrate financially material ESG factors into their investment analysis and decision making and may engage with managers and the London CIV to ensure that the strategies it invests in remain appropriate for its needs. In particular the equity funds currently utilised by the Fund all have a specific ESG related focus. The active RBC fund is a sustainability themed strategy, the Baillie Gifford strategy is a global Paris-aligned mandate (both broadly looking to materially reduce carbon exposure and allocate capital to companies that are contributing towards leading the charge in terms of the transition to a lower carbon economy), whilst the third is a passive low carbon index fund, looking to remove exposure to the heaviest global emitters. As a combination the Committee feel this represents a powerful and robust solution.

9.10 Whilst the Fund does not at this time operate an exclusion policy in respect of specific sectors or companies, as noted above, significant analysis and progress has been taken in relation to lowering the Fund's carbon footprint more generally.

9.11 The Committee reviews its approach to non-financial factors periodically when selecting, retaining or realising its investments, taking into account relevant legislation. Additionally, the Committee monitors legislative and other developments with regards to this subject and will review its approach in the event of material changes.

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

Voting rights

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

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

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

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

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

Stewardship

9.18 The Fund embraces the 12 principles of the Financial Reporting Council's UK Stewardship Code 2020 (the Code). Whilst not yet compliant, the Committee is looking to develop a plan over time to identify areas for improving the monitoring of investment managers and further steps necessary to meet the standards required to become a signatory to the 2020 Code

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

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

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

The Fund:

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

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

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

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

Full compliance

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

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

The London Borough of Tower Hamlets Pension Fund

Appendix 3

Responsible Investment and Climate Change Policy

Responsible Investment and Climate Change Policy

Members of the Pensions Committee (the "Committee") have a fiduciary duty to act in the best interests of Fund members and other beneficiaries in all financial and non-financial decisions. With respect to the Fund's investments, to do this effectively there is recognition of the importance of generating sustainable long-term returns. This involves more than an appraisal of financial factors but also takes into account non-financial factors such as Environmental, Social and Corporate Governance ("ESG") issues, including notably, climate change, which the Committee believes will be financially material to the Fund's investments. The Committee recognises the growing urgency and continual regulatory developments with regard to long-term sustainability issues and believes that it is imperative that ESG and stewardship (or active ownership) considerations are integrated throughout investment processes and that they are taken into account as part of funding and investment strategy setting.

1. ESG integration

Effective management of ESG issues is a key determinant of long-term shareholder value and good risk management. Their consideration is part of the Fund's fiduciary duty to beneficiaries. The Fund therefore recognises the importance of its investment managers integrating all material financial and non-financial factors, including ESG considerations, into the decision-making process for fund investments and the ongoing monitoring of these same issues.

The Fund invests via pooled funds and the underlying investment managers therefore ultimately have discretion in assessing and integrating ESG factors. The Committee has directed investment managers to consider the effects of ESG issues on the performance of a fund when considering the acquisition, retention or realisation of investments, however. The LCIV also performs a similar assessment of ESG, stewardship and the consideration of sustainable opportunities before any investment manager is appointed to the Pool.

The Committee will seek assurance via interactions with the LCIV and underlying investment managers held outside the Pool, that they are meeting the Fund's requirements with regards to ESG integration. In particular, all current investment managers within the equity portfolio (50% of Fund assets) fully integrate ESG (as well as wider RI) considerations into their portfolios and see these issues as fundamental to their investment strategies.

Whilst the progress made in relation to the E in ESG is increasingly in focus and can often be more easily measured (see also the climate change section below), the Committee is similarly committed to developing its policy in relation to Social and Governance considerations.

In respect of social concerns, the Fund's investment managers are expected to actively engage with underlying companies on all social issues including employee health and safety, demographics and diversity, labour and supply chain management

etc. The Committee will also assess the viability of specific social investments on an ongoing basis, such as UK social housing.

The Fund receives periodic reporting on the degree to which the Fund's investment managers integrate ESG within their investment practises. Where managers are lagging behind their peers (or the Committee's expectations) engagement will be undertaken with the respective manager to encourage them to improve. In addition, ongoing ESG developments are monitored through quarterly performance reporting.

2. Stewardship – exercise of voting rights and engagement

Good stewardship can protect and enhance value for companies and markets as a whole. The Fund is committed to being a long-term steward of the assets in which it invests. It believes in the importance of managers acting as active asset owners through proactive voting and engagement with companies. In addition, the Fund believes that acting collectively with other investors is an effective way to engage with companies.

The Committee has delegated the exercise of voting rights to investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long-term shareholder value. For investments held within the LCIV pool, the manager has implemented its own RI policy that covers voting, which it expects all managers on the platform to adopt.

The Fund is also a member of the Local Authority Pension Fund Forum ("LAPFF") which aims to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies. Further details can be found on the LAPFF website.

In collaboration with other like-minded investors, the Fund may engage with public policy makers, regulators, trade bodies, indexes and other players in the financial markets to further support the Fund's fiduciary responsibilities. The Fund considers these initiatives on a case-by-case basis.

The Fund embraces the 12 principles of the Financial Reporting Council's UK Stewardship Code 2020 and is actively considering the most appropriate way to improve stewardship reporting going forward (whilst remaining cognisant of the Fund's wider objectives and the governance constraints on Officers). The Fund provides voting, engagement and stewardship updates to the Committee and has also agreed to take an annual 'deep dive' on its investment managers in this area.

From a Pooling perspective, the LCIV is supportive of the UK stewardship Code. The Pool also encourages investment managers to sign up to the Code and the United Nations supported Principles of Responsible Investment (UNPRI).

3. **Human rights**

Human rights include civil, political, economic, and social and cultural rights, such as the right to life, the right to freedom of association or the right to health. The ability and commitment to human rights issued reflects the strength of a company's culture

and risk management. As a member of LAPFF, the Fund has been supportive of the LAPFF focus on valuing and supporting greater diversity on company boards.

LAPFF stewardship work incorporates a drive for wider-ranging action on equality and inclusion to drive change and increase representation and involvement by all.

4. Climate Change

The Fund believes that climate change presents risks over the short, medium and long-term that the Fund should better understand and mitigate where possible. The Fund recognises these risks as well as the Council's own targets in this regard and the views and aspirations of other employers and members. Climate risk is recorded as a key risk in the Fund's Risk Register.

The Committee have been on a journey to lower the Fund's carbon footprint for several years by annually monitoring fossil fuel exposure and the Fund's wider carbon footprint (measuring carbon intensity and fossil fuel reserve exposure) to better understand opportunities and risks within the Fund's portfolio.

Given the proactive steps taken in this area the Fund's equity portfolio has shown materially lower carbon intensity relative to the benchmark over all periods reviewed. The equity assets are invested in a diversified and innovative way, with dedicated allocations to Low Carbon equities, a Paris-Aligned equity strategy and broad based Sustainable equities. Looking forward, the Committee have discussed setting explicit decarbonisation targets and these will be considered further in due course.

Separately, the Committee is also actively working with advisors regarding the adoption of the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"), which was established with the objective of creating a consistent climate disclosure framework to be used by companies, asset managers and asset owners, further showcasing the Fund's ongoing commitment to managing climate change. As part of this reporting framework, the Fund plans to build on its existing annual carbon monitoring report by undertaking climate change scenario analysis. This analysis seeks to understand the climate impact on return at the total Fund and asset class level across different warming scenarios and help the Fund to further its decision-making. The Fund is looking to be an early mover and adopt these recommendations over 2021.

5. Thematic sustainable investments opportunities

Long-term sustainability trends, including climate change, present opportunities that require explicit consideration. The Fund actively considers investing in strategies that target long-term ESG themes (e.g. energy, water, demographic trends) on the basis that such opportunities will generate good risk-adjusted investment returns.

The Fund has a representative on the Responsible Investment Reference Group (RIRG) which was set up to progress the RI agenda for London based Pension Funds. The Committee has also worked closely with the LCIV separately to encourage the set-up of specific sustainable investment mandates that the Fund now invests in. In particular, the Fund has worked with the LCIV to introduce;

o A renewable energy infrastructure mandate, in order to invest Fund assets in clean, renewable energy and further contribute to the transition towards to a lower carbon economy.

o An equity sub-fund with a more explicit view on reducing carbon exposure and increasing sustainable equity exposure via alignment with the Paris Agreement.

The Fund will consider further investment initiatives with environmental or low carbon themes or where there is a social benefit in future, providing they also meet the Fund's fiduciary requirements. Work is ongoing to explore the potential introduction of targets and the monitoring of sustainable exposures via annual reporting.

6. Pooling

The Fund is a participating Fund in the LCIV Pool and works collaboratively with LCIV to set clear expectations and help define the strategic requirements of the Fund in respect to Responsible Investment, believing that it is important that LCIV offer funds to investors that integrate ESG considerations into their investment. It is expected that the Fund's ability to implement its own Responsible Investment Policy will be enhanced through the LCIV Pool, due to the inherent benefits of scale and improved governance and stewardship practices that will result from the collaboration.

For the investments that are held within the Pool, LCIV recognises that it has a responsibility to be an active steward and to promote good corporate governance and management of the companies within the sub-funds and has developed a comprehensive Responsible Investment Policy that it expects investment managers to follow. More information can be found here LCIV-Responsible-Investment-Policy.pdf (londonciv.org.uk).

The Fund is committed to continue working with LCIV and the underlying partner funds to further develop the Responsible Investment approach and the pool level reporting.

The London Borough of Tower Hamlets Pension Fund

Appendix 3

Funding Strategy Statement

April 2021

1 Introduction

1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2021.

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

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

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

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

1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

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

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

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

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- all Fund's policies (including admissions, cessations and bulk transfers); which can be found on the Fund's website when this is available;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

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

1.5 What does the FSS aim to do?

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

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

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

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

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

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

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

B. who is responsible for what,

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

D. some more details about the actuarial calculations required,

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

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

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

2 Basic Funding issues

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

2.1 How does the actuary calculate the required contribution rate?

In essence this is a three-step process:

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

2.2 What is each employer's contribution rate?

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

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

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

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

2.3 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

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

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

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

2.4 How does the calculated contribution rate vary for different employers?

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

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

2. The **time horizon** required is, the period over which the funding target is achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

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

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

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

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

2.5 How is a funding level calculated?

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

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

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

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

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

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

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

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

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

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;

- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund will seek to moderate short term increases in contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

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

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

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

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

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

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of carrying out the 31 March 2019 formal actuarial valuation, the Ministry of Housing, Communities and Local Government (MHCLG) had not provided any details of changes as a result of the case. However it was expected that benefits changes will be required and they would likely increase the value of liabilities. At that time, the scale and nature of any increase in liabilities were unknown, which limited the ability of the Fund to make an accurate allowance.

The LGPS Scheme Advisory Board (SAB) issued advice to LGPS funds in May 2019. As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, considered how to allow for this risk in the setting of employer contribution rates. As the benefit structure changes that would arise from the McCloud judgement were uncertain, the Fund elected to allow for the potential impact in the assessment of employer contribution rates at the 2019 valuation by increasing the required likelihood of reaching the funding target.

The Fund will include the impact of the McCloud case when reviewing the contribution rates at the 31 March 2022 formal actuarial valuation.

The Fund also considered the McCloud judgement in its approach to cessation valuations. Please see note (j) to table 3.3 for further information.

2.8 What approach has the Fund taken to dealing with uncertainty arising from the Goodwin court case and its potential impact on the LGPS benefit structure?

The Goodwin tribunal was raised in the Teachers' scheme. It claimed members, or their survivors, were discriminated against due to their sexual orientation. The claim was because the Teachers' scheme provides a survivor's pension which is less favourable for a widower or surviving male partner, than for a widow or surviving female partner of a female scheme member. On 30 June 2020, the Tribunal found in favour of the claimant and agreed there was discrimination. This finding and remedy is expected to apply across all public service pension schemes, including the LGPS, however this is not certain and the details are not yet known.

The impact, if any, of the Goodwin case on Fund liabilities is expected to be small and will largely be an administrative issue. In the absence of a resolution or any guidance to this case, no allowance has been made for this within the 2019 formal valuation.

2.9 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a consultation seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

The Fund intends to carry out its next actuarial valuation in 2022 (3 years after the 2019 valuation date) in line with MHCLG's desired approach in the consultation. The Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

3 Calculating contributions for individual Employers

3.1 General comments

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

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

These and associated issues are covered in this Section.

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

3.2 The effect of paying lower contributions

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

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

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

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

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

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

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	**Council**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing participation basis, assumes long-term Fund participation (see Appendix E)			Ongoing participation basis, but may move to "gilts basis" - see Note (a)		Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No
Maximum time horizon – Note (c)	20 years	20 years	20 years	Future working lifetime	Future working lifetime	Outstanding contract term
Secondary rate – Note (d)	% of payroll or monetary amount	Monetary amount	% of payroll	% of payroll or monetary amount	% of payroll or monetary amount	% of payroll or monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority				Preferred approach: contributions kept at future service rate. However, contractors may be permitted to reduce contributions by spreading the surplus over the remaining contract term
Likelihood of achieving target – Note (e)	70%	75%	75%	70% if guaranteed, 80% otherwise	70% if guaranteed, 80% otherwise	70% if guaranteed, 80% otherwise
Phasing of contribution changes	Covered by stabilisation arrangement	At the discretion of the Administering Authority		None	None	None
Review of rates – Note (f)	Review of rates will be carried out in line with the Regulations and as set out in Note (f)					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: debt/credit payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation calculation principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt/credit calculated on the contractor exit basis, unless the admission agreement is terminated early by the contractor in which case the low risk exit basis would apply. -Letting employer will be liable for future deficits and contributions arising. See Note (j) for further details

* Where the Administering Authority recognises a fixed contribution rate agreement between a letting authority and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in note (i).

** Includes Community Benefit Societies

Note (a) (Gilts exit basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

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

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

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

Note (b) (Stabilisation)

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

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

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

On the basis of extensive modelling carried out for the 2019 valuation exercise (see Section 4), total contributions have been set to ensure that stabilised employers have at least a 70% chance of being fully funded in 20 years under the 2019 formal valuation assumptions.

The stabilisation criteria and limits will be reviewed at the next formal valuation. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Likelihood of achieving funding target)

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

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

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

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

Note (f) (Regular Reviews)

Under the Local Government Pension Scheme (Amendment) (No. 2) Regulations 2020 the Fund may amend contribution rates between valuations for "significant change" to the liabilities or covenant of an employer: this may result in a material increase or decrease in contributions, depending on the circumstances. The Fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an Administering Authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the scheme within the next two years and before completion of the next valuation;
- an employer agrees to pay increased contributions to meet the cost of an award of additional pension, under Regulation 31(3) of the Regulations;
- there are changes to the benefit structure set out in the LGPS Regulations including the outcomes of the McCloud case and cost sharing mechanisms (if permitted in Regulation at that time) which have not been allowed for at the last valuation;
- it appears likely to the Administering Authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the Administering Authority that there has been a significant change in the ability of an employer or employers to meet their obligations (i.e. a material change in employer covenant);
- it appears to the Administering Authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Administering Authority.

The Administering Authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially or they are going through a significant restructuring impacting their membership).

Except in circumstances such as an employer nearing cessation, the Administering Authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

The Rates & Adjustments Certificate will be updated as necessary, following such a review.

The Administering Authority will also consider guidance in such matters from the Scheme Advisory Board as issued from time to time.

Note (g) (New Academy conversions)

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

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

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

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section 3.3 above;

v. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT.

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

Note (h) (New Admission Bodies)

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

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

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

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

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

Note (i) (New Transferee Admission Bodies)

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

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

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

i) Pooling

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

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit (or entitled to any surplus) at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term. Please note, the level of exit credit (if any) payable on cessation would be determined by the Administering Authority in accordance with the Regulations and this FSS.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate throughout its participation in the Fund and on cessation does not pay any cessation deficit or receive an exit credit. In other words, the pension risks "pass through" to the letting employer.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement.

Alternatively, letting employers and Transferee Admission Bodies may operate any of the above options by entering into a separate Side Agreement. The Administering Authority would not necessarily be a party to this side agreement, but must be made aware of any side agreements that are put in place. In addition, the Administering Authority may treat the Admission Agreement as if it incorporates the side agreement terms where this is permitted by legislation or alternatively agreed by all parties.

Any risk sharing agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

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

Note (j) (Admission Bodies Exiting the Fund)

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

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

On cessation, in the absence of a deferred debt arrangement, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus.

<u>Payment of cessation debt</u>

Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body. The Fund's normal policy is that this cessation debt is paid in a single lump sum within 30 days of the employer being notified.

However, in line with the Regulations and when in the best interests of all parties, the Fund may agree for this payment to be spread over an agreed period, however, such agreement would only be permitted at the Fund's discretion, where payment of the debt in a single immediate lump sum could be shown to be materially detrimental to the employer's normal operations. In cases where payment is spread, the Fund reserves the right to require that the ceasing employer provides some form of security (such as a charge over assets, bond indemnity or guarantee) relating to the unpaid amount of debt at any given time.

<u>Consideration of surplus / exit credit</u>

Where there is a surplus, the Administering Authority will determine the amount of exit credit to be paid in accordance with the Regulations. In making this determination, the Administering Authority will consider:

(i) the extent of any surplus,

(ii) the proportion of surplus arising as a result of the employer's contributions,

(iii) any representations (such as risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee (or some other form of employer assistance/support) and

(iv) any other factors the Administering Authority deem relevant.

Exit Credit Policy

Please note that the Fund's Exit Credit Policy titled 'London Borough of Tower Hamlets Exit Credit Policy Statement' is available on request.

Allowance for McCloud on cessation

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund has considered how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations. For cessation valuations that are carried out before any changes to the LGPS benefit structure (from 1 April 2014) are confirmed, the Fund's policy is that the actuary will apply a 0.3% uplift to the ceasing employer's active and deferred member liability values where the employer is ceasing on a "gilts exit" basis, as an estimate of the possible impact of resulting benefit changes.

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

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

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

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

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

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

Deferred Debt Agreement ("DDA") alternative to immediate cessation

As an alternative, where the ceasing Admission Body is continuing in business, the Administering Authority may enter into a written agreement with the Admission Body to defer their obligations to make an exit payment and continue to make secondary contributions (a 'Deferred Debt Agreement' as described in Regulation 64 (7A)). The Admission Body must meet all active employer requirements and pay the secondary rate of contributions as determined by the Fund Actuary until the termination of the deferred debt agreement.

The Administering Authority will consider deferred debt agreements in the following circumstances:

- The Admission Body requests the Fund consider a deferred debt agreement;
- The Admission Body is expected to have a deficit if a cessation valuation was carried out;
- The Admission Body is expected to be a going concern; and
- The covenant of the Admission Body is considered sufficient by the Administering Authority.

The Administering Authority will normally require:

- Security be put in place covering the Admission Body's deficit on their cessation basis;
- Regular monitoring of the contribution requirements and security requirements;
- All costs of the arrangement are met by the Admission Body, such as the cost of advice to the Fund, ongoing monitoring of the arrangement, and correspondence on any ongoing contribution and security requirements.

A deferred debt agreement will normally terminate on the first date on which one of the following events occurs:

- the Admission Body enrols new active Fund members;
- the period specified, or as varied, under the deferred debt agreement elapses;
- the take-over, amalgamation, insolvency, winding up or liquidation of the Admission Body;
- the Administering Authority serves a notice on the Admission Body that the Administering Authority is reasonably satisfied that the Admission Body's ability to meet the contributions payable under the deferred debt arrangement has weakened materially or is likely to weaken materially in the next 12 months;
- the Fund actuary assesses that the Admission Body has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. Admission Body is now largely fully funded on their cessation basis);
- the Fund actuary assesses that the Admission Body's value of liabilities has fallen below an agreed *de minimis* level, if the employer becomes an exiting employer on the calculation date; or
- The Admission Body requests early termination of the agreement and settles the exit payment in full as calculated by the Fund actuary on the calculation date (i.e. the Admission Body pays their outstanding cessation debt on their cessation basis).

On the termination of a deferred debt agreement, the Admission Body will become an exiting employer and a cessation valuation will be completed in line with this FSS.

3.4 Pooled contributions

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

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

The intention of the pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

On the other hand it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer in that situation.

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

Employers who are permitted to enter (or remain in) a pool at the 2019 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

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

3.5 Additional flexibility in return for added security

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

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

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

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

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

3.6 Non ill health early retirement costs

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

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

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

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

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

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

When an active member retires on ill health early retirement the claim amount will be paid directly from the insurer to the insured employer. This amount should then be paid to the Fund to allow the employer's asset share to be credited.

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

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

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

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

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

3.10 Policies on bulk transfers

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement which is available to members and employers.

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

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

4.4 Does the Fund monitor its overall funding position?

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

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

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

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

5.2 Solvency

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

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

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

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

5.3 Long Term Cost Efficiency

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

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

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

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

Relative considerations include:

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

Absolute considerations include:

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

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

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

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

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

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

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

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

A2 Does the Administering Authority consult anyone on the FSS?

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

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

a) A draft version of the FSS was issued to all participating employers on 8 March 2021 for comment;

b) Following the end of the consultation period the FSS was updated where required and final version presented to Pensions Committee. A copy would be made available on the Fund's website once up and running.

A3 How is the FSS published?

The FSS is made available through the following routes:

- The Fund has no website, it is not possible at this stage to make a web version available;
- A copy sent by e-mail to each participating employer in the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. (which may move to every four years in future – see Section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation.

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

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

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

A5 How does the FSS fit into other Fund documents?

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

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

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:-

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

B2 The Individual Employer should:-

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

B3 The Fund Actuary should:-

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

B4 Other parties:-

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

Appendix C – Key risks and controls

C1 Types of risk

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

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

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Effect of possible asset underperformance as a result of climate change	The Fund's Investment Strategy Statement contains details of climate change considerations.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.

Risk	Summary of Control Mechanisms
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).

Risk	Summary of Control Mechanisms
	For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The Administering Authority is monitoring the progress on the McCloud court case and will consider an interim valuation or other appropriate action once more information is known. The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.
Time, cost and/or reputational risks associated with any MHCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission.

Risk	Summary of Control Mechanisms
	Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).
An employer ceasing to exist resulting in an exit credit being payable	The Administering Authority regularly monitors admission bodies coming up to cessation The Administering Authority invests in liquid assets to ensure that exit credits can be paid when required.

Appendix D – The calculation of Employer contributions

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

As discussed in Section 2, the actuary calculates the required contribution rate for each employer using a three-step process:

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

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

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

Employer contributions are normally made up of two elements:

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

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

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

D2 How is the Primary contribution rate calculated?

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

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

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details),

3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

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

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

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

D3 How is the Secondary contribution rate calculated?

The Secondary rate is calculated as the balance over and above the Primary rate, such that the contribution rate is projected to:

1 meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)

2 at the end of the determined time horizon (see 3.3 Note (c) for further details)

3 with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required likelihood.

The Administering Authority, after taking advice from the Fund's actuary, may choose to calculate Primary and Secondary contribution rates differently if particular circumstances apply to an employer.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;

2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);

3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer's assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

A technique known as "analysis of surplus" in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.

A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary tracks employer assets on an annual basis. Starting with each employer's assets from the previous year end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the year are added to calculate an asset value at the year end. The approach has some simplifying assumptions in that all cashflows and investment returns are assumed to have occurred uniformly over the course of the year. As the actual timing of cashflows and investment returns are not allowed for, the sum of all employers' asset values will deviate from the whole fund asset total over time (the deviation is expected to be minor). The difference is split between employers in proportion to their asset shares at each triennial valuation.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions used to calculate employer contribution rates?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, likelihoods of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

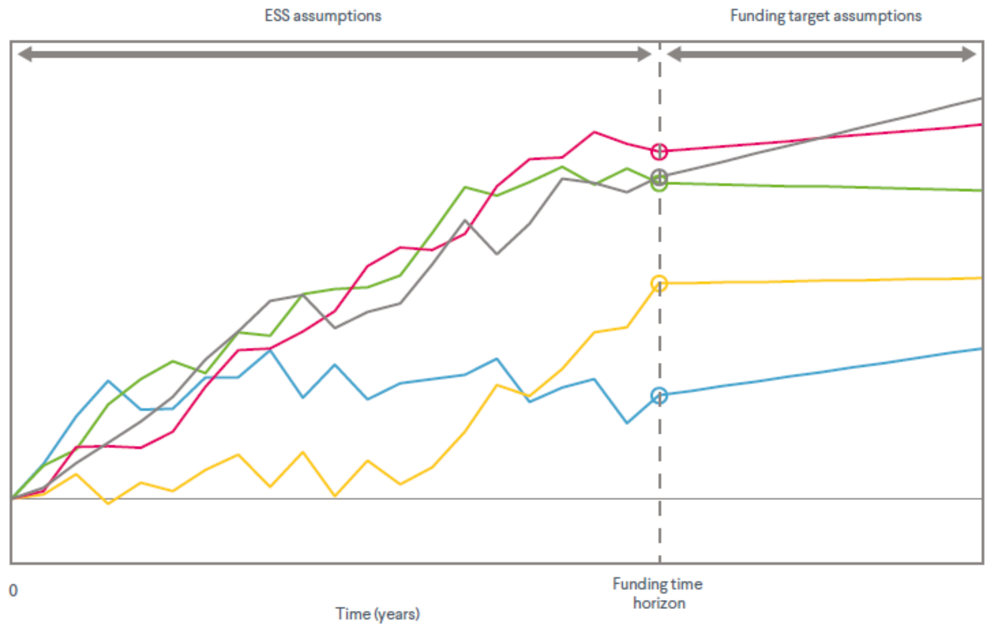
Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary's approach to calculating employer contribution rates involves the projection of each employer's future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer's assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer's required likelihood) being successful at the end of the employer's time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer's assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson's proprietary stochastic economic model - the Economic Scenario Service ("ESS").

2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns									
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)	RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
5 years	16th %'ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %'ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %'ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %'ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %'ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %'ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %'ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %'ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %'ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	Volatility (Disp) (1 yr)	1%	7%	10%	17%	17%	14%	11%	1%		

E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the "discount rate")

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

Funding basis	**Ongoing participation basis**	**Contractor exit basis**	**Low risk exit basis**
Employer type	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 2.0% p.a.	Long term government bond yields plus a 2.0% p.a. AOA	Long term government bond yields with no allowance for outperformance on the Fund's assets

E4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

a) Salary growth

After discussion with Fund officers, the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

- 4%, 2.5%, 2.5% each year until 31 March 2022, followed by
- 1% below the retail prices index (RPI) p.a. thereafter.

This gives a single “blended” assumption of CPI plus 0.2%. This is a change from the previous valuation, which assumed a blended assumption of CPI less 0.1% per annum. The change has led to an increase in the funding target (all other things being equal).

b) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI. (Note that the reduction is applied in a geometric, not arithmetic, basis).

c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a reduced funding target (all other things being equal).

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding Basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.

Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.
Valuation	A risk management exercise to review the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too.

TOWER HAMLETS

The London Borough of Tower Hamlets Pension Fund

Appendix 4

Communications Strategy Statement

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APPENDIX A – COMMUNICATION PLAN

Introduction

This is the communication strategy for the Tower Hamlets Pension Fund administered by London Borough of Tower Hamlets (the Administering Authority). Communication is at the heart of everything the Fund does and has a dedicated communication team in place to help the Fund meet its current and future communication challenges.
This Policy provides an overview of how the Tower Hamlets Pension Fund will communicate with its full range of stakeholders. An effective communication strategy is vital for the Fund to meet its objective of providing a high quality and consistent service to the stakeholders.

The Fund has over 35 employers with contributing members and a total membership of over 22,000 scheme members, which are split into the categories below and with the approximate numbers of members in each category:

Type of membership	Type of Membership
Active scheme members	7,230
Deferred scheme members	7,993
Pensioner members	6,698

The policy outlines the Fund's strategic approach to communications. This Policy should be read in conjunction with the Communication Plan which is detailed in Appendix A of this document.

Vision

Everyone with any interest in the Fund should have readily available access to all th information that they require.

Regulatory framework

The policy has been produced in accordance with regulation 61 of the Local Government Pension Scheme (Administration) Regulations 2013. The regulation requires that:

1. An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with:
    a) scheme members (active, deferred, retired and dependant)
    b) representatives of scheme members
    c) prospective scheme members
    d) scheme employers

2. In particular the statement must set out its policy on:
    a) the provision of information and publicity about the scheme
    b) the format, frequency and method of distributing such information or publicity

c) the promotion of the scheme to prospective scheme members and their employers.

The strategy must be revised and published by the administering authority following a material change in their policy on any matters referred to in paragraph (2).

Stakeholders of the Fund

The Fund has a varied audience of stakeholders with whom it communicates, including:

- Scheme members (active, deferred, pensioner and dependant members)
- Prospective scheme members
- Scheme employers
- Pension Fund staff
- Pension Fund Committee
- Local Pension Board
- Union Representatives
- London Collective Investment Vehicle (LCIV)
- External bodies:
    - Her Majesty's Revenue & Customs (HMRC)
    - Ministry of Housing, Communities and Local Government (MHCLG)
    - Trades Unions
    - Pension Fund Investment Managers, Advisers and Actuaries
    - Pension Fund Custodian
    - The Pensions Regulator (tPR)
    - The Scheme Advisory Board (SAB)
    - The Local Government Association (LGA)
    - Department of Work and Pensions (DWP)
    - Pension Officers Groups
    - Pensions and Lifetime Savings Association (PLSA)
    - Chartered Institute of Public Finance and Accountancy (CIPFA)
    - The Local Authority Pension Fund Forum (LAPFF)

Key objectives

To ensure that Fund delivers clear, timely and accessible communication with a broad range of stakeholders. To achieve this, the Fund will:

- Communicate information about the Scheme's rules and regulations in an effective, friendly and timely manner to the different groups of stakeholders.
- Communicate information about the investment decision made by the Fund.
- Inform customers and stake holders to enable them to make the decisions regarding pension matters.
- Inform customers and stakeholders about the management and administration of the Fund.
- Consult with key stakeholders on changes to policies and procedures that affect the Fund and its stakeholders;
- Support employers to enable them to fulfil their responsibility to communicate and share information with members in relation to the scheme.

- Seek continuous improvement in the way the Fund communicates.

Branding

As the Pension Fund is administered by London Borough of Tower Hamlets, all literature and communications will conform to the branding of the Council.

Accessibility

The Fund is committed to ensuring communications are accessible to all stakeholders and is committed to develop further use of electronic means of communicating through e-mail and internet site (including a Member Self Service Portal). Wherever possible, responses are sent to stakeholders by electronic means. However, more traditional methods of communications will continue to be offered as required.

The Fund also make sure that communications are easy to understand through use of Plain English accreditation and readability scores in line with Council policy.

Investment Communication

The Fund has seen an increase interest in its investments from Scheme Members, Scheme Employers and the wider public. The Fund maintains a large portfolio of assets, which it uses to pay out LGPS benefits when they become due. This is made up of pension contributions paid in by Scheme Members and Scheme Employers, and also any investment income and capital growth. To reduce risk, the Fund diversifies its investments across a wide range of assets both in the UK and Global market.

Responsible Investment

As a responsible investor the Fund Environmental, Social and Governance (ESG) issues are fundamental to the Fund’s investment strategy. The Fund has focused communications to stakeholders about its investments. The Fund will regularly report to Scheme Employers and Scheme Members about its investments and the Fund’s approach to ESG issues.

Freedom of Information

Anyone has a right under the Freedom of Information (FOI) Act to request any information held by the Fund which is not already made available. FOI requests will be dealt with openly and swiftly. Requests should be made in writing to the Freedom of Information Officer at the address at the end of this document

A fee may be charged and the Fund reserves the right to refuse if the cost of providing the information is disproportionately high.

Communication Channel

The table below shows the Fund main method of communication with different stakeholders.

Stakeholder	Communication	Key message /Objectives
Active members	• Annual benefit statements • Biannual Newsletters • Member self service • Website • Pensions team telephone line • Scheme Literature • Calculation and costings (e.g. estimates) • Presentations – face to face / online via Microsoft Teams • Promotion on internal systems, e.g. the Bridge • Active Member surveys	• Your pension is a valuable benefit. • Your employer contributes to help you save for your retirement. • You need to make sure you're saving enough for retirement • To improve your understanding of how the LGPS works. • You understand the impact of any changes in legislation. • To advise scheme members of their rights and benefits. • To make pensions information more readily available. • To answer member's queries regarding their benefits • To give you more ways that you can contact us or get information. • To provide a method for members to give feedback.
Deferred members	• Annual benefit statements • Annual Newsletter • Member self service • Website • Telephone helpline • Scheme Literature • Calculation and costings (e.g. estimates)	• Your pension is a valuable benefit • You are saving enough for retirement • You keep in touch with the Fund e.g. provide us with address changes • How the LGPS works now, and the impact of any changes in legislation • Understand the implication of transferring out of the scheme • To improve understanding of how the LGPS works • We will update you of any changes
Pensioner members	• Member self service • Pensions Increase letters	• You keep in touch with the Fund e.g. provide us with address

	• P60 • Calculation and costings (e.g. estimates) • Website • Telephone helpline • Annual newsletter • Pensioner member Survey	• changes • We are here to help with any questions you might have. • The LGPS is still a valuable part of your retirement package • How your funds are invested. • To improve understanding of how the LGPS works. • The impact of any changes in legislation. • The impact in the larger pension community (e.g. Brexit.)
Dependent members	• Member self service • Payslip • P60 • Calculation and costings (e.g. estimates) • Website • Telephone helpline	• You keep in touch with the Fund e.g. provide us with address and bank changes. • We are here to help with any questions you might have. • The LGPS is still a valuable part of your retirement package. • The impact of any changes in legislation.
Scheme employers	•Ad hoc email alerts •Quarterly newsletters •Website •Webinars •Telephone helpline •Scheme information and guides •Annual Employer survey	•You need to be aware of your responsibilities regarding the LGPS •Your employer contributes to help you save for your retirement. •You understand the impact of any changes in legislation •To improve relationships •Continue to improve the accuracy of data being provided to us
Potential Scheme Members including Opt Outs	•Website •Telephone helpline •Scheme information and guides	•You understand the impact of any changes in legislation •Your employer contributes to help you save for your retirement. •The LGPS is still one of the best pension arrangements available

		•Increase understanding of how the scheme works and what benefits are provided •To improve take up of the LGPS
Pension Fund Staff	•Team meeting •1:1 / Appraisals •Training & development •Training Matrix •Ad hoc meetings •Monthly newsletter	•Ensure staff are kept up to date with important information •regarding the service, the employing authority and the wider world of pensions as a whole •Management to feedback to staff regarding their individual •progress •For staff to feel a fully integrated member of the team
Pension Fund Committee and Local Pension Board	•Committee/Board Papers •Trainings •Minutes •Presentations	•Ensure members are kept up to date with important information regarding the Fund. •Monitor success against the agreed measures
External bodies	•Response to enquiries and consultations	• Respond to enquiries/statutory requirements
Union Representatives	• Response to enquiries •Ad hoc meetings •Training & development • Scheme information	• Respond to enquiries •Ensure Union Representatives remains as Pensions Committee member

Communicating with members

There are 3 categories of scheme member:

- Active members who are contributing to the Scheme.
- Deferred members who have left the Scheme, but have not yet accessed their pension benefits.
- Pensioner members who are in receipt of their LGPS benefits from the Fund.

The Fund recognises that communication with each category requires a different, specific approach and therefore uses a variety of methods to communicate with members.

To ensure members are able to access services easily, we employ a range of media to educate them about the LGPS and their pension benefits, delivered in a clear and easily understood way to ensure that members can make informed decisions about their benefits.

- Website - The Fund's dedicated Pensions website will go live in October 2021. www.towerhamletspensionfund.org/,
  which has general information about Tower Hamlets Pension Fund and about being a member of the LGPS. There are also scheme forms and guides available to copy or print.

- Telephone Helpline - We provide a helpline service for all our members to use if they need to contact us by telephone or email. There is a dedicated helpline for members to call 0207 364 4251.

- General Correspondence – The Fund provide a generic email address which enables members to email their queries. The emails are picked up and passed to the relevant member of staff
  pensions@towerhamlets.gov.uk

- Member Self Service - Members can access their pension account using the My Pension Portal. This is a secure area that allows members to see the personal details Fund holds about them. They can also update personal information. Contributing and deferred members can view their annual pension statements and pensioner members can view their pension payment information. There are also scheme forms and guides available to copy or print.

- Visits to our office - Members are welcome to visit our offices if they prefer to speak to us face to face. Ideally, members should make an appointment in advance so we can make sure that someone is available to see them. The Fund remains in operation during this time and members can contact us at the address at the end of this document

- Annual Benefit Statements – The Fund issues an Annual Benefit Statement (ABS) to all active members, showing the pension they have built up to the previous 31st March. They are subject to the members Scheme Employer providing timely year end information to the Pensions Administration Team. The ABS are available for members to view on Member Self Service Pension Portal.

- Presentations / Roadshows / Drop in Sessions available to active scheme members.

- Newsletters - The Fund issues periodic newsletters to Members to update them on topical Pensions matters and changes.

- Pay advices, Pension Increase letters and P60s - We issue pay advices to pensioner members every March, April and May.

Communicating with Pension Fund Staff

The Fund recognises that its staff are its greatest resource and that they are kept informed about the Fund's aims to deliver a quality and accurate service. This is achieved via use of email, internal meetings, as well as internal and external training events on specific topics.

The Fund communicates with staff in a number of ways.

- Performance conversations– the Fund managers ensure that Fund staff have Performance Conversations at least twice yearly, these establish clear objectives and any necessary support that staff members and the team need. Staff members also meet with managers on a monthly basis (1-2-1).

- Training - Staff regularly attend LGA and CIPFA training as appropriate, and receive inhouse training from actuary, fund managers and via a dedicated Training Officer.
  Professional courses, such as CIPP are also offered on request. These are recorded via a staff skills matrix. Ad hoc training courses are produced as the LGPS regulations change.

- Staff Feedback on Fund Communications - Staff are encouraged to report back on any feedback given to them by other stakeholders.

- Weekly update – senior managers send weekly emails to keep staff updated on current issues.

- LGA bulletins - senior managers circulate monthly LGA bulletins to all staff to ensure staff are kept up to date with current LGPS issues.

- Team meetings – the Head of Pensions & Treasury meets with all staff on a monthly basis to keep staff updated on current issues including legislative issues.

- Quarterly Newsletters - keep staff updated on current LGPS legislation changes, new staff and those leaving and upcoming training courses, etc.

Communicating with the Pension Fund Committee and Local Pension Board

The administering authority, London Borough of Tower Hamlets, has established a Pensions Committee including elected Councillors to discharge the functions of the Council in governing and administering The Tower Hamlets Pension Fund. The Pensions Committee is the decision-making body for the Fund, and this includes responsibility for setting the Fund's investment strategy, appointing investment managers, and approving Fund budget, business plan and policies.

The Council also established Local Pension Board in 2015 to assist the Committee in securing compliance with the scheme regulations and the effective and efficient governance and administration of the LGPS.

The Pension Fund Committee and Local Pension Board communicate by:

- Committee and Board meetings - Members of the Pensions Committee and Local Board meet at least quarterly to discuss Pensions issues, following which the Local Board may make suggestions and recommendations, and the Pensions Committee may make decisions.

- Fund officer reports - Members of the Pensions Committee and Local Board receive monitoring reports from Fund staff. This includes the Fund's internal managers delivering reports and presentations to members at Committee and Board meetings.

- Investment Manager Reports – Members receive quarterly investment reports from the Fund officers, investment adviser and independent investment adviser on the performance of the Fund's investment.

- Training – An annual training plan is presented to Pensions Committee and Local Board to approve. Members receive regular training to ensure they have the knowledge and capacity to carry out their roles.

- Quarterly Update - Members of the Pensions Committee and the Local Board receive update from Interim Head of Pensions & Treasury on London CIV and Pension Administration.

Communicating with external bodies

The Fund engages proactively communicates with a number of external bodies. These include:

- London Collective Investment Vehicle Pool, Pension Fund Investment Managers, Advisers and Actuaries – The Fund has regular meeting with:
  - London Collective Investment Vehicle (LCIV) and Independent Fund managers who make investments on behalf of the Fund.
  - Investment Advisers who provide help and advice on the investment strategy of the Fund.

    - Fund Actuary to discuss Funding levels, employers' contributions and valuation of the liabilities of the Fund.

- Pension Fund Custodian - The Fund's Custodian is Northern Trust, who ensures the safekeeping of the Funds investment transactions.

- Pensions and Lifetime Savings Association (PLSA) - The Fund is a member of PLSA, which provides an opportunity for administering authorities to discuss issues of common interest and share best practice.

- Local Authority Pension Fund Forum (LAPFF) - LAPFF is a collaborative shareholder engagement group representing most of the Local Government Pension Scheme Funds and UK Pension Pools, including London CIV Pool. Its aim is to engage with companies to promote the highest standards of corporate governance and corporate responsibility amongst investee companies.

- Mercer - The Fund had also Mercer as its Investment adviser.

- The Fund has appointed – Colin Robertson as its Independent Investment adviser.

Communicating with union representatives

The Fund's objective is to foster closer working relationships with union representatives. In doing so the Fund will ensure they are aware of the Pension Fund's policy in relation to any decisions that need to be taken concerning the scheme. To facilitate this, a union representative is Co-Optee a member of the Pensions Committee.

Data Protection

The Pension Fund has a duty to protect personal information and will process personal data in accordance with the Data Protection Act 1998 and any amendments to the act. The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund , for example the Fund's Actuary or AVC provider.

Review

The policy will be reviewed annually and updated sooner if the communications arrangements or other matters included within it merit reconsideration.

Further Information

If you have any queries about this Communications Policy please get in touch:

Pension Services
3rd Floor
Town Hall
Mulberry Place
5 Clove Crescent

London, E14 2BG
0207 364 4248
pensions@towerhamlets.gov.uk

If you have any Freedom of Information requests, please send them to:

Freedom of Information Officer
Information Governance
Town Hall
Mulberry Place
Clove Crescent
London, E14 2BG
020 7364 4161
foi@towerhamlets.gov.uk

Appendix A – Communication Plan

Method of Communication	Media	Frequency of Issue in Accordance with SLAs	Frequency of Issue in Accordance with Legislative Requirement
Send a notification of joining the LGPS to a Scheme Member – Contractual Enrolment	Electronic	Within 30 working days of receiving new starter information	2 months from date of joining the scheme
Send a notification of joining the LGPS to a scheme member – Automatic Enrolment/Re-Enrolment	Various	Within 1 month of receiving jobholder information where the individual is being automatically enrolled/re-enrolled	Within 1 month of receiving jobholder information where the individual is being automatically enrolled/re-enrolled
Inform a member who left the Scheme of their leaver rights and options	Electronic	Within 40 working days from receipt of leaver information.	As soon as practicable and no more than 2 months from date of notification (from employer or from scheme member)
Obtain transfer details for transfer in, and calculate and provide quotation to member	Paper Based or Electronic	Within 20 workings days from date of request	2 months from date of request
Provide details of transfer value for transfer out, on request	Paper Based or Electronic	Within 20 workings days from date of request (CETV estimate or Divorce), unless there has already been a request in the last 12 months	3 months from date of request (CETV estimate)
Provide a retirement quotation on request	Paper Based or Electronic	Within 15 working days from date of request	As soon as practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months
Notify the amount of retirement benefits	Paper Based or Electronic	Within 15 working days from receipt of all information	1 month from date of retirement if on or after Normal Pension Age (NPA), or 2 months from date of retirement if before NPA
Calculate and notify	Paper Based or Electronic	Initial letter sent no more than 5 days from date of becoming aware of	As soon as possible but in any event no more than 2 months from date of becoming aware of

dependant(s) of amount of death benefits		death, and notification of benefit letter sent no more than 10 days from receiving correctly completed forms.	death, or from date of request by a third party (e.g. Personal representative)
Provide all Active and Deferred members with an Annual Benefit Statement (ABS) Member Self Service or Statement to Home Address	Paper Based or Electronic	By 31 August each year	By 31 August each year
Provide Pension Saving Statement to eligible members	Paper Based or Electronic	By 6 October each year	By 6 October each year
General Member Enquiries	Paper Based or Electronic	Within 15 working days	
Pensions Increase Letters	Paper Based or Electronic	By 30 April each year	By 30 April each year
Pensioner P60s (HMRC requirement)	Paper Based or Electronic	By 31 May each year	By 31 May each year
Member Scheme Guide	Paper Based or Electronic	Always Available Online (Link also in New Starter Pack)	Within 2 months of request
Active Member Newsletters	Paper Based or Electronic	Spring newsletter by 1 April (in line with Annual Updates) and Autumn newsletter by 31 August (in line with ABS)	
Deferred Member Newsletters	Paper Based or Electronic	By 31 August in line with ABS	
Pensioner Member Newsletters	Paper Based or Electronic Paper Based or Electronic	By 30 April in line with Pension Increase Letter	

Presentations/Roadshows	Paper Based or Electronic	Twice per year per or as required	
Drop In-Sessions	Face to Face	As requested, up to a maximum of 2 per year per Fund	
Material Alterations to Basic Scheme Information	Electronic	As soon as possible and within 3 months after the change takes effect	A soon as possible and within 3 months after the change takes effect
Employer Training	Face to Face/Microsoft Teams	As requested	
Employer Guides	Electronic	Online/On request	
Briefing papers	Electronic	As and when required	As and when required
Employer Newsletter	Electronic or Paper Based on Request	Half Yearly Newsletters	
Member, employer or third-party enquiries	Incoming via post	Workflow cases created based on enquiry type and associated SLA	
Member Self Service	Electronic, Paper Based or Face to Face	Promotional events and campaigns to be discussed and agreed to promote sign up to Member Self Service.	
ISA19/FRS102 Accounting Reports	Electronic	Annually	
Annual General Meeting	Microsoft Teams/Face to Face	Provie availability to promote MSS at the AGM	
Pension Fund Report and Accounts	Electronic	Annually	
Website			
Pensions Team Helpline			
Pensions Administration Strategy	Electronic	Always available (reviewed at least every 3 years)	
Pension Fund Valuation Report	Electronic	Triennially	

The London Borough of Tower Hamlets Pension Fund

Appendix 5

Governance Compliance Statement

Governance and Compliance Statement

The London Borough of Tower Hamlets Council is the Administering Authority of the London Borough of Tower Hamlets Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers.

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) Administering Authorities to publish Governance Policy and Compliance Statements setting out information relating to how the Administering Authority delegates its functions under those regulations and whether it complies with guidance given by the Secretary of State for Communities and Local Government. It also requires the Authority to keep the statement under to review and to make revisions as appropriate and where such revisions are made to publish a revised statement.

Aims and Objectives

Tower Hamlets Council recognises the significance of its role as Administering Authority to the London Borough of Tower Hamlets Pension Fund on behalf of its stakeholders which include:

- around 20,000 current and former members of the Fund, and their dependants
- over 20 employers within the Tower Hamlets Council area or with close links to Tower Hamlets Council
- the local taxpayers within the London Borough of Tower Hamlets.

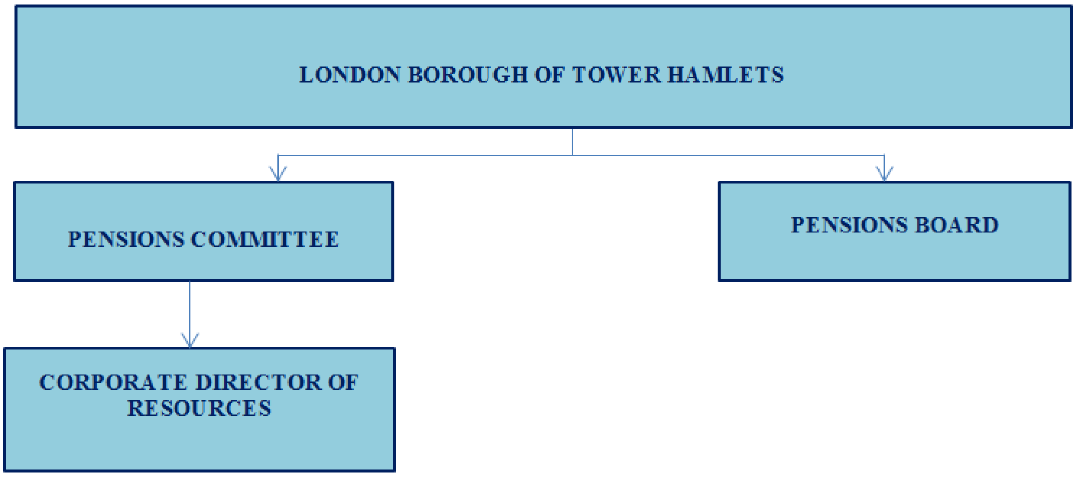
In relation to the governance of the Fund, our objectives are to ensure that:

- all staff and Pensions Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund aims to be at the forefront of best practice for LGPS funds
- the Fund manages Conflicts of Interest appropriately

Structure

The Constitution of the Council sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and that those who made the decisions are accountable to local people.

The Council delegates its responsibility for administering the Fund to the Pensions Committee. The terms of this delegation are as set out in the Council Constitution and provide that the Committee is responsible for consideration of all pension matters and discharging the obligations and duties of the Council under the Superannuation Act 1972 and various statutory matters relating to investment issues.
The Constitution sets out the framework under which the Pension Fund is to be administered as depicted in the diagram below.



Terms of Reference for the Pensions Committee

The Constitution allows for the appointment of a Pensions Committee which has responsibility for the discharge of all non-executive functions assigned to it.

The following are the terms of reference for the Pensions Committee:

1) To act as Trustees of the Council's Pension Fund, consider pension matters and meet the obligations and duties of the Council under the Superannuation Act 1972, the Public Service Pensions Act 2013, and the various pensions' legislation.
2) To make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, actuaries, advisers, investment managers and custodians and periodically to review those arrangements.
3) To formulate and publish an Investment Strategy Statement.
4) To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and to develop a medium term plan to deliver the objectives.
5) To determine the strategic asset allocation policy, the mandates to be given to the investment managers and the performance measures to be set for them.
6) To make arrangements for the triennial actuarial valuation, to monitor liabilities and to undertake any asset/liability and other relevant studies as required.
7) To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles.
8) To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
9) To receive and approve an Annual Report on the activities of the Fund prior to publication.
10) To make arrangements to keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis.
11) To keep the terms of reference under review.
12) To determine all matters relating to admission body issues.

13) To focus on strategic and investment related matters at two Pensions Committee meetings.

14) To review the Pension Fund's policy and strategy documents on a regular basis and review performance against the Fund's objectives within the business plan

15) To maintain an overview of pensions training for Members.

In addition the Pensions Committee will also co-opt a non-voting employer representative and a non-voting scheme member representative.

Membership of the Pensions Committee

The Council decides the composition and makes appointments to the Pensions Committee. Currently the membership of the Pensions Committee is a minimum of 7 elected Members from Tower Hamlets Council on a politically proportionate basis and the Pensions Committee will elect a Chair and Vice Chair. All Tower Hamlets Council elected Members have voting rights on the Committee and three voting members of the Committee are required to be able to deem the meeting quorate.

In addition there are two co-opted non-voting members representing employer and Scheme member interests. Although the co-opted representatives do not have voting rights they are treated as equal members of the Committee, they have access to all Committee Advisers, officers, meetings and training as if they were Council Members and have the opportunity to contribute to the decision making process.

Voting rights are restricted to elected Members as they are deemed to be fulfilling the role of Trustees as the Pension Fund with all the legal responsibilities that this entails, it was not felt appropriate to apply the same legal definition to the lay members of the Committee and hence their role as non-voting members.

Members of the Pensions Committee, including co-opted members, are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties; meetings are open to members of the public who are welcome to attend. However, there may be occasions when members of the public are excluded from meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed.

Meetings

The Pensions Committee shall meet at least four times a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work. Work for the year will be agreed with the Committee to include dedicated training sessions for Committee members.

Agendas for meetings will be agreed with the Chair and will be circulated with supporting papers to all members of the Committee, Officers of the Council as appropriate and the Fund's Investment Advisor.

The Council will give at least five clear working days' notice of any meeting by posting details of the meeting at the Tower Hamlets Town Hall and on the Council's website. The Council will make copies of the agenda and reports open to the public available for inspection at least five clear working days before the meeting. If an item is added to the agenda later, the revised agenda will be open to inspection from the time the item was added to the agenda. The reason for lateness will be specified in the report.

There may on occasions be items which may be exempt from the agenda, reports and minutes of the meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed. Items which are most likely to be excluded are issues where to disclose information would contravene an individual's privacy or where there are financial interests which may be compromised as a result of disclosure for example discussions surrounding contracts.

The Council will make available copies of the minutes of the meeting and records of decisions taken for six years after a meeting. Minutes of meetings and records of decisions are available for inspection on the Council's website:
http://moderngov.towerhamlets.gov.uk/ieListMeetings.aspx?CommitteeId=392

Other Delegations of Powers

The Pensions Committee act as quasi trustees and oversee the management of the Pension Fund. As quasi trustees the Committee has a clear fiduciary duty in the performance of their functions, they have to ensure that the Fund is managed in accordance with the regulations and to do so prudently and impartially and to ensure the best possible outcomes for the Pension Fund, its participating employers, local taxpayers and Scheme members. Whilst trustees can delegate some of their powers, they cannot delegate their responsibilities as trustees. Appendix A outlines the areas that the Pensions Committee has currently delegated though these may be added to from time to time.

Under the Council's Constitution delegated powers have been given to the Corporate Director, Resources in relation to all other pension fund matters, in addition to his role as Chief Financial Officer (often called S151 Officer). As Chief Financial Officer he is responsible for the preparation of the Pension Fund Annual Report & Accounts and ensuring the proper financial administration of the Fund. As appropriate the Corporate Director, Resources will delegate aspects of the role to other officers of the Council including the Pensions & Investments Manager and to professional advisors within the scope of the LGPS Regulations.

Pension Board

With effect from 1 April 2015, each Administering Authority is required to establish a local Pension Board to assist them with:

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator
- ensuring the effective and efficient governance and administration of the Pension Fund

Such Pension Boards are not local authority committees; as such the Constitution of Tower Hamlets Council does not apply to the Pension Board unless it is expressly referred to in the Board's terms of reference. The Tower Hamlets Pension Board established by Tower Hamlets

Council and the full terms of reference of the Board can be found within the Council’s Constitution. The key points are summarised below.

Role of the Pension Board

The Council has charged the Pension Board with providing oversight of the matters outlined above. The Pension Board, however, is not a decision making body in relation to the management of the Pension Fund and the Pension Fund’s management powers and responsibilities which have been delegated by the Council to the Pensions Committee or otherwise remain solely the powers and responsibilities of them, including but not limited to the setting and delivery of the Fund's strategies, the allocation of the Fund's assets and the appointment of contractors, advisors and fund managers.

Membership of the Pension Board

The Pension Board consists of 7 members as follows:

- Three Employer Representatives
- Three Scheme Member Representatives
- One Independent Member (non-voting) to act as chair of the Pension Board

Pension Board members, (excluding any Independent Member), have individual voting rights but it is expected the Pension Board will as far as possible reach a consensus.

A meeting of the Pension Board is only quorate when two of the six Employer and Scheme Member Representatives are present, and where the Board has an Independent Member they must also be present.

The members of the Board are appointed by an Appointments Panel which consists of:

- the Cabinet Member for Resources
- the Corporate Director, Resources
- the Divisional Director Finance, Procurement and Audit
- the Corporate Director, Governance

Members of the Pension Board are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

Meetings

The Pension Board meets at least twice a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work. The Pension Board will be treated in the same way as a Committee of Tower Hamlets Council and, as such, members of the public may attend and papers will be made public in the same was as described above for the Pension Committee.

Policy Documents
In addition to the foregoing, there are a number of other documents which are relevant to the Governance and management of the Pension Fund. Brief details of these are listed below and the full copies of all documents can be found on the Pension Fund Website:
http://www.towerhamletspensionfund.org/

Funding Strategy Statement
The Funding Strategy Statement forms part of the framework for the funding and management of the Pension Fund. It sets out how the Fund will approach its liabilities and contains a schedule of the minimum contribution rates that are required of individual employers within the Fund. The Funding Strategy Statement (FSS) is drawn up by the Administering Authority in collaboration with the Fund's actuary and after consultation with the Fund's employers. The FSS forms part of a broader framework which covers the Pension Fund and applies to all employers participating in the Fund. The FSS represents a summary of the Fund's approach to funding the liabilities of the Pension Fund.

Investment Strategy Statement
The Investment Strategy Statement (ISS) replaced the Statement of Investment Principles from 1st April 2016. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.
This ISS is designed to be a living document and is an important governance tool for the Fund. This document sets out the investment strategy of the Fund, provides transparency in relation to how the Fund investments are managed, acts as a risk register, and has been designed to be informative but reader focused.
This document will be reviewed following the completion of the Fund investment strategy review and updated revised version will be tabled at the November Pensions Committee meeting for approval.

Governance Policy Compliance Statement
This sets out the Pension Fund's compliance with the Secretary of State's Statutory Guidance on Governance in the LGPS. This is attached as Appendix B and shows where the Fund is compliant or not compliant with best practice and the reasons why it may not be compliant.

Training Policy
Tower Hamlets Council has a Training Policy which has been put in place to assist the Fund in achieving its governance objectives and all Pensions Committee members, Pension Board members and senior officers are expected to continually demonstrate their own personal commitment to training and to ensuring that the governance objectives are met.
To assist in achieving these objectives, the London Borough of Tower Hamlets Pension Fund aims to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and
- the Pensions Regulator's (TPR) Code of Practice for Public Service Schemes.

As well as any other LGPS specific guidance relating to the knowledge and skills of Pensions Committee members, Pension Board members or pension fund officers which may be issued from time to time.

Members of the Pensions Committee, Pension Board and officers involved in the management of the Fund will receive training to ensure that they meet the aims of the Training Policy with training schedules drawn up and reviewed on at least on annual basis.

Annual Report and Accounts

As part of the financial standing orders it is the duty of the Chief Financial Officer to ensure that record keeping and accounts are maintained by the Pension Fund. The Pension Fund accounts are produced in accordance with the accounting recommendations of the Financial Reports of Pension Schemes - Statement of Recommended Practice. The financial statements summarise the transactions of the Scheme and deal with the net assets of the Scheme. The statement of accounts is reviewed by both the Pensions Committee and the Audit Committee and incorporated in the Statement of Accounts for the Council. Full copies of the Report and Accounts are distributed to employers in the Fund and other interested parties and a copy placed on the websites:
http://www.towerhamletspensionfund.org/
http://moderngov.towerhamlets.gov.uk/ieListMeetings.aspx?CommitteeId=392

Communication Policy

This document sets out the communications policy of the administering authority and sets out the strategy for ensuring that all interested parties are kept informed of developments in the Pension Fund. This helps to ensure transparency and an effective communication process for all interested parties. A copy of the policy can be found on the Pensions website:
http://www.towerhamletspensionfund.org/

Discretions Policies

Under the Local Government Pension Scheme regulations, the Administering Authority has a level of discretion in relation to a number of areas. The Administering Authority reviews these policies as appropriate and will notify interested parties of any significant changes. Employing Authorities are also required to set out their discretions policies in respect of areas under the Regulations where they have a discretionary power. Copies of both the Administering Authority and the London Borough of Tower Hamlets' Employing Authority Discretions can be found on the website: http://www.towerhamletspensionfund.org/

Pension Administration Strategy and Employer Guide

In order to assist with the management and efficient running of the Pension Fund, the Pension Administration Strategy and Employer Guide encompassing administrative procedures and responsibilities for the Pension Fund for both the Administering Authority and Employing Authorities has been distributed to employers within the Fund following consultation and can be found on the website: http://www.towerhamletspensionfund.org/

This represents part of the process for ensuring the ongoing efficient management of the Fund and maintenance of accurate data and forms part of the overall governance procedures for the Fund.

Approval, Review and Consultation

This Governance Policy and Statement was approved at the London Borough of Tower Hamlets Pensions Committee meeting on 23 July 2015 following consultation with all the participating employers in the Fund and other interested parties. It will be formally reviewed and updated at least every year or sooner if the governance arrangements or other matters included within it merit reconsideration. In August 2017, this document has been reviewed and updated for Pensions Committee consideration and approval at its meeting of 21st September 2017.

Contact Information

Further information on the London Borough of Tower Hamlets Pension Fund can be found as shown below:

London Borough of Tower Hamlets Pension Fund
Mulberry Place
5 Clove Crescent
London
E14 2BG

Email: pensions@towerhamlets.gov.uk
Website: http://www.towerhamletspensionfund.org/

Appendix A

Delegation of Functions to Officers by Tower Hamlets Pensions Committee

Key:
PC – Pensions Committee
OAP-Officers & Advisers Panel
PIM – Pensions & Investments Manager
CDR – Corporate Director, Resources & Officers
DDoFPA -Divisional Director Finance, Procurement & Audit
IC – Investment Consultant
FA – Fund Actuary
IA – Independent Adviser

Function delegated to PC	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Investment strategy - approving the Fund's investment strategy, Investment Strategy Statement and Myners Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite. Monitoring the implementation of these policies and strategies on an ongoing basis.	Rebalancing and cash management Implementation of strategic allocation including use of ranges To formally review the Scheme's asset allocation at least every three year's taking account of any changes in the profile of Scheme liabilities and will assess any guidance regarding tolerance of risk. It will recommend changes in asset allocation to the Pensions Committee	CDR, DDoFPA & PIM (having regard to ongoing advice of the IC, IA, FA and OAP)	High level monitoring at PC with more detailed monitoring by OAP and or PIM

Function delegated to PC	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
	New mandates / emerging opportunities To consider the Scheme's approach to social, ethical and environmental issues of investment, corporate governance and shareholder activism and recommend revisions to the Pensions Committee.	CDR, DDoFPA and PIM (having regard to ongoing advice of the IC & IA)	High level monitoring at PC with more detailed monitoring by OAP & PIM
Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers.	Ongoing monitoring of Fund Managers	CDR, DDoFPA and PIM (having regard to ongoing advice of the IA & IC) and subject to ratification by PC	High level monitoring at PC with more detailed monitoring by OAP & PIM
	Selection, appointment, addition, replacement and dismissal of Fund Managers To evaluate the credentials of potential managers and make recommendations to the Pensions Committee To review the Scheme's AVC arrangements annually. If it considers a change is appropriate, it will make recommendations to the Pensions Committee.	OAP, CDR and PIM (having regard to ongoing advice of the IA & IC) and subject to ratification by PC	Notified to PC via ratification process.

Function delegated to PC	Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	Agreeing the Administering Authority responses where the consultation timescale does not provide sufficient time for a draft response to be approved by PC.	CDR, DDoFPA and PIM, subject to agreement with Chairman and Vice Chairman (or either, if only one available in timescale)	PC advised of consultation via e-mail (if not already raised previously at PC) to provide opportunity for other views to be fed in. Copy of consultation response provided at following PC for noting.
Agreeing the Fund's Knowledge and Skills Policy for all Pensions Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.	Implementation of the requirements of the CIPFA Code of Practice[1]	CDR & DDoFPA	Regular reports provided to PC and included in Annual Report and Accounts.
The Committee may delegate a limited range of its functions to one or more officers of the Authority. The Pensions Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pensions Committee.	Other urgent matters as they arise	CDR, DDoFPA and PIM subject to agreement with Chairman and Vice Chairman (or either, if only one is available in timescale)	PC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PC.
	Other non-urgent matters as they arise	Decided on a case by case basis	As agreed at PC and subject to monitoring agreed at that time.

[1] **CIPFA Code of Practice recommends each administering authority delegates responsibility for implementation to a senior officer.**

Appendix B

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
STRUCTURE	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council	Compliant	The Council's Constitution states that the Pensions Committee is responsible for the management of the Pension Fund
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	Trade union representatives and representatives of admitted bodies sit on the Pension Committee.
	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	A report of the Pensions Committee is presented at the following Pensions Committee. All key recommendations of the Pensions Committee are ratified by the Pensions Committee.
	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Compliant	All members of the Pensions Committee are also members of the Pensions Committee.
REPRESENTATION	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :- • employing authorities (including non-scheme employers, e.g. admitted bodies), • scheme members (including deferred and pensioner scheme members), • independent professional observers, • expert advisors (on an ad-hoc basis).	Compliant	Trade unions and admitted bodies are represented on the Pensions Committee.

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Compliant	Papers for Committee and the Pensions Committee are made available to all members of both bodies at the same time and are published well in advance of the meetings in line with the council's committee agenda publication framework.
SELECTION & ROLE OF LAY MEMBERS	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	Members of the Pensions Committee/ Pensions Committee have access to the terms of reference of each body and are aware of their roles and responsibilities as members of these bodies/ Panel.
VOTING	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	Members of the Pensions Committee/ Pensions Committee does not currently confer voting rights on non-Councillors in line with common practice across the local government sector.
TRAINING/FACILITY TIME/EXPENSES	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Compliant	Regular training is arranged for members of the Pensions Committee. In addition members are encouraged to attend external training courses. The cost of any such courses attended will be met by the Fund.
	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	The rule on training provision is applied equally across all members of the Pensions Committee.

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
MEETINGS (FREQUENCY/ QUORUM)	That an administering authority's main committee or committees meet at least quarterly.	Compliant	Meetings of the Pensions Committee are arranged to take place quarterly.
	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	Meetings of the Pensions Committee are arranged to take place quarterly.
	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Compliant	Union representatives on the Pensions Committee are lay members. Other stakeholders of the Fund are able to make representations at the Annual General Meeting of the Pension Fund.
ACCESS	Subject to any rules in the Council's Constitution, all members of the main and secondary committees or panels have equal access to committee papers, documents and advice that fails to be considered at meetings of the main committee.	Compliant	Panel meeting papers are circulated at the same time to all members of the Pensions Committee/ Pensions Committee.
SCOPE	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	Pensions Committee considers are range of issues at its meetings and therefore has taken steps to bring wider scheme issues within the scope of the governance arrangements.
PUBLICITY	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Compliant	This Governance Compliance Statement is a public document that is attached as an appendix to the annual pension fund report.

London Borough of
Tower Hamlets Pension Fund
Appendix 6
Training & Development Policy

Introduction

This is the Training & Development Policy of the London Borough of Tower Hamlets Pension Fund in relation to the Local Government Pension Scheme (LGPS), which is managed and administered by Tower Hamlets Council. The Policy details the training strategy for members of the Pensions Committee and Pension Board, and senior officers responsible for the management of the Fund.

This Training & Development Policy is established to assist Pensions Committee and Pensions Board members and senior officers in developing their knowledge and capabilities in their individual roles, with the ultimate aim of ensuring that the London Borough of Tower Hamlets Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills.
Tower Hamlets Council has delegated responsibility for the implementation of this Training & Development Policy to the Corporate Director, Resources.

Aims and Objectives

Tower Hamlets Council recognises the significance of its role as Administering Authority to the London Borough of Tower Hamlets Pension Fund on behalf of its stakeholders which include:

- over 22,000 current and former members of the Fund, and their dependants
- over 30 employers within the Tower Hamlets Council area or with close links to Tower Hamlets Council
- the local taxpayers within the London Borough of Tower Hamlets.

In relation to the governance of the Fund, the objectives are to ensure that:

- all staff and Pensions Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund aims to be at the forefront of best practice for LGPS funds
- the Fund manages Conflicts of Interest appropriately

This Policy has been put in place to assist the Fund in achieving these objectives and all Pensions Committee Members, Pension Board members and senior officers to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and to ensuring that these objectives are met.

To assist in achieving these objectives, the London Borough of Tower Hamlets Pension Fund will aim to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and The Pensions Regulator's (TPR) Code of Practice for Public Service Schemes

As well as any other LGPS specific guidance relating to the knowledge and skills of Pensions Committee members, Pension Board members or pension fund officers which may be issued from time to time.

This Training & Development Policy applies to all Members of the Pensions Committee, Pensions Board, including scheme member and employer representatives. It also applies to all managers in the Tower Hamlets Council Pension Fund Management Team and the Chief Finance Officer (Section 151 Officer) (from here on in collectively referred to as the senior officers of the Fund).

Other officers involved in the daily management of the Pension Fund will also be required to have appropriate knowledge and skills relating to their roles, which will be determined and managed by the Pensions & Investment Manager and his/her team.
The advisers to the Fund that provides the day to day and strategic advice to the London Borough of Tower Hamlets Pension Fund are also expected to be able to meet the objectives of this Policy, as are all other officers of employers participating in the London Borough of Tower Hamlets Pension Fund who are responsible for pension matters are also encouraged to maintain a high level of knowledge and understanding in relation to LGPS matters, and Tower Hamlets Council will provide appropriate training for them.
This is considered separately in the London Borough of Tower Hamlets Pension Fund Administration Strategy.

CIPFA and TPR Knowledge and Skills Requirements - *(CIPFA Knowledge and Skills Framework and Code of Practice)*

In January 2010 CIPFA launched technical guidance for Representatives on Pensions Committees and non-executives in the public sector within a knowledge and skills framework. The Framework details the knowledge and skills required by those responsible for pension scheme financial management and decision making.

In July 2015 CIPFA launched technical guidance for Local Pension Board members by extending the existing knowledge and skills frameworks in place. This Framework details the knowledge and skills required by Pension Board members to enable them to properly exercise their functions under Section 248a of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013.

The Framework covers eight areas of knowledge and skills identified as the core requirements (which include all those covered in the existing Committee and nonexecutives' framework):

i) Pensions legislation
ii) Public sector pensions governance
iii) Pension accounting and auditing standards
iv) Pensions administration
v) Financial services procurement and relationship management
vi) Investment performance and risk management
vii) Financial markets and products knowledge
viii) Actuarial methods, standards and practice

CIPFA's Code of Practice recommends (amongst other things) that Local Government Pension Scheme administering authorities -

- formally adopt the CIPFA Knowledge and Skills Frameworks (or an alternative training programme)
- ensure that the appropriate policies and procedures are put in place to meet the requirements of the Frameworks (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

The Pensions Act 2004 and the Pension Regulator's Code of Practice

Section 248a of the Pensions Act 2004, as amended by The Public Service Pensions Act 2013 (PSPA13) requires Pension Board members to:

- be conversant with the rules of the scheme and any document recording policy about the administration of the scheme, and
- have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Pension Board.

These requirements are incorporated and expanded on within the TPR Code of Practice which came into force on 1 April 2015. It is expected that guidance will also be issued by the Local Government Pension Scheme Advisory Board which will explain further how these requirements will relate to LGPS administering authorities.

Application to the London Borough of Tower Hamlets Pension Fund

Tower Hamlets Council recognises that effective financial administration, scheme governance and decision-making can only be achieved where those involved have the requisite knowledge and skills. Accordingly it fully supports the use of the CIPFA Knowledge and Skills Frameworks, and TPR's Code of Practice. Tower Hamlets Council adopts the principles contained in these publications in relation to the London Borough of Tower Hamlets Pension Fund, and this Training and Development Policy highlights how the Council will strive to achieve those principles through use of a Training Plan together with regular monitoring and reporting.

The London Borough of Tower Hamlets Pension Fund Training and Development Plan

Tower Hamlets Council recognises that attaining, and then maintaining, relevant knowledge and skills is a continual process for Pensions Committee members, Pension Board members and senior officers, and that training is a key element of this process. Tower Hamlets Council will develop a rolling Training Plan based on the following key elements:

1) **Individual Training Needs**: A training needs analysis will be developed for the main roles of Pensions Committee members, Pension Board members and senior officers customised appropriately to the key areas in which they should be proficient. Training will be required in relation to each of these areas as part of any induction and on an ongoing refresher basis.

2) **Hot Topic Training**: The Training Plan will be developed to ensure appropriately timed training is provided in relation to hot topic areas, such as a

high risk area or a specific area where decisions need to be made. This training may be targeted at specific roles.

3) **General Awareness**: Pensions Committee members, Pension Board members and senior officers are expected to maintain a reasonable knowledge of ongoing developments and current issues, which will allow them to have a good level of general awareness of pension related matters appropriate for their roles and which may not be specific to the London Borough of Tower Hamlets Pension Fund.

Each of these training requirements will be focussed on the role of the individual i.e. a Pensions Committee member, a Pension Board member or the specific role of the officer.
The Pensions Committee agrees a training plan on an annual basis at the first meeting of the Municipal Year. The training plan is developed taking into consideration the needs of the Committee, the Board and officers to both enhance existing knowledge and skills and to develop new areas of understanding. This ensures that training is accessible to all Committee and Board members and key officers involved in the management of the Pension Fund.

Training will be delivered through a variety of methods including:

- In-house training days provided by officers and/or external providers
- Training as part of meetings (e.g. Pensions Committee) provided by officers and/or external advisers
- External training events
- Circulation of reading material
- Attendance at seminars and conferences offered by industry-wide bodies
- Attendance at meetings and events with the London Borough of Tower Hamlets Pension Fund's investment managers and advisors
- Links to on-line training
- Access to the London Borough of Tower Hamlets Pension Fund website where useful London Borough of Tower Hamlets Pension Fund specific material is available.

In addition London Borough of Tower Hamlets Pension Fund officers and advisers are available to answer any queries on an ongoing basis including providing access to materials from previous training events.

Initial Information and Induction Process

On joining the Pensions Committee, the Pension Board or the London Borough of Tower Hamlets Pension Fund Management Team, a new member or officer will be provided with the following documentation to assist in providing them with a basic understanding of London Borough of Tower Hamlets Pension Fund:

i) The members' guide to the Local Government Pension Scheme (LGPS)
ii) The latest Actuarial Valuation report
iii) The Annual Report and Accounts, which incorporate:
    a. The Funding Strategy Statement
    b. The Governance Policy and Compliance Statement

c. The Statement of Investment Principles including the London Borough of Tower Hamlets Pension Fund's statement of compliance with the LGPS Myners Principles
d. The Communications Policy
e. The Administration Strategy

iv) The administering authority's Discretionary Policies
v) The Training Policy

In addition, an individual training plan will be developed to assist each Pensions Committee member, Pension Board member or officer to achieve, within six months, their identified individual training requirements.

Monitoring Knowledge and Skills

To identify if Pensions Committee members, Pension Board members and senior officers are meeting the objectives of this policy we will:

1) Compare and report on attendance at training based on the following:

i. Individual Training Needs – ensuring refresher training on the key elements takes place for each individual at least once every three years.
ii. Hot Topic Training – attendance by at least 80% of the required Pensions Committee members, Pension Board members and senior officers at planned hot topic training sessions. This target may be focussed at a particular group of Pensions Committee members, Pension Board members or senior officers depending on the subject matter.
iii. General Awareness – each Pensions Committee member, Pension Board member or officer attending at least one day each year of general awareness training or events.
iv. Induction training – ensuring areas of identified individual training are completed within six months.

2) Consider whether the objectives have been met as part of the annual self-assessment carried out each year which is completed by all Pensions Committee members, Pension Board members and senior officers.

The key risks to the delivery of this Policy are outlined below:

i. Changes in Pensions Committee and/or Pension Board membership and/or senior officers' potentially diminishing knowledge and understanding.
ii. Poor attendance and/or a lack of engagement at training and/or formal meetings by Pensions Committee Members, Pension Board Members and/or other senior officers resulting in a poor standard of decision making and/or monitoring.
iii. Insufficient resources being available to deliver or arrange the required training.
iv. The quality of advice or training provided not being to an acceptable standard.

The Pensions Committee members, with the assistance of London Borough of Tower Hamlets senior officers and Pension Board members will monitor these and other key risks and consider how to respond to them.

Reporting

A report will be presented to the Pensions Committee on an annual basis setting out:

i. The training provided / attended in the previous year at an individual level
ii. Attendance at Pensions Committee and Pension Board meetings
iii. The results of the measurements identified above.

This information will also be included in the London Borough of Tower Hamlets Pension Fund's Annual Report and Accounts.
At each Pensions Committee and Pensions Board meeting, members will be provided with details of forthcoming seminars, conferences and other relevant training events as well as a summary of the events attended since the previous meeting.

Costs

All training costs related to this Training and Development Policy are met directly by the London Borough of Tower Hamlets Pension Fund.

Approval, Review and Consultation

This Training and Development Policy was originally approved at the London Borough of Tower Hamlets Pensions Committee meeting of September 2015 and amendments to incorporate the requirements of the CIPFA Local Pension Boards Framework would be approved on 9th March 2016. This Training and Development Policy was also adopted by the London Borough of Tower Hamlets Pension Board at its first meeting. It will be formally reviewed and updated at least every year or sooner if the training arrangements or other matters included within it worth re-evaluation.

Further Information

If you require further information about anything in or related to this Training and Development Policy, please contact:

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TOWER HAMLETS

LONDON BOROUGH OF TOWER HAMLETS

Administering Authority for
Tower Hamlets Pension Fund

Appendix 7

Procedure for Recording and Reporting Breaches of the Law

Background and Introduction

This Policy sets out the procedure to be followed by certain persons involved with the Tower Hamlets Pension Fund (the **"Fund"**), which is managed and administered by the London Borough of Tower Hamlets Council (the **"Administering Authority"**), in relation to identifying, recording and, where necessary, reporting breaches of the law to the Pensions Regulator (the **"Regulator"**).

Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions.

This Policy has been developed to assist those individuals who have a legal responsibility to report certain breaches to the Regulator in determining whether a breach they have identified should be reported. It has also been developed to assist the Administering Authority, in ensuring it is aware of all breaches of the law in relation to the Fund and that these are appropriately recorded and then dealt with.

The Administering Authority has delegated responsibility for the implementation of this Policy to the S151 Officer.

The following persons, or any other person who has a responsibility to report breaches of the law in relation to the Tower Hamlets Pension Fund, are strongly encouraged to follow this Policy should they identify such a breach:

- all members of the Pensions Committee and Pension Board;
- all officers involved in the management and administration of the Fund, including staff members of the Administering Authority, the Monitoring Officer and the Corporate Director of Resources (Section 151 Officer);
- any professional advisers including auditors, actuaries, legal advisers and investment managers[2];
- officers of employers participating in the Fund who are responsible for pension matters;
- any other person otherwise involved in advising the managers of the Fund, including the Pensions and Investment Manager, Divisional Director of Finance, Procurement and Audit, Monitoring Officer and staff members of the internal audit function.

Throughout this Policy, any person to whom this Policy applies, as a result of them identifying a breach or potential breach, will be referred to as the "individual".

Requirements and to whom this Policy applies

This section clarifies the full extent of the legal requirements and to whom they apply.

Pensions Act 2004

[2] However, these advisors should note that the application of this Policy relates to the reporting of legal breaches relating to the administration of the Fund, rather than any breaches relating to their role and responsibilities that do not affect the administration of the Fund. For example, if an investment manager has breached the investment association guidelines, then this would not be reportable under this Policy (albeit the Administering Authority would still expect this information to be recorded separately and notified to it).

Section 70 of the Pensions Act 2004 (the **"Act"**) imposes a requirement on the following persons:

- a trustee or manager of an occupational or personal pension scheme;
- a member of the pension board of a public service pension scheme;
- a person who is otherwise involved in the administration of such a scheme an occupational or personal pension scheme;
- the employer in relation to an occupational pension scheme;
- a professional adviser in relation to such a scheme; and
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme;

To report a matter to the Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that:

a) a legal duty relating to the administration of the scheme has not been or is not being complied with, and
b) the failure to comply is likely to be of material significance to the Regulator.

The Act states that a person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse.

The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However, the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

The Pension Regulator's Code of Practice

Practical guidance in relation to this legal requirement is included in The Pension Regulator's Code of Practice including in the following areas:

- implementing adequate procedures to consider and record breaches.
- judging whether a breach must be reported.
- submitting a report to the Regulator.
- whistleblowing protection and confidentiality.

Application to the Tower Hamlets Pension Fund

The Administering Authority has developed this Policy in relation to the Fund. This document sets out how Administering Authority will strive to achieve best practice through use of a formal reporting breaches procedure. It reflects the guidance contained in the Regulator's Code of Practice.

Other Administering Authority or Organisational Requirements

In addition to the requirements of this Policy, there may be other policies which may be in place relating to areas such as fraud or whistleblowing that apply to the individuals covered by this Policy for reporting and recording breaches in relation to Tower Hamlets Pension Fund matters. For example, Tower Hamlets Council has in place the following:

- Anti-fraud and Corruption Strategy – setting out the Council's strategy for preventing, deterring, deterring and investigating fraud, corruption and other wrong doing.
- Anti-Bribery Policy - setting out the Council's framework to enable Council employee and others to understand and implement arrangement to ensure anti-bribery compliance.
- Whistleblowing Policy – setting out how someone working with or within the Council can raise an issue in confidence, as well as what sort of concerns should be reported.

This Policy should be followed in addition to any existing procedures or policies that may be in place, such as those listed above. In particular, individuals are reminded that there is a legal requirement to report breaches of the law in relation to the Fund that could be considered significant to the Regulator. The Pensions and Investment Manager supported by the Council's Monitoring Officer (contact details at the end of this procedure) can assist if an individual is uncertain how to deal with the interaction between this Policy and any other organisation's policy or procedure that may be in place.

The Tower Hamlets Pension Fund Reporting Breaches Procedure

Overview

The following procedure details how individuals responsible for reporting and whistleblowing can identify, assess, record and report a breach of the law relating to the Fund.

It aims to ensure individuals responsible are able to meet their legal obligations and avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk. There are four key steps to this procedure:

1. Understanding the law and what is a breach.
2. Determining whether a suspected breach is an actual breach.
3. Determining whether the breach is likely to be of material significance and so should be reported to the Regulator.
4. Recording the breach, even if it is not reported.

These steps are explained below:

1. Understanding the law and what is a breach

Individuals may need to refer to regulations and guidance when considering whether there has been a breach of the law. Some of the key provisions are shown below:

- Section 70(1) and 70(2) of the Pensions Act 2004: www.legislation.gov.uk/ukpga/2004/35/contents
- Employment Rights Act 1996: www.legislation.gov.uk/ukpga/1996/18/contents
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations): www.legislation.gov.uk/uksi/2013/2734/contents/made

- Public Service Pension Schemes Act 2013:
  www.legislation.gov.uk/ukpga/2013/25/contents
- Local Government Pension Scheme Regulations (various):
  http://www.lgpsregs.org/timelineregs/Default.html (pre 2014 schemes)
  http://www.lgpsregs.org/index.php/regs-legislation (2014 scheme)
- The Pensions Regulator's Code of Practice:
  http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-publicservice-pension-schemes.aspx
  In particular, individuals should refer to the section on 'Reporting breaches of the law', and for information about reporting late payments of employee or employer contributions, the section of the code on 'Maintaining contributions'.

Further guidance and assistance can be provided by the Pensions and Investment Manager, the Council Monitoring Officer and the Corporate Director of Resources, provided that requesting this assistance will not result in alerting those responsible for any serious offence (where the breach is in relation to such an offence). Some examples of breaches are included in Appendix D.

2. Determining whether a suspected breach is an actual breach

Individuals then need to have reasonable cause to believe that a breach of the relevant legal provision has occurred, not just a suspicion. Where a breach is suspected, the individual should carry out further checks to confirm the breach has occurred.

Where the individual does not know the facts or events, it will usually be appropriate to check with the Pensions and Investment Manager, the Council Monitoring Officer and the Corporate Director of Resources, a member of the Pensions Committee or Pension Board, or others who are able to explain what has happened. However, there are some instances where it would not be appropriate to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases, the Regulator should be contacted without delay.

3. Determining whether the breach is likely to be of material significance

Should an individual have reasonable cause to believe that breach of the law has occurred, they must decide whether that breach is likely to be of material significance to the Regulator, and therefore should be reported to the Regulator. To do this, an individual should consider the following, both separately and collectively:

- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

Individuals may also request the most recent breaches report from the Pensions and Investment Manager, as there may be details on other breaches which may provide a useful precedent on the appropriate action to take.

Further details on the above four considerations are provided in Appendix A to this Policy.

The individual should use the traffic light framework described in Appendix B to help assess the material significance of each breach and to formally support and document their decision.

It should be noted that the Regulator's role is in relation to requirements under the Pensions Act 2004. As such, it is possible that some breaches of the law do not fall within the Regulator's remit. However, given the complex nature of the law relating to pension schemes, including the wide-ranging responsibilities covered by the Pensions Act 2004, the Administering Authority encourages reporting of any breach that is considered to be materially significant regardless of the specific area of the law that has been breached. The Regulator can then determine whether it is a matter they have jurisdiction over or not.

The Pensions and Investment Manager can assist with determining whether the breach should be reported and can also assist in completing the document to report the breach. However, the individual is ultimately responsible for determining what should be included in the report and for submitting the report to the Regulator.

4. Recording the breach, even if it is not reported

The record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). The Pensions and Investment Manager will maintain a record of all breaches identified. Therefore, individuals should provide the following information to the Pensions and Investment Manager so that all identified breaches can be recorded:

- copies of reports submitted to the Regulator
- copies of information relating to any other breach the individual has identified.

The information should be provided to the Pensions and Investment Manager as soon as reasonably practicable and certainly no later than within 20 working days of the decision made to report or not. The record of all breaches (reported or otherwise) will be included at each Pensions Committee meeting, and this will also be shared with the Pension Board.

Supplier and advisor responsibilities

Where a breach has been identified relating to the Fund by a Fund supplier or advisor, the supplier or adviser must alert the Pensions and Investment Manager immediately. They must produce a preliminary report setting out an assessment of the breach. The preliminary assessment must contain;

- the circumstances leading to the breach;
- the impact and scale of the breach, both financial and with regard to the impact of service on members or other affected persons/organisations;
- the steps that have been taken to rectify the breach; and
- a preliminary assessment, based on the Regulator’s traffic light flowchart, of the materiality of the breach.

For the avoidance of doubt all breaches of the law (regardless of whether they are deemed material) must be reported to the Pensions and Investment Manager in this way.

Assistance for individuals in following this Policy

The following information is provided to assist individuals in following this Policy.

Referral to a level of seniority for a decision to be made on whether to report

The Administering Authority has designated the Pensions and Investment Manager to work with the Monitoring Officer to ensure the Council acts and operates within the law. They are considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred, to check the law and facts of the case, to maintain records of all breaches and to assist in any reporting to the Regulator, where appropriate.

If breaches relate to late or incorrect payment of contributions or pension benefits, the matter should be highlighted to the Council Service Head of Finance & Procurement and the Corporate Director of Resources, at the earliest opportunity to ensure the matter is resolved as a matter of urgency. Individuals must bear in mind, however, that the involvement of the Monitoring Officer is to help clarify the potential reporter's thought process and to ensure this Policy is followed. The reporter remains responsible for the final decision as to whether a matter should be reported to the Regulator and for completing the reporting procedure.

The matter should **not** be referred to any of these officers if doing so will alert any person responsible for a possible serious offence to the investigation (as highlighted in step 2 above). If that is the case, the individual should report the matter to the Regulator setting out the reasons for reporting, including any uncertainty – a telephone call to the Regulator before the submission may be appropriate, particularly in the case of a more serious breach.

Dealing with complex cases

The Pensions and Investment Manager, will provide guidance on particularly complex cases and escalate cases to the Monitoring Officer, the Corporate Director of Resources, where appropriate. Guidance may also be obtained by reference to previous cases, information on which will be retained by the Administering Authority, or via discussions with those responsible for maintaining the records. Information may also be available from national resources such as the LGPS Scheme Advisory Board or the Local Government Association (www.lgpsregs.org). If timescales allow, legal advice or other professional advice can be sought and the case can be discussed at the next Pensions Committee and Pension Board meeting.

Timescales for reporting

The Pensions Act and Regulators Code require that if an individual decides to report a breach, the report must be made in writing as soon as reasonably practicable. Individuals should not rely on waiting for others to report and nor is it necessary for a reporter to gather all the evidence which the Regulator may require before taking action. A delay in reporting may exacerbate or increase the risk of the breach. The time taken to reach the judgements on “reasonable cause to believe” and on “material significance" should be consistent with the speed implied by 'as soon as reasonably practicable'. In particular, the time taken should reflect the seriousness of the suspected breach.

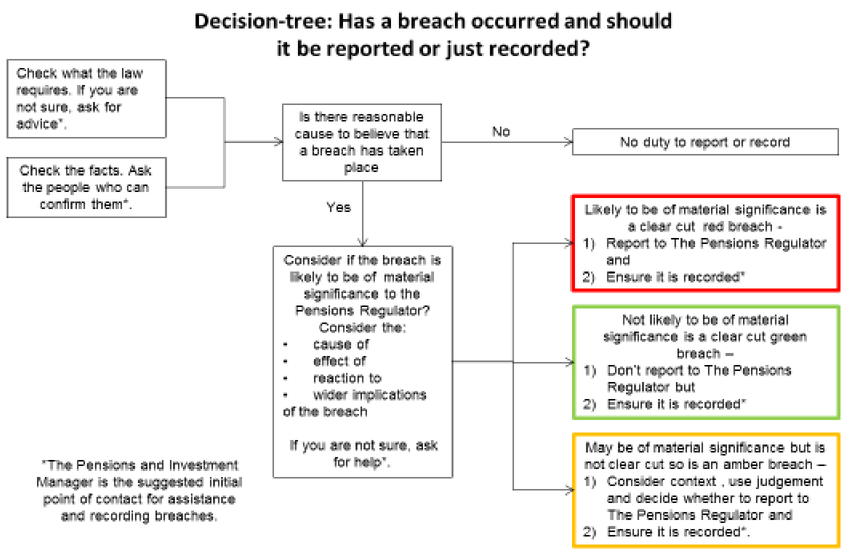
Early identification of very serious breaches

In cases of immediate risk to the Fund, for instance, where there is any indication of dishonesty, the Regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary.

The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty, the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert the Regulator to the breach.

Decision tree

A decision tree is provided below to show the process for deciding whether or not a breach has taken place and whether it is materially significant to the Regulator and therefore needs to be reported, and then ensuring it is recorded.



Reporting a breach to the Pensions Regulator

Reports must be submitted via the Regulator's online system at login.thepensionsregulator.gov.uk. If necessary, a written report can be preceded by a telephone call.

The individual should ensure they receive an acknowledgement for any report they send to the Regulator. The Regulator will acknowledge receipt of all reports within five working days and may contact reporters to request further information. Reporters will not usually be informed of any actions taken by the Regulator due to restrictions on the disclosure of information.

As a minimum, individuals reporting should provide:

- full scheme name (Tower Hamlets Pension Fund);
- description of the breach/breaches;
- any relevant dates;
- name, position and contact details;
- role in connection to the scheme; and
- employer name or name of Tower Hamlets Council as the Administering Authority.

If possible, reporters should also indicate:

- the reason why the breach is thought to be of material significance to the Regulator;
- scheme address (provided at the end of this Policy);
- scheme manager's contact details (provided at the end of this document);
- pension scheme registry number (PSR – 00330180RT); and
- whether the breach has been reported before.

The individual should provide further information or reports of further breaches if this may help the Regulator in the exercise of its functions. The Regulator may make contact to request further information.

Confidentiality

If requested, the Regulator will do its best to protect the identity of the individual who has reported the breach and will not disclose information except where it is lawfully required to do so in relation to their employer.

An employee may have protection under the Employment Rights Act 1996 if they make a report in good faith.

Reporting to Pensions Committee and Pensions Board

A report will be presented to the Pensions Committee and the Pensions Board on a quarterly basis setting out:

- all breaches, including those reported to the Regulator and those unreported, with the associated dates;
- in relation to each breach, details of what action was taken and the result of any action (where not confidential);
- any future actions for the prevention of the breach in question being repeated; and
- highlighting new breaches which have arisen in the last year/since the previous meeting.

This information will also be provided upon request by any other individual or organisation (excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings). An example of the information to be included in the quarterly reports is provided in Appendix C to this Policy.

Training

The Pensions and Investment Manager will ensure that all relevant officers and elected members, as well as members of the Pension Board receive appropriate training on this policy at the commencement of their employment or appointment to the Pensions Committee or Pension Board as appropriate and on an ongoing basis.

Suppliers and advisers must ensure that all staff with responsibilities in relation to the Fund receive appropriate training with regard to this policy and their obligations under it. They must advise the Pensions and Investment Manager if they do not feel they are able to carry out that training, and training will be arranged for them by the Pensions and Investment Manager.

Approval and review

This Reporting Breaches Policy was approved on 19 March 2020 by the Tower Hamlets Pensions Committee. It will be formally reviewed and updated by the Pensions Committee at least every three years, or sooner as a result of legal or regulatory changes, evolving best practice and ongoing review of the effectiveness of the procedure set out in this Policy.

Further Information

If you require further information about reporting breaches or this Policy, please contact:

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London Borough of Tower Hamlets, London E14 2BG

Designated officer contact details:

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Email: kevin.bartle@towerhamlets.gov.uk

2) Corporate Director, Resources – Neville Murton
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3) Monitoring Officer/Corporate Director, Governance – Asmat Hussain
Email: Asmat.Hussain@towerhamlets.gov.uk

Appendix A - Determining whether a breach is likely to be of material significance

To decide whether a breach is likely to be of material significance individuals should consider the following elements, both separately and collectively:

- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

The cause of the breach

Examples of causes which are likely to be of concern to the Regulator are provided below:

- acting, or failing to act, in deliberate contravention of the law;
- dishonesty;
- incomplete or inaccurate advice;
- poor administration, i.e. failure to implement adequate administration procedures;
- poor governance; or
- slow or inappropriate decision-making practices.

When deciding whether a cause is likely to be of material significance individuals should also consider:

- whether the breach has been caused by an isolated incident such as a power outage, fire, flood or a genuine one-off mistake.
- whether there have been any other breaches (reported to the Pensions Regulator or not) which when taken together may become materially significant.

The effect of the breach

Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to the Pensions Regulator in the context of the LGPS are given below:

- Pensions Committee or Pension Board members not having enough knowledge and understanding, resulting in the Pension Boards not fulfilling its role, the Fund not being properly governed and administered and/or the Administering Authority breaching other legal requirements.
- Conflicts of interest of Pensions Committee or Pension Board members, resulting in them being prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the Fund and/or the Administering Authority breaching legal requirements.
- Poor internal controls, leading to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being properly identified and managed, and/or the right money not being paid to or by the Fund at the right time.
- Inaccurate or incomplete information about benefits and scheme information provided to members, resulting in members not being able to effectively plan or make decisions about their retirement.

- Poor member records held, resulting in member benefits being calculated incorrectly and/or not being paid to the right person at the right time.
- Misappropriation of assets, resulting in scheme assets not being safeguarded.
- Other breaches which result in the Fund being poorly governed, managed or administered.

The reaction to the breach

A breach is likely to be of concern and material significance to the Regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence;
- are not pursuing corrective action to a proper conclusion; or
- fail to notify affected scheme members where it would have been appropriate to do so.

The wider implications of the breach

Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to the Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

Appendix B - Traffic light framework for deciding whether or not to report

The Administering Authority recommends that those responsible for reporting use the traffic light framework when deciding whether to report to the Regulator. This is illustrated below:

RED

Where the cause, effect, reaction and wider implications of a breach, when considered together, are likely to be of material significance.

These must be reported to the Pensions Regulator.

Example: Several members' benefits have been calculated incorrectly. The errors have not been recognised and no action has been taken to identify and tackle the cause or to correct the errors.

AMBER

Where the cause, effect, reaction and wider implications of a breach, when considered together, may be of material significance. They might consist of several failures of administration that, although not significant in themselves, have a cumulative significance because steps have not been taken to put things right.

You will need to exercise your own judgement to determine whether the breach is likely to be of material significance and should be reported.

Example: Several members' benefits have been calculated incorrectly. The errors have been corrected, with no financial detriment to the members. However, the breach was caused by a system error which may have wider implications for other public service schemes using the same system.

GREEN

Where the cause, effect, reaction and wider implications of a breach, when considered together, are not likely to be of material significance.

These should be recorded but do not need to be reported.

Example: A member's benefits have been calculated incorrectly. This was an isolated incident, which has been promptly identified and corrected, with no financial detriment to the member. Procedures have been put in place to mitigate against this happening again.

All breaches should be recorded even if the decision is not to report.

When using the traffic light framework individuals should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together. Some useful examples of this framework are provided by the Regulator at the following link: http://www.thepensionsregulator.gov.uk/codes/code-related-report-reaches.aspx

Appendix C - Example record of breaches

Ref.	Date entered in register	Category (e.g. administration, contributions, funding, investment, criminal activity)	Owner of breach	Third party which caused the breach (if any)	Description and cause of breach	Possible effect of breach and wider implications	Initial reaction of relevant parties to breach	Assessment of breach (red/amber/ green) and summary of rationale	Reported / Not Reported to TPR (with justification if not reported and dates)	Further actions taken to rectify Breach	Outstanding actions

*New breaches since the previous meeting should be highlighted

Appendix D - Example breaches of the law

In this appendix provides some examples of breaches of the law. This is not an exhaustive list given there are many sets of legislation that must be followed and some of these are extremely lengthy and complex. It should, however, provide a useful indication of the range of potential breaches that may arise.

Funding strategy not having regard to CIPFA guidance

Regulation 58 of the LGPS Regulations 2013, as amended, requires the administering authority to prepare, maintain and publish a statement setting out its funding strategy and, in doing so, to consult with such persons as it considers appropriate. In doing this, the administering authority must also have regard to CIPFA guidance on preparing and maintaining a Funding Strategy Statement which clearly states employers should be consulted. The funding strategy impacts on the employers of the Fund and therefore a breach of the law by the administering authority is likely to have arisen if a statement was prepared which impacts on employers without first consulting with those employers.

Late notification of benefits

Various regulations dictate timescales for notifying scheme benefits, some of which are summarised below. Most of these requirements are included in more general pensions legislation, i.e. not the LGPS Regulations 2013. A breach would arise every time one of these timescales was not met. All breaches would relate to the administering authority apart from the last one which would be a breach by an employer. However, the first five listed could have been a result of delayed or incorrect information from an employer, which could be a separate and additional breach of the law by that employer.

Process	Legal requirement
To provide new starters with information about the scheme.	Two months from date of joining (provide information about the scheme in this timeframe, or within one month of receiving jobholder information where the individual is being automatically enrolled or re-enrolled).
To inform members who leave the scheme of their leaver rights and options.	As soon as is practicable, and no more than two months from date of initial notification (from employer or scheme member).
To notify the amount of retirement benefits.	One month from date of retirement if on or after normal pension age, or two months from date of retirement if before normal pension age.
To notify dependant(s) the amount of death benefits.	As soon as possible, but in any event no more than two months from date of becoming aware of the death, or from date of request.
Provide annual benefit statements to active members.	By 31st August in the same calendar year.

Receipt of employee contributions from employers.	By 19th of the month following their deduction, or 22nd if paid electronically.

Errors in benefit calculations

The LGPS Regulations 2013, as amended, and previous LGPS legislation relating to historical service or leavers, dictate how benefits should be calculated. This includes elements such as what fraction of pay is used to calculation a pension and what counts as pay for LGPS purposes. A breach of the law by the administering authority would arise in the situation that any calculation was carried out that was not in accordance with those provisions.

Errors in deducting contributions

Regulation 20 of the LGPS Regulations 2013, as amended, states which elements of pay should be treated as pensionable and therefore should have pension contributions deducted from them and should be used for calculating benefits from 1 April 2014. Regulation 4 of the LGPS (Benefits, Membership and Contributions) Regulations 2007, as amended, is the equivalent provision for pre-1 April 2014 scheme membership and therefore it details how pensionable pay should be calculated by an employer for benefits accruing prior to 1 April 2014. Under these provisions, non-contractual overtime is pensionable from 1 April 2014 but not classed as pensionable for benefits accruing before 1 April 2014. A breach of the law by an employer would arise if any of the following happened:

- an employer **did not** deduct pension contributions from non-contractual overtime since 1 April 2014
- an employer **did not** include non-contractual overtime in the amount of any pensionable pay notified to the administering authority for membership from 1 April 2014
- an employer **did** include non-contractual overtime in the amount of final pay notified to the administering authority to be used to calculate benefits accrued prior to 1 April 2014.

Late notifications from year-end information by an employer

Regulation 80 of the LGPS Regulations 2013 require each employer to provide to the administering authority a list of specific information for each scheme member, such as pensionable pay, by 30 June each year. A breach of the law by an employer would arise if they failed to provide this year end list to the administering authority by 30 June or if the information was incomplete or inaccurate.

Inadequate knowledge of a Pension Board member

Section 248A of the Pensions Act 2004 requires every Pension Board member to be conversant with the LGPS rules and Fund policies as well as having knowledge and understanding of pension matters at a degree appropriate for the purpose of them exercising their Pension Board functions. Where a Pension Board member has failed to attend training or demonstrate that they already have the required level of knowledge, it is possible that a breach of the law will have occurred by that Pension Board member.

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Administering Authority for
Tower Hamlets Pension Fund

Appendix 8
CONFLICTS OF INTEREST POLICY

June 2016

CONFLICTS OF INTEREST POLICY

Introduction

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy, such as this, how any such conflicts or potential conflicts are to be managed.

This is the Conflicts of Interest Policy of the Tower Hamlets Pension Fund, which is managed by London Borough of Tower Hamlets. The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Tower Hamlets Pension Fund whether directly or in an advisory capacity.

This Conflicts of Interest Policy is established to guide the Pensions Committee members, Pension Board members, officers and advisers. Along with other constitutional documents, including the various Codes of Conduct, it aims to ensure that those individuals do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

In relation to the governance of the Fund, the Administering Authority's objectives are to:

- Act in the best interests of the Fund’s members and employers
- Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies
- Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise
- Act with integrity and be accountable to stakeholders for all decisions, ensuring they are robust and well based
- Understand and monitor risk
- Strive to ensure compliance with the appropriate legislation and statutory guidance, and to act in the spirit of other relevant guidelines and best practice guidance
- Clearly articulate its objectives and how it intends to achieve those objectives through business planning, and continually measure and monitor success

The identification and management of potential and actual conflicts of interest is integral to the Administering Authority achieving its governance objectives.

To whom this Policy Applies

This Conflicts of Interest Policy applies to all members of the Pensions Committee and the Pension Board, including scheme member and employer representatives, whether voting members or not. It applies to all managers in the management of London Borough of Tower Hamlets Pension Fund, the Chief Finance Officer (Section 151 Officer), Corporate Directors, and the Service Heads (from here on in collectively referred to as the senior officers of the Fund).

The Pensions & Investments Manager will monitor potential conflicts for less senior officers involved in the daily management of the Pension Fund and highlight this Policy to them as he/she considers appropriate.

This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role, whether this is a management, advisory or assisting role.

The Policy also applies to all advisers and suppliers to the Fund, whether advising the Pension Board, Pensions Committee or Fund officers.

In this Policy, reference to advisers includes all advisers, suppliers and other parties providing advice and services to the Administering Authority in relation to pension fund matters. This includes but is not limited to actuaries, investment consultants, independent advisers, benefits consultants, third party administrators, fund managers, lawyers, custodians and AVC providers. Where an advisory appointment is with a firm rather than an individual, reference to "advisers" is to the lead adviser(s) responsible for the delivery of advice and services to the Administering Authority rather than the firm as a whole.

In accepting any role covered by this Policy, those individuals agree that they must:

- acknowledge any potential conflict of interest they may have;
- be open with the Administering Authority on any conflicts of interest they may have;
- adopt practical solutions to managing those conflicts; and
- plan ahead and agree with the Administering Authority how they will manage any conflicts of interest which arise in future.

The procedures outlined later in this Policy provide a framework for each individual to meet these requirements.

Legislative and related context

The overriding requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance. These are considered further below.

The Public Service Pensions Act 2013

Section 5 of this Act requires that the scheme manager (in the case of the LGPS, this is the administering authority) must be satisfied that a Pension Board member does not have a conflict of interest at the point of appointment and from time to time thereafter. It also requires Pension Board members (or nominated members) to provide reasonable information to the scheme manager for this purpose.

The Act defines a conflict of interest as “a financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).”

Further, the Act requires that scheme managers must have regard to any such guidance that the national scheme advisory board issue (see below).

The Local Government Pension Scheme Regulations 2013

Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act (as outlined above) to the LGPS, placing a duty on each Administering Authority to satisfy itself that Pension Board members do not have conflicts of interest on appointment or whilst they are members of the board. It also requires those pension board members to provide reasonable information to the administering authority in this regard.

Regulation 109 states that each Administering Authority must have regard to guidance issued by the Secretary of State in relation to Pension Boards. Further, regulation 110 provides that the national scheme advisory board has a function of providing advice to Administering Authorities and Pension Boards. At the point of writing this Policy, the shadow LGPS national scheme advisory board has issued guidance relating to the creation of Pension Boards including a section on conflicts of interest. It is expected that this guidance will be adopted by the scheme advisory board when it is created by statute and possibly also by the Secretary of State. This Conflicts of Interest Policy has been developed having regard to that guidance.

The Pensions Act 2004

The Public Service Pensions Act 2013 also added a number of provisions to the Pensions Act 2004 related to the governance of public service pension schemes and, in particular, conflicts of interest.

Section 90A requires the Pensions Regulator to issue a code of practice relating to conflicts of interest for pension board members. The Pensions Regulator has issued such a code and this Conflicts of Interest Policy has been developed having regard to that code.

Further, under section 13, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for Pension Board members are not being adhered to.

Local Government Act 2000

All members and co-opted members of the Tower Hamlets Pensions Committee are required by the Local Government Act 2000 to abide by Flintshire's Members' Code of Conduct. Part 3 of that Code contains provisions relating to personal interests, personal and prejudicial interests, their disclosure and limitations on members' participation where they have any such interest.

The Public Services Ombudsman for Wales' Ten Guiding Principles

The Local Government Act 2000 empowered the National Assembly to issue principles to which local authority elected members must have regard in undertaking their role as a member. These principles draw on the 7 Principles of Public Life which were set out in the Nolan Report "Standards of Conduct in Local Government in England, Scotland and Wales". Three more were added to these; a duty to uphold the law, proper stewardship of the Council's resources and equality and respect for others.

The current principles were set out in a statutory instrument and are detailed below. Many of the principles are integral to the successful implementation of this Policy.

CODE OF CONDUCT & CONFLICT OF INTEREST POLICY

1. **Code of conduct**

1.1 As members of a publicly funded body with a responsibility to discharge public business, members of the Tower Hamlets Pension Board should have the highest standards of conduct.

1.2 Pension Board members should have regard to the Seven Principles of Public life:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness
- Honesty
- Leadership

1.3 All Tower Hamlets Pension Board members must:

- Act solely in the public interest and should never improperly confer an advantage or disadvantage on any person or act to gain financial or other material benefits for yourself, your family, a friend or close associate.

- Not place yourself under a financial or other obligation to outside individuals or organisations that might seek to influence you in the performance of your official duties.

- Make all choices on merit and must be impartial and seen to be impartial, when carrying out your public duties.

- Co-operate fully with whatever scrutiny is appropriate to your role.

- Not, without proper authority, reveal any confidential and sensitive information that is provided to you, such as personal information about someone, or commercially sensitive information which, if disclosed, might harm the commercial interests of the Council or another person or organisation.

- Ensure when using or authorising the use by others of the resources of the authority that such resources are not used improperly for political purposes (including party political purposes) and you must have regard to any applicable Local Authority Code of Publicity made under the Local Government Act 1986.

- Promote and support high standards of conduct when serving in your public post, in particular as characterised by the above requirements, by leadership and example.

- Sign the Conflict of Interest Declaration and declare any further potential conflicts of interest that may arise once appointed as a member.

- Comply with the Tower Hamlets Pension Fund Code in addition to all other existing Codes of Conduct or Protocols (e.g. The Member Code of Conduct).

2. Conflict of interest

2.1 The Public Service Pensions Act 2013, Section 5(4) requires that any member of a Pension Board must not have a "conflict of interest", which is defined in Section 5(5) as a "financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board, but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme."

2.2 A conflict of interest exists where a decision on a matter might reasonably be regarded as affecting (to a greater extent than other persons who may be affected by the decision) the well-being or financial position of the Councillor, a relative or a friend or

- the employment or business carried out by those persons, or in which they might be investors (above a certain level),
- any of the bodies with which the decision maker is associated, and which decision maker will have registered in the appropriate register of interests.

It does not need to be shown that a conflict of interest actually exists. It is sufficient if it appears to a fair and informed observer that there was a real possibility of conflict.

2.3 Examples of potential conflicts of interest, not only for the Board but also for all those involved in managing the Pension Fund, are listed at appendix 1.

2.4 All prospective Pension Board members are required to complete the Tower Hamlets Pension Fund Conflict of interest declaration before they are appointed to the Pension Board, attached at appendix 2.

2.5 All appointments to the Pension Board should be kept under review by the Corporate Director, Resources.

2.5 It is the duty of any appointed Pension Board member to declare any potential conflict of interest. This declaration should be made to the Chair of the Pension Board in the first instance or to the Scheme Manager, and recorded in a register of interests.

2.7 The Pension Board shall identify and monitor any potential conflict of interests in a register of interests (attached at appendix 3). The register of interests should be circulated to the Tower Hamlets Pension Board and Scheme Manager for review and publication.

2.8 If the Pension Board suspects any conflict of interest it should report its concerns to the Scheme Manager.

2.9 When seeking to prevent a potential conflict of interest becoming detrimental to the conduct and decisions of the Pension Board, the Tower Hamlets Pension Board must consider obtaining legal advice when assessing its course of action and response. The Tower Hamlets Pension Board should consult the Monitoring Officer or the Service Head, Legal Services in the first instance.

2.10 Education on identifying and dealing with conflicts of interest will be included as part of the training requirement in the Knowledge and Understanding policy.

3. Operational procedure for officers, Pensions Committee members and Pension Board members

3.1 The following procedures must be followed by all individuals to whom this policy applies.

What is required	How this will be done
Step 1 - Initial identification of interests which do or could give rise to a conflict	On appointment to their role or on the commencement of this Policy if later, all individuals will be provided with a copy of this Policy and be required to complete a Declaration of Interest the same or similar to that included in Appendix 2. This is in addition to the requirement to register disclosable pecuniary interests and other registerable interests. The information contained in these declarations will be collated into the Pension Fund Register of conflicts of interest in a format the same or similar to that included in Appendix 3.
Step 2 - Ongoing notification and management of potential or actual conflicts of interest	At the commencement of any Pensions Committee, Pension Board or other formal meeting where pension fund matters are to be discussed, the Chairman will ask all those present who are covered by this Policy to declare any new potential conflicts. These will be recorded in the Fund's Register of conflicts of interest. In addition, the latest version of the Register will be made available by the Governance Officer to the Chairman of every meeting prior to that meeting. At Tower Hamlets Pensions Committee meetings there will also, at the start of the meeting, be an agenda item for Members to declare any interests under the Members' Code in relation to any items on that agenda. Any individual, who considers that they or another individual has a potential or actual conflict of interest, as defined by this Policy, which relates to an item of business at a meeting, must advise the Chairman and the Governance Officer prior to the meeting, where possible, or state this clearly at the meeting at the earliest possible opportunity. The Chairman, in consultation with the Officers, should then decide whether the conflicted or potentially conflicted individual needs to leave the meeting during the discussion on the relevant matter or to withdraw from voting on the matter. If such a conflict is identified outside of a meeting the notification must be made to the Governance Officer and where it relates to the business of any meeting, also to the Chairman of that meeting. The Officers, in consultation with the Chairman where relevant, will consider any necessary action to manage the potential or actual conflict. Where information relating to any potential or actual conflict has been provided, the Pensions & Investment Manager may seek such professional advice as he or she thinks fit (such as legal advice from the Monitoring Officer) on to how to address any identified conflicts. Any such potential or actual conflicts of interest and the action taken must be recorded on the Fund's Register of conflicts of interest.
Step 3 - Periodic review of potential and actual conflicts	At least once every 12 months, the Officers will provide to all individuals to whom this Policy applies a copy of the Fund's Register of conflicts of interest. All individuals will complete a new Declaration of Interest (see Appendix 2) confirming that their information contained in the Register is correct or highlighting any changes that need to be made to the declaration. Following this exercise, the updated Register will then be circulated by the Officers to all individuals to whom it relates.

4. Operational procedure for advisers

4.1 All of the key advisers are expected to have their own policies on how conflicts of interest will be managed in their relationships with their clients, and these should have been shared with London Borough of Tower Hamlets.

4.2 Although this Policy applies to all advisers, the operational procedures outlined in steps 1 and 3 above relating to completing ongoing declarations are not expected to apply to advisers. Instead all advisers must:

- be provided with a copy of this Policy on appointment and whenever it is updated
- adhere to the principles of this Policy
- provide, on request, information to the Pensions & Investments Manager in relation to how they will manage and monitor actual or potential conflicts of interests relating to the provision of advice or services to London Borough of Tower Hamlets
- notify the Pensions & investments Manager immediately should a potential or actual conflict of interest arise.

4.3 All potential or actual conflicts notified by advisers will be recorded in the Fund's Register of conflicts of interest.

4.4 London Borough of Tower Hamlets will encourage a culture of openness and transparency and will encourage individuals to be vigilant, have a clear understanding of their role and the circumstances in which they may have a conflict of interest, and of how potential conflicts should be managed.

4.5 London Borough of Tower Hamlets will evaluate the nature of any dual interests or responsibilities that are highlighted and assess the impact on pension fund operations and good governance were an actual conflict of interest to materialise.

4.6 Ways in which conflicts of interest may be managed include:

- the individual concerned abstaining from discussion, decision-making or providing advice relating to the relevant issue
- the individual being excluded from the meeting(s) and any related correspondence or material in connection with the relevant issue (for example, a report for a Pensions Committee meeting)
- a working group or sub-committee being established, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference permit this to happen)

4.7 Provided that the Administering Authority, (having taken any professional advice deemed to be required) is satisfied that the method of management is satisfactory, London Borough of Tower Hamlets shall endeavour to avoid the need for an individual to have to resign due to a conflict of interest. However, where the conflict is considered to be so fundamental that it cannot be effectively managed, or where a Pension Board member has an actual conflict of interest as defined in the Public Service Pensions Act 2013, the individual will be required to resign from the Committee, Board or appointment.

4.8 *Minor Gifts*
For the purposes of this Policy, gifts such as t-shirts, pens, trade show bags and other promotional items (subject to a notional maximum value of £10 per item and an overall maximum value of £20 from an individual company per event) obtained at events such as conferences, training events, seminars, and trade shows, that are offered equally to all members of the public attending the event do not need to be declared. Pensions Committee members should, however, be aware that they may be subject to lower limits and a separate notification procedure in the London Borough of Tower Hamlets Members' Code of Conduct.

5. Monitoring and Reporting

5.1 The Fund's Register of conflicts of interest may be viewed by any interested party at any point in time. It will be made available on request by the Governance Officer for the Fund. In addition, it will be published in the annual report and accounts

5.2 In order to identify whether the objectives of this Policy are being met the Administering Authority will:

- Review the Register of conflicts of interest on an annual basis and consider whether there have been any potential or actual conflicts of interest that were not declared at the earliest opportunity
- Provide its findings to the Administering Authority's Independent Adviser and ask him or her to include comment on the management of conflicts of interest in his or her annual report on the governance of the Fund each year.

6. Key Risks

6.1 The key risks to the delivery of this Policy are outlined below. All of these could result in an actual conflict of interest arising and not being properly managed. The Pensions & Investments Manager will monitor these and other key risks and consider how to respond to them.

- Insufficient training or poor understanding in relation to individuals' roles on pension fund matters

- Insufficient training or failure to communicate the requirements of this Policy
- Absence of the individual nominated to manage the operational aspects of this Policy and no one deputising, or failure of that individual to carry out the operational aspects in accordance with this Policy
- Failure by a chairperson to take appropriate action when a conflict is highlighted at a meeting.

7. Costs

7.1 All costs related to the operation and implementation of this Policy will be met directly by Tower Hamlets Pension Fund. However, no payments will be made to any individuals in relation to any time spent or expenses incurred in the disclosure or management of any potential or actual conflicts of interest under this Policy.

8. Approval, Review and Consultation

8.1 This Conflicts of Interest Policy is to be approved using delegated responsibilities on 30 June 2016. It will be formally reviewed and updated at least every three years or sooner if the conflict management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

Further Information

If you require further information about anything in or related to this Conflicts of Interest Policy, please contact:

Miriam Adams,
Tower Hamlets Pension Fund Manager,
London Borough of Tower Hamlets
E-mail – Miriam.adams@towerhamlets.gov.uk
Telephone – 020 7364 4248

Appendix 1

Examples of Potential Conflicts of Interest

a) An elected member on the Pension Committee is asked to provide views on a funding strategy which could result in an increase in the employer contributions required from the employer he or she represents.

b) A member of the Pension Committee is on the board of a Fund Manager that the Committee is considering appointing.

c) An officer of the Fund or member of the Pension Committee accepts a dinner invitation from a Fund Manager who has submitted a bid as part of a tender process.

d) An employer representative on the Pension Board is employed by a company to which the administering authority has outsourced its pension administration services and the Local Pension Board is reviewing the standards of service provided by that company.

e) The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.

f) An officer of the Fund is asked to provide guidance to the Local Pension Board on the background to an item considered at the Pension Committee. This could be a potential conflict as the officer could consciously or sub-consciously avoid providing full details, resulting in the Board not having full information and not being able to provide a complete view on the appropriateness or otherwise of that Pension Committee item.

g) The administering authority is considering buying its own payroll system for paying pensioners, rather than using the payroll system used for all employees of the Council. The Executive Director of Finance and Public Protection, who has responsibility for the Council budget, is expected to approve the report to go to the Pension Committee, which, if agreed, would result in a material reduction in the recharges to the Council from the Fund.

h) Officers of the Fund are asked to provide a report to the Pension Board or Pension Committee on whether the administration services should be outsourced which, if it were to happen, could result in a change of employer or job insecurity for the officers.

i) An employer representative employed by the administering authority and appointed to the Pension Board to represent employers generally could be conflicted if he or she only acts in the interests of the administering authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the pension board to represent the entire scheme membership could be conflicted if he or she only acts in the interests of their union and union membership, rather than all scheme members.

j) A Fund adviser is party to the development of a strategy which could result in additional work for their firm, for example, delegated consulting of fund monies or providing assistance with monitoring the covenant of employers.

k) An employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the Pension Committee or Local Pension Board. He or she has to consider whether to share this information in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pension Board.

Appendix 2

Declaration of Interests relating to the management of Tower Hamlets Pension Fund administered by London Borough of Tower Hamlets

Tick as appropriate

I, [insert full name], am:

- an officer involved in the management ☐
- Pensions Committee Member ☐
- Pension Board Member ☐

of Tower Hamlets Pension Fund and I set out below under the appropriate headings my interests, which I am required to declare under Tower Hamlets Pension Fund Conflicts of Interest Policy. I have put "none" where I have no such interests under any heading.

Responsibilities or other interests that could result in a conflict of interest (please list and continue overleaf if necessary):

A) Relating to me

B) Relating to family members or close colleagues

Undertaking:

I declare that I understand my responsibilities under the Tower Hamlets Pension Fund Conflicts of Interest Policy. I undertake to notify the Pensions & Investments Manager of any changes in the information set out above.

Signed ____Date _____________________

Name (CAPITAL LETTERS) ____

Appendix 3

Tower Hamlets Pension Fund - Register of Potential and Actual Conflicts of Interest

All reported conflicts of interest will be recorded in the minutes and a register of conflicts will be maintained and reviewed annually by London Borough of Tower Hamlets, the Administering Authority.

Date Identified	Name of Person	Role of Person	Details of conflict	Actual or potential conflict	How notified(1)	Action taken(2)	Follow up required	Date resolved

(1) E.g. verbal declaration at meeting, written conflicts declaration, etc.
(2) E.g. withdrawing from a decision making process, left meeting

The London Borough of Tower Hamlets Pension Fund
Appendix 9
Pension Administration Strategy Statement
April 2017

Introduction

This is the pension administration strategy of London Borough of Tower Hamlets Pension Fund (the Fund) in relation to the Local Government Pension Scheme (LGPS), which is administered by the London Borough of Tower Hamlets (the administering authority).

This document sets out a framework by way of outlining the policies and performance standards to be achieved when providing a cost-effective inclusive and high quality pensions administration service. The pension administration strategy is kept under review and revised to reflect changes to LGPS regulations and Fund policies. It has been developed following consultation with employers who participate in the Fund and schools who employ their own payroll providers.

The Fund comprises 17 employers and approximately 19,600 scheme members. The efficient delivery of the benefits of the LGPS is dependent on reliable administrative procedures being in place between the administering authority and scheme employers.

The effective date is 1st April 2017.

Any enquires in relation to the pension administration strategy should be sent to the Pensions & Investment, London Borough of Tower Hamlets at:

Pensions.LBTH@towerhamlets.gov.uk

This strategy when approved (and any significant amendments thereafter) will be sent to all scheme employers and the Secretary of State.

Regulatory context

The LGPS is a statutory scheme, established by an Act of Parliament and governed by regulations. The most recent of such regulations, appertaining to administration are the LGPS (Administration) Regulations 2014. Regulation 59(1) of the (Administration) Regulations 2014 covers the requirement for an administering authority to prepare a written statement of policies as it considers appropriate in the form of a Pensions Administration Strategy. This regulation outlines the primary matters which should be covered to include:

- administration standards
- performance measures
- communication with scheme employers

In addition, Regulation 70 of the (Administration) Regulations 2014 covers the ability of an administering authority to recover additional costs arising from scheme employers' level of performance. Furthermore, Regulation 71 of the same regulations allows the administering authority to apply interest on late payments by scheme employers.

The administering authority and scheme employers must have regard to the pension administration strategy when carrying out their functions under the LGPS Regulations

Aims

The aim of this pension administration strategy is to set out the quality and performance standards expected of the Fund, its scheme employers and payroll providers. It seeks to promote good working relationships and improve efficiency between the Fund, scheme employers and payroll providers.

The efficient delivery of the benefits of the scheme is reliant upon sound administrative procedures being in place between stakeholders, including the Fund and scheme employers. This administration strategy sets out the expected levels of performance of the Fund and the scheme employers, and provides details about the monitoring of performance levels and the action(s) that might be taken where persistent non-compliance occurs.

Implementation

The administration strategy is effective from 1 April 2017 and is kept under review and revised to keep abreast of changes in scheme and Fund regulations.

London Borough of Tower Hamlets Pension Administration

Responsibility

The London Borough of Tower Hamlets, as administering authority, is responsible for administering the Council's LGPS fund. The administering authority has delegated this responsibility to the Pensions Committee (the Committee). The Committee monitors the activity and performance of the administration function on a quarterly basis. The Committee will monitor and review this administration strategy on a regular basis.

Objective

The Fund's objective in relation to administration is to deliver an efficient and value for money service to its scheme employers and scheme members. Operationally, the administration of the Fund is carried out by staff employed by the administering authority.

Communications

The Fund has published a Communication Policy Statement, which details the way the Fund communicates with Committee, scheme members, prospective scheme members, scheme employers and other stakeholders. The latest version is accessible from the Fund website:

http://towernet/staff_services/hr_workforce_development/pensions/

Telephone: 020 7364 4251

Performance Standards

Administration of the LGPS is maintained at local level by a number of regional pension funds and, as such, certain decisions must be made by either the Fund or the scheme employer, in relation to the rights and entitlements of individual scheme members. In order to meet these obligations in a timely and accurate manner, and also to comply with overriding disclosure requirements, the Fund has service level agreements between itself and scheme employers which are set out below.

Overriding legislation

In carrying out their roles and responsibilities in relation to the administration of the LGPS, the Fund and scheme employers will, as a minimum, comply with overriding legislation.

Internal quality standards

The Fund and scheme employers will ensure that all functions and tasks are carried out to agreed quality standards. In this respect, the standards to be met are:

- information to be legible and accurate
- communications to be in a plain language style
- information provided to be checked for accuracy by an appropriately qualified member of staff
- information provided to be authorised by an appropriate officer
- actions carried out, or information provided, within the timescales set out in this Administration strategy

Punctuality

Overriding legislation dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the LGPS. The LGPS itself sets out a number of requirements for the Fund and scheme employers to provide information to each other, scheme members and prospective scheme members, dependants, other pension arrangements or other regulatory bodies. The following sections on responsibilities set out the locally agreed timescales for these requirements.

Fund Responsibilities

This section outlines the key responsibilities of the Fund and the performance standards scheme employers and scheme members should expect. It is focussed on the key activities which scheme employers and scheme members are involved in and should not be viewed as an exhaustive list.

Fund administration

This details the functions which relate to the whole Fund, rather than individual scheme members' benefits.

Ref	Function / Task	Performance Target
1	Publish and keep under review the pensions administration strategy.	Within three months of any changes being agreed with scheme employers.
2	Publish and keep up to date all forms required for completion by scheme members, prospective scheme members or scheme employers.	30 days from any revision. New employers to receive within three months of admission.
3	Host meetings for all scheme employers.	Twice per annum (usually June/July and November/December each year).
4	Organise coaching sessions for scheme employers.	Upon request from scheme employers or as required.
5	Provide bespoke meetings for scheme employers.	As required.
6	Notify scheme employers and scheme members of changes to the scheme rules	Within one month of the change(s) coming into effect.
7	Issue scheme member / employer bulletin.	At least once a year.

8	Notify a scheme employer of issues relating to the scheme employer's non-compliance with performance standards.	Within ten days of a performance issue becoming apparent.
9	Notify a scheme employer of decisions to recover additional costs associated with the scheme employer's poor performance (including any interest that may be due).	Within ten days of scheme employer failure to improve performance, as agreed.
10	Issue annual benefit statements to active and deferred members as at 31 March each year.	By 31 August following the year-end.
11	Issue formal valuation results (including individual employer details).	No later than 1 March following the valuation date.
12	Carry out valuation assessments on cessation of admission agreements or a scheme employer ceasing participation in the Fund.	Upon each cessation or occasion where a scheme employer ceases participation on the Fund.
13	New admission agreement, where required (including the allocation of assets and notification to the Secretary of State).	Within three months of agreement to set up provided prospective employer adheres to certain prescribed timescales
14	Publish, and keep under review, the Fund's governance compliance statement.	By 30 September, following the year-end as part of the Fund's annual report and accounts, or within 30 days of the policy being agreed by the Pensions Committee.
15	Publish, and keep under review the Fund's funding strategy statement	To be reviewed at each triennial valuation, following consultation with scheme employers and the Fund's actuary. Revised statement to be published by 31 March following valuation date or as required.
16	Publish the Fund's annual statement of accounts.	By 30 September following the year-end or following the issue of the auditor's opinion.
17	Publish the Fund's annual report	By 30 September following the year-end
18	Publish, and keep under review, the Fund's communication policy statement.	By 30 September, following the year-end, as part of the Fund's annual report and accounts, or within 30 days of the policy being agreed by the Pensions Committee.
19	Publish, and keep under review, the Fund's termination policy statement.	Within 30 days of any changes being made to the policy
20	Publish, and keep under review, the Fund's charging policy.	Within 30 days of any changes being made to the policy.

<u>Scheme administration</u>

This details the functions which relate to scheme member benefits from the LGPS.

Ref	Function / Task	Performance Target
21	Provide an answer or acknowledgement to scheme members/scheme employers/ personal representatives/ dependents and other authorised persons.	Five days from receipt of enquiry.

22	Set up a new starter and provide statutory notification to the member.	Twenty days from receipt of correctly completed starter form from a scheme employer.
23	Non-LGPS inward transfers processed.	Ten days of receipt of request from scheme member.
24	Non-LGPS transfer out quotations processed.	Ten days of receipt of request.
25	Non-LGPS transfer out payments processed.	Ten days of receipt of completed forms.
26	Internal and concurrent transfers processed.	Ten days of receipt of request.
27	Estimates for divorce purposes.	Ten days of receipt of request.
28	Notify the scheme employer of any scheme member's election to pay additional pension contributions, including all required information to enable deductions to commence.	Ten days of receipt of election from scheme member.
29	Process scheme member requests to pay/amend/ cease additional voluntary contributions.	Five days of receipt of request from scheme member.
30	Provide requested estimates of benefits to employees/employers including any additional fund costs in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency.	15 days from date of request. Note: bulk requests of more than 20 estimates per month will be subject to further agreement.
31	Deferred benefits calculated.	Fifteen days from receipt of all necessary information.
32	Deferred benefits processed for payment following receipt of election	Five days from receipt of all necessary information.
33	Refund payments	Five days from receipt of all necessary information.
34	Provision of new retirement letters detailing member options.	Fifteen days from receipt of all necessary information.
35	Payment of retirement benefits following receipt of election	Lump-sum payment within five days of receipt of all necessary documentation. First pension payment on next available payroll run.
36	Notification of death processed	Within ten days of receipt of all necessary documentation.
37	Calculate and pay death grant.	Within ten days of receipt of all necessary documentation.
38	Processing of dependants' pensions for payment.	Within ten days of receipt of all necessary documentation.
39	Calculate and pay transfer out payments to receiving fund and notify scheme member.	Ten days following receipt of election form from scheme member.
40	Provide payslips to scheme members in receipt of a pension.	Twice a year in paper format unless specifically requested, otherwise available online.
41	Process all stage 2 pension internal dispute resolution applications	Within two months of receipt of the application, or such longer time as is required to process the application where

		further information or clarification is required.
42	Answer all calls to pensions during office hours.	85%.
43	Answer calls to pensions in office hours at first point of contact.	95%.
44	Formulate and publish policies in relation to areas where the administering authority may exercise a discretion within the scheme and keep under review.	Any changes to be published within one month.

Scheme Employer Responsibilities

This section outlines the responsibilities of all scheme employers in the Fund and the performance standards scheme employers are expected to meet to enable the Fund to deliver an efficient, quality and value for money service. All information must be provided in the format prescribed by the Fund within the prescribed timescales.

Fund administration

This details the functions which relate to the whole Fund, rather than individual events.

45	Confirm a nominated representative to receive information from the Fund and to take responsibility for disseminating it within the organisation.	30 days of employer joining fund or change to nominated representative.
46	Formulate and publish policies in relation to all areas where the employer may exercise a discretion within the LGPS (including providing a copy of the policy document to the Fund).	To be kept under review and a revised statement published within one month of any changes.
47	Respond to enquiries from the Fund / Administering Authority.	Ten days from receipt of enquiry
48	Remit employer and employee contributions to the Fund and provide schedule of payments in the format stipulated by the Fund.	Schedules by the 19th calendar day of the month after deduction. Cleared funds to be received by 22nd calendar day of the month after deduction or 19th if by cheque.
49	Implement changes to employer contribution rates as instructed by the Fund.	At date specified on the actuarial advice received by the Fund.
50	Provide year-end information required by the Fund in the format stipulated in the instructions issued March each year.	By 30 April following the year-end.
51	To ensure optimum accuracy of year-end information	With no less than 98% accuracy across all members.
52	Distribute any information provided by the Fund to scheme members/potential scheme members	Within 10 days of its receipt.
53	Notify the Fund if contracting out services which will involve a TUPE transfer of staff to another organisation.	At the time of deciding to tender so that information can be provided to assist in the decision.

54	Work with the Fund to arrange for an admission agreement to be put in place when contracting out a service and assist in ensuring it is complied with.	Agreement to be in place no later than date of contract
55	Notify the Fund if the employer ceases to admit new scheme members or is considering terminating membership of the Fund.	As soon as the decision is made, so that the Fund can instruct the actuary to carry out calculations, if applicable.
56	Refer new/prospective scheme members to the Fund's website.	Ten days of commencement of employment or change in contractual conditions.
57	Make additional fund payments in relation to early payment of benefits from flexible retirement, redundancy or business efficiency retirement or where a member retires early with employer's consent.	Within 30 days of receipt of invoice from the Fund.
58	Make payment of additional costs to the Fund associated with non-compliance with performance standards of the scheme employer.	Within 30 days of receipt of invoice from the Fund.
59	All new prospective admitted bodies to undertake, to the satisfaction of the administering authority and the scheme employer, a risk assessment of the level of the bond required in order to protect other scheme employers.	To be completed before the body can be admitted to the Fund.
60	All admitted bodies to undertake a review of the level of the bond or indemnity required to protect the other scheme employers.	Annually, or such other period as may be agreed with the administering authority.

<u>Scheme administration</u>

This section details the functions which relate to scheme member benefits from the LGPS.

61	Use online forms or web portal for all relevant scheme administration tasks as required by the administering authority.	Within one month of employer being set up to use the online system.
62	Notify the Fund of new starters.	Six weeks of member joining or such shorter periods as required by auto-enrolment obligations under the Pensions Act 2008.
63	Arrange for the correct deduction of employee contributions from a member's pensionable pay.	Immediately on joining the scheme, opting in or out or change in circumstances.
64	Ensure correct employee contribution rate is applied.	Immediately upon commencing scheme membership and in line with the employer's policy and as a minimum in each April payroll thereafter.
65	Ensure correct deduction of pension contributions during any period of child related leave, strike absence or other forms of leave or absence from duty.	Immediately, following receipt of election from scheme member to make the necessary pension contributions

66	Commence deduction of additional regular contributions or amend such deductions, as appropriate.	Month following election to pay contributions or notification received from the Fund.
67	Cease deduction of additional regular contributions.	Immediately following receipt of election from scheme member.
68	Arrange for the deduction of AVCs and payment over of contributions to AVC provider(s).	Commence deduction of AVCs in month following the month of election. Pay over contributions to the AVC provider(s) by the 22nd of the month following the month of election or 19th if by cheque.
69	Provide the Fund with details of all changes to members' working hours using the method stipulated by the Fund.	Six weeks of change for protected members only.
70	Notify the Fund of other material changes in employees' circumstances (e.g., marital or civil partnership status) using the method stipulated by the Fund.	Immediately, following notification by the scheme member of a change in circumstances
71	Notify the Fund of leaves of absence with permission (maternity, paternity, career break, etc) using the method stipulated by the Fund.	Within 20 days of notice from employee for protected members only.
72	Notify the Fund when a member leaves employment including an accurate assessment of final pay using the method stipulated by the Fund.	Six weeks of month end of leaving where payroll service not provided by the London Borough of Tower Hamlets.
73	Notify the Fund when a member is due to retire including an accurate assessment of final pay and authorisation of reason for retirement using the method stipulated by the Fund.	At least one month before retirement date.
74	Notify the Fund of the death of a scheme member using the method stipulated by the Fund.	As soon as practicable, but within ten days.
75	Appoint person for stage 1 of the pension dispute process and provide full details to the Fund	Within 30 days of becoming a scheme employer or following the resignation of the current adjudicator.
76	Review 3rd tier ill-health retirement cases.	Notify administering authority immediately a member retired with a third tier ill-health benefits returns to paid employment or outcome of the 18 month review, whichever is earlier.

Monitoring Performance and Compliance

Ensuring compliance with the LGPS regulations and this administration strategy is the responsibility of the Fund and scheme employers. This section describes the ways in which performance and compliance will be monitored.

Audit

The Fund is subject to an annual external audit of the accounts by extension the processes employed in calculating the figures for the accounts. The key findings of their work are presented to the Pension Committee in an annual report, and the Committee / Administering Authority is provided with an action plan of recommendations to implement. In addition the Fund is subject to internal audits by the LB Tower Hamlets internal auditors of its processes and internal controls. Any subsequent recommendations made are considered by the Fund and, where appropriate, duly implemented.

Both the Administering Authority and Scheme Employers will be expected to comply with requests for information from internal and external audit in a timely manner.

Performance monitoring

The Fund monitors its performance utilising its own internal key performance indicators. Monitoring occurs on a monthly basis and the key performance indicators are reported to Committee via a quarterly report on administration of the Fund allowing them to monitor the performance of the Fund's in-house staff. A high level overview of performance is provided to Committee on an annual basis. The performance of Scheme Employers against the standards set out in this document will be incorporated into the reporting to the Committee, as appropriate, to include data quality.

Feedback from employers

Employers who wish to provide feedback on the performance of the Fund against the standards in this administration strategy should email comments to Pensions.LBTH@towerhamlets.gov.uk This feedback will be incorporated into the quarterly reports to the Committee.

Annual report on the strategy

The scheme regulations require the Fund to undertake a formal review of performance against the administration strategy on an annual basis. This report will be produced annually and incorporated within the annual report and accounts.

Policy on Charging Employers for Poor Performance

The scheme regulations provide pension funds with the ability to recover from a scheme employer any additional costs associated with the administration of the scheme incurred as a result of the poor level of performance of that scheme employer. Where a fund wishes to recover any such additional costs, they must give written notice stating:

- the reasons in their opinion that the scheme employer's poor performance contributed to the additional cost
- the amount of the additional cost incurred
- the basis on how the additional cost was calculated
- the provisions of the administration strategy relevant to the decision to give notice.

Circumstances where costs might be recovered

It is the policy of the Fund to recover additional costs incurred in the administration of the scheme as a direct result of the poor performance of any scheme employer (including the administering authority). The circumstances where such additional costs will be recovered from the scheme employer are:

- failure to provide relevant information to the Fund, scheme member or other interested party in accordance with specified performance targets in this administration strategy (either as a result of punctuality of delivery or quality of information)
- failure to pass relevant information to the scheme member or potential members, either due to poor quality of information or not meeting the agreed timescales outlined in the performance targets in this administration strategy
- failure to deduct and pay over correct employee and employer contributions to the Fund within the stated timescales
- instances where the performance of the scheme employer results in fines being levied against the Fund by the Pension Regulator, Pensions Ombudsman or other regulatory body.

Approach to be taken by the Fund

The Fund will seek, at the earliest opportunity, to work closely with scheme employers in identifying any areas of poor performance, provide the necessary support or training and put in place appropriate processes to improve the level of service delivery in the future. Therefore, scheme employers will be afforded the time to address the causes of non-compliance with performance standards in order that they do not become persistent, before any fines are levied. Employers should be aware that in the case of late payment of contributions and non-submission of monthly contribution forms, penalties will be incurred for persistent instances of non-compliance with performance standards.

The process for engagement with scheme employers will be as follows:

1) Write to the scheme employer, setting out area(s) of non-compliance with performance standards and offer support and, where applicable, further training.

2) If no improvement is seen within one month of the support or training or no response is received to the initial letter, the scheme employer will be asked to attend a conference call/meeting with representatives of the Fund to discuss area(s) of non-compliance with performance standards and to agree an action plan to address them. Where appropriate, the originating employer will be informed and expected to work with the Fund to resolve the issues.

3) If no improvement is seen within one month or a scheme employer is unwilling to attend a meeting to resolve the issue, the Fund will issue a formal written notice, setting out the area(s) of non-compliance with performance standards that have been identified, the steps taken to resolve those area(s) and notice that the additional costs will now be reclaimed.

4) An invoice will then be issued to the scheme employer clearly setting out the calculations of any loss resulting to the Fund, or additional cost, taking account of time and resources in resolving the specific area(s) of poor performance, in accordance with the charging scale set out in this document.

A report will be presented to the quarterly Committee meeting detailing charges levied against scheme employers and outstanding payments.

Charging scales for administration

The table below sets out the charges which the Fund will levy on a scheme employer whose performance falls short of the standards set out in this document. Each item is referenced to the 'Scheme Employer Responsibilities' section.

Item	Charge	Ref
Late payment of employee and employer contributions	£50 plus interest*	48
Non-provision of the correct schedule accompanying the contributions	£50 per occasion.	48
Underpayment of employee or employer contributions.	£50 plus interest*	49, 63, 64.
Late or non-provision of year-end information or the poor quality of year-end information.	£250 plus £100 for every month the information is late.	50
Failure to use the notified process to provide member amendment and earnings information to the administration authority.	Recharge of the additional costs incurred by the administering authority.	60
Late or non-provision of starter forms.	£100 per month for forms not received or late.	62
Late or non-provision leaver forms.	£100 per month for forms not received or late.	72, 73, 74.

*Interest will be charged in accordance with Regulation 44 of the LGPS administration regulations, which states interest should be charged at Bank of England base rate plus one per cent.

Service and Communication Improvement Planning

As set out earlier in this administration strategy, the Fund's objective in relation to administration is to deliver an efficient, quality and value for money service to its scheme employers and scheme members. This can only be achieved through continuously reviewing and improving the service. Communication between the Fund and scheme employers is key to providing the service and is, therefore, an important aspect of service improvement planning.

The Fund's staffs work together on a programme of continuous improvement to the service and meet quarterly to review progress against the action plan agreed.

The monitoring of the performance standards set out in this document will inform the programme going forward, and feedback from scheme employers on the service and the way in which the Fund communicates is welcomed in developing plans. Feedback should be emailed to Pensions.LBTH@towerhamlets.gov.uk

The Fund will take responsibility for improving the service and determining the balance between implementing service improvements and the goal of providing a value for money service for the Fund.

Employers will be informed of any changes to the service provision which affect the way they interact with the Fund through the monthly briefing note.

Consultation and Review Process

In preparing this administration strategy, the Fund will place it upon its website and open up consultation with scheme employers with a closing date of 28 February 2017. The strategy will be reviewed every year and more frequently if there are changes to the scheme regulations or Fund policies. All scheme employers will be consulted before any changes are made to this document.

The latest version of this document can be accessed from the Fund website at:
http://towernet/staff_services/hr_workforce_development/pensions/

TOWER HAMLETS

LONDON BOROUGH OF TOWER HAMLETS

Administering Authority for
Tower Hamlets Pension Fund

Appendix 10

RISK POLICY

RISK POLICY

Introduction

This is the Risk Policy of the Tower Hamlets Pension Fund, which is managed and administered by London Borough of Tower Hamlets. The Policy details the risk management strategy for the Tower Hamlets Pension Fund, including

- the risk philosophy for the management of the Fund, and attitudes to, and appetite for risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the risk management process.

London Borough of Tower Hamlets ("we") recognise that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, we can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

We adopt best practice risk management, which will support a structured and focused approach to managing risks, ensuring risk management is an integral part in the governance of the Tower Hamlets Pension Fund at a strategic and operational level.

To whom this Policy Applies

This Risk Policy applies to all members of the Pensions Committee and the Pensions Board, including scheme member and employer representatives. It also applies to the Head of Pensions & Treasury and managers in the Pensions and Treasury Team who have responsibility for pension matters, the Corporate Director Resources (S151 Officer) and Director of Finance, Procurement & Audit (Deputy S151 Officer) (from here on in collectively referred to as the senior officers of the Fund).

Junior managers and all officers involved in the daily management of the Pension Fund are also integral to managing risk for the Tower Hamlets Pension Fund and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Head of Pensions & Treasury his/her team.

Advisers to the Tower Hamlets Pension Fund are also expected to be aware of this Policy, and assist senior officers, Committee members and Board members as required, in meeting the objectives of this Policy.

Aims and Objectives

We recognise the significance of our role as Administering Authority to the Tower Hamlets Pension Fund on behalf of its stakeholders which include:

- around 22,000 current and former members of the Fund, and their dependants;
- around 43 employers; and
- the local taxpayers.

Our Fund's Mission Statement is:

- We will be known as forward thinking, responsive, proactive and professional providing excellent customer focused, reputable and credible service to all our customers.
- We will have instilled a corporate culture of risk awareness, financial governance, and will be providing the highest quality, distinctive services within our resources.
- We will work effectively with partners, being solution focused with a can-do approach.

One of our key governance objectives is to understand and monitor risk. In doing so, we will aim to:
- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Pension Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Tower Hamlets Pension Fund we will aim to comply with:
- the CIPFA Managing Risk publication
- Scheme Advisory Board Good Governance Working Group recommendations
- the managing risk elements in the CIPFA Investment Pooling Governance Principles guidance and
- the managing risk elements of the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes.

Our Philosophy about Risk Management

We recognise that it is not possible or even desirable, to eliminate all risks. Accepting and actively managing risk is therefore a key part of our risk management strategy for the Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund’s objectives in the light of our risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, we will:
- ensure that there is a proper balance between risk taking and the opportunities to be gained;
- adopt a system that will enable us to anticipate and respond positively to change;
- minimise loss and damage to the Tower Hamlets Pension Fund and London Borough of Tower Hamlets Council as the Administering Authority, and to other stakeholders who are dependent on the benefits and services provided;
- make sure that when we embark upon new areas of activity (new investment strategies, joint-working, framework agreements etc), the risks they present are fully understood and considered in making decisions.

We also recognise that risk management is not an end in itself; nor will it remove risk from the Fund or us as the Administering Authority. However, it is a sound management technique that is an essential part of how we manage the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

CIPFA and the Pensions Regulator Requirements

CIPFA Managing Risk Publication
CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities
CIPFA has published guidance on investment pooling and the number of different risks this introduces for LGPS administering authorities. It also highlights how investment pooling potentially changes the magnitude of existing risks and how administering authorities might respond to them through appropriate internal controls.

The Pension Regulator's Code of Practice
The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 related to the requirement to have internal controls in public service pension schemes.

> *“**249B Requirement for internal controls: public service pension schemes***
> *(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—*
> *(a) in accordance with the scheme rules, and*
> *(b) in accordance with the requirements of the law.*
> *(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.*
> *(3) In this section, “enactment” and “internal controls” have the same meanings as in section 249A.”*

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code which encourages scheme managers to employ a risk based approach to assess the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator’s code of practice guidance on internal controls requires scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The Pension Board reviews the risk register quarterly and Policy while the Risk Policy is reviewed annually. The risk assessment should begin by:

- setting the objectives of the scheme;

- determining the various functions and activities carried out in the running of the scheme; and
- identifying the main risks associated with those objectives, functions and activities.

Schemes should then consider the likelihood of risks arising and the effect if they do arise as well as what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them

The code states risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that scheme should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

Application to the Tower Hamlets Pension Fund

We adopt the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to Tower Hamlets Pension Fund, and this Risk Policy highlights how we will strive to achieve those principles through use of risk management processes incorporating regular monitoring and reporting.

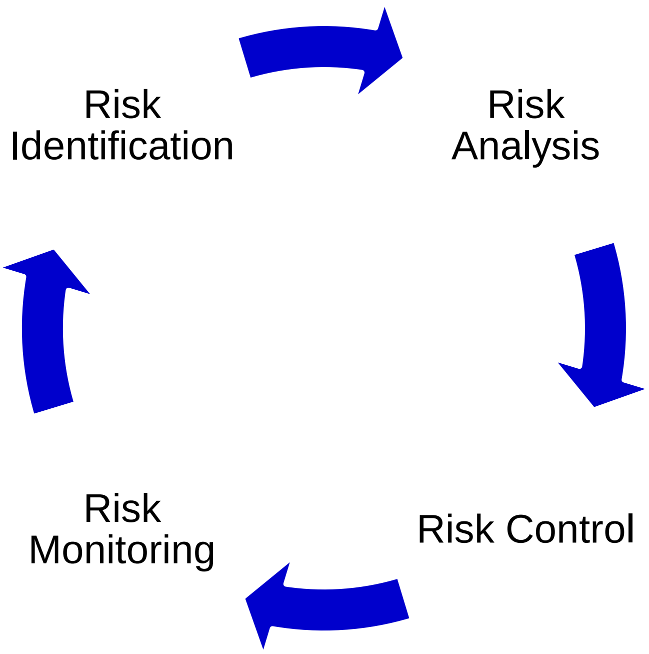
Responsibility

As the Administering Authority for the Tower Hamlets Pension Fund, we must be satisfied that risks are appropriately managed. For this purpose, the Head of Pensions & Treasury is the designated individual for ensuring the process outlined below is carried out subject to the oversight of the Pensions Committee.

However, it is the responsibility of everyone covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

The Tower Hamlets Pension Fund Risk Management Process

Our risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections.



Risk identification and Likelihood and Impact Explanations

Our risk identification process is based on how the Tower Hamlets Council evaluation system incorporated in its Risk Management Strategy - proactive and reactive one, looking forward i.e. horizon scanning for potential risks and looking back, by learning lessons from reviewing how existing controls have manifested in risks to the organisation.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises;
- performance measurement against agreed objectives;
- monitoring against the Fund's work and business plan;
- change in legislation;
- LGPS Scheme Advisory Board Guidance and good practice;
- findings of internal and external audit and other adviser reports;
- feedback from the Pensions Board, employers and other stakeholders;
- informal meetings of senior officers or other staff involved in the management of the Pension Fund; and
- liaison with other organisations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

Risk analysis

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed against the following where the score for likelihood will be multiplied by the score for impact to determine the current risk rating.

Impact (consequences)	**Insignificant**	Low	Low	Low	Low	Low
	Minor	Medium	Medium	Low	Low	Low
	Moderate	High	Medium	Medium	Low	Low
	Major	High	High	Medium	Medium	Low
	Catastrophic	High	High	High	Medium	Low
		Almost certain > 80%	**Likely 51% - 80%**	**Possible 21% - 50%**	**Unlikely 6% - 20%**	**Rare < 6%**
		Likelihood (probability) of risk happening				

Tower Hamlets Council's interpretation of risk exposure

Level of risk	Level of concern	Action required
High	Very concerned	Action is required immediately
Medium	Concerned	Action is required within three months
Green	Content	The Council is willing to accept this level of risk

When considering the risk rating, we will have regard to the existing controls in place and these will be summarised on the risk register.

Risk control

The risk register will also show what we consider to be the target risk score for each of the risks shown. This will help us determine whether any further action is required to control the risk which in turn may reduce the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can proceed, it may require Pensions Committee approval where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- Risk elimination – for example, ceasing an activity or course of action that would give rise to the risk.
- Risk reduction – for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.
- Risk transfer – for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action. Where necessary we will update the Fund's work and business plan in relation to any agreed action as a result of an identified risk.

Risk monitoring

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Pensions Committee. In monitoring risk management activity, we will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- there are any lessons to learn for the future assessment and management of risks.

London Borough of Tower Hamlets Risk Appetite Chart

Risk Appetite chart	FINANCE / COMMERCIAL	COMPLIANCE	SAFETY	SERVICE DELIVERY	REPUTATION
AVERSE (safe / v low level exposure / very low reward / no empowerment beyond senior staff)	Minor loss < £1000 (In pursuit of progressive, dynamic and effective services, most areas could tolerate this loss)	Trivial, v short term single non-compliance. In pursuit of an overall objective, this could usually be tolerated.	Insignificant Injury (no intervention) – CYPS maintain this approach.	Negligible impact, unnoticed by stakeholders – clearly this is accepted.	Insignificant damage (eg – vague online negativity) - can be tolerated.
CAUTIOUS (guarded, low reward, empowerment just to Senior / middle managers.)	Small loss £1000 - £10,000 (eg – services like Treasury, Revenues & Benefits / Cashiers will not tolerate such losses so very little appetite here in this respect. But accepted in other areas)	Small, single, short-term non-compliance. (eg Elections Services cannot afford non-compliances so have very cautious approach). Other services could be more flexible	Minor Injury (Local intervention)Adult Social Care would need to be cautious	Small impact inconvenience (usually acceptable – if managed properly – in a project.)	Minor / v short term damage (Negative coverage from local media) – tolerable if backing a justified position.

MODERATE (balanced approach / medium reward / empowerment to frontline managers.)	Moderate loss £10,000 - £100,000 (Depending on a service, this could be countenanced in the context of a high level complex project, pensions strategy.)	Sustained single or a few short term non compliances. (this could be tolerated in pursuit of the greater good – eg printing free paper / allowing flexibility within housing / events etc)	Moderate Injury (professional intervention) – this falls outside tolerance / appetite.	Medium level impact &inconvenience (Sometimes acceptable – if managed properly – in a project / programme)	Moderate or short to medium term damage – (damaging coverage London-wide) – if the Council are clear in a position, it is right to defend.
OPEN (creative, higher exposure & empowerment to wide selection of staff)	Significant loss £100,000 - £1,000,000 (The delivery of the overall capital programme / investment strategy permits appetite for this possibility – albeit with many layered controls and mitigations)	Multiple sustained non – compliances. This would not be an expected approach and would be very difficult to ever justify.	Major Injury (hospital stay) – a risk like this could not be pursued.	Significant impact / serious inconvenience – could only be accepted in exceptional circumstances.	Major / medium term damage (negative national exposure). Unlikely to be tolerable – unless exceptional circumstances.
HUNGRY (pioneering / substantial risk exposure & reward / empowerment to all with few controls)	Substantial loss - >£1,000,000. This is not an amount the Council would be comfortable in actively allowing in pursuit of objectives.	Multiple, long-term, significant non compliances. (This hungry appetite in compliance is just not conceivable in Local Government.)	Fatal injury – this will obviously be out of the tolerance of our organisation.	Substantial / complete service failure. Not tolerable.	Substantial or sustained damage. (International coverage). Not within appetite.

Criteria for assessing current and future risk exposure

Symbol	Description
☺	The current impact and likelihood of the risk are equal to, or less than, the target impact and likelihood.
😐	The current impact and likelihood of the risk are individually no more than 2 classifications higher than the target, and the combined difference is no more than 3 classifications higher than the target.
☹	The current impact and likelihood of the risk are individually more than 2 classifications higher than the target, and/or the combined difference is more than 3 classifications higher than the target.

Reporting

Progress in managing risks will be monitored and recorded on the risk register and key information will be provided on a quarterly basis to the Tower Hamlets Pensions Committee and the Pensions Board as part of the regular update reports on governance, investments and funding, and administration and communications. This reporting information will include:

- a summary of the Fund's key risks;
- a summary of any new risks or risks that have changed;
- a summary of risks that have been removed since the previous report; and
- a summary of any changes to the previously agreed actions.

Monitoring of this Policy

In order to identify whether we are meeting the objectives of this policy the Fund will commission periodic Independent Governance review as recommended by the Scheme Advisory Board working group to provide an annual report on the governance of the Fund each year, a key part of which will focus on the delivery of the requirements of this Policy

Key risks to the effective delivery of this Policy

The key risks to the delivery of this Policy are outlined below. The Pensions Committee members, , will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pensions Committee and/or Pensions Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources being available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.
- Conflicts of interest or other factors leading to a failure to identify or assess risks

appropriately

Costs

All costs relating to the operation and implementation of this Risk Policy are met directly by the Tower Hamlets Pension Fund.

Approval, Review and Consultation

This Risk Policy was 25 November 2021 Pensions Committee meeting for approval. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

Further Information

If you require further information about anything in or related to this Risk Policy, please contact:
Miriam Adams – Interim Head of Pensions & Treasury
London Borough of Tower Hamlets
E-mail - Miriam.Adams@towerhamlets.gov.uk
Telephone – 020 7364 4248

TOWER HAMLETS

LONDON BOROUGH OF TOWER HAMLETS

Administering Authority for
Tower Hamlets Pension Fund

APPENDIX 11

PENSIONS BOARD
ANNUAL REPORT FOR 2020/21

ANNUAL REPORT OF THE PENSIONS BOARD 2020-21

Purpose of the Report
To provide an update on the work undertaken by the Local Pensions Board during 2020-2021 and to meet the legislative requirement to produce an annual report.

Constitution, Representation Meetings and Attendance
The Board was constituted under the Public Service Pensions Act 2013 and held its first meeting on the 28 July 2015 before the recommended Scheme Advisory Board (SAB) deadline of 31 July 2015.
The Board consists of three representatives of the scheme employers, three representing of the scheme members and an Independent Chair.

Membership

Tower Hamlets Pension Board Membership 2020 /21

Member Representatives	Designation	Employer Representatives	Designation
David Thompson	Pensioners Representative	*Cllr Asma Islam/ Cllr Abdal Ullah	Member Representative
John Gray	Admitted Bodies Representative	Roger Jones / *Steve Hill	Administering Authority Representative
Nneka Oroge	Active Members Representative	Annette McKenna	Admitted Bodies Representative

*Left during 20/21

The Independent Chair of the Board is John Jones.

The Corporate Director, Resources wishes to thank the Board members for their work over the last year.

Functions and Operation of the Board
The two primary functions of a Local Pension Board are to assist the Administering Authority to:
- Ensure effective and efficient governance and administration of the LGPS
- Ensure compliance with relevant laws and regulation

It therefore has a monitor/assist /review purpose, rather than being a decision making body. It could be seen as being a critical friend. As such, the general approach of the Board is to seek assurances with evidence from the Fund that it is meeting its objectives set out above.
The Board is not a Committee of the Council, but is established under the Public Service Pensions Act 2013. The Board operates under Terms of Reference which were approved at inception.

The Board recognises the need to prioritise and differentiates in its agenda between items for detailed discussion, and those for awareness or noting, and prioritises its time budget accordingly.

Costs
There is a financial budget for the Board of £12.5k. The costs of running the Board are borne by the Pension Fund as part of its overall budget. The costs have in fact minimal as forming and running the board have been incorporated within existing workloads.

Detailed Work of the Board by the Independent Chair:

1. This is my fifth annual report as Chair of the Tower Hamlets Pension Board since my appointment in January 2016. The Board was set up with effect from April 2015 under new arrangements for the governance of Local Authority Pension Funds. The purpose of the Board to assist Tower Hamlets Council (as the scheme manager) in the management of the Local Authority Pension Scheme (LGPS), and to provide oversight and challenge. The terms of reference for the Board were set out and agreed by Tower Hamlets Council prior to the establishment of the Board. These terms of reference are available on the Fund website.

2. The Board is comprised of 3 employee and 3 employer representatives together with an Independent Chair. This is line with the regulations requiring equal employee and employer representation. Details of the members of the Board are shown in the appendix to this report. The Board is not a decision making body and can only provide advice and comment on the management of the LGPS by Tower Hamlets Council. For this arrangement to be successful it is important that the Board carries out its responsibilities in a positive and constructive way.

3. 2020/21 was an exceptional year with the impact of the Covid pandemic and the consequential disruption to the normal working arrangements. The Board did, however, continue to meet albeit on a virtual basis rather than in person. I would like to place on record my thanks to Board members and Council officers for their support and engagement during this very difficult year. Three meetings were held during 2020/21 in July and October 2020 and then again in March 2021. There have been full agendas for the meetings and the issues discussed during the year included:

    - The development of an annual work plan for the Board.
    - Briefings and discussion on the performance of the pension administration service
    - Consideration of Voting and Engagement by the Fund's Investment managers and London CIV.
    - Review of the Fund's policies on Contribution Deferral, Employer Exit, and Internal Dispute Resolution.
    - Review of the Fund's risk register at each Board meeting
    - Review of compliance with the Pensions Regulator's Code of practice
    - Consideration of developments affecting the LGPS including progress with the McCloud judgement.

- Review of the Fund's draft annual accounts and Audit management issues affecting the Fund
- Consideration and discussion on the Fund's Investment Strategy Statement.

4. The main area of concern for the Board during the year continues to be the performance of the pensions administration team. For some time, I have been highlighting the Board's concern over the quality of monitoring information and the resources available to deliver the service. During the year it became clear that progress is being made in recruiting staff to work on the backlog of work. However, the Board were concerned that the new staffing structure was not being implemented quickly enough and this needs to be accelerated. On a positive note the Council's Internal Auditor reported that much good practice is in place and improvements are being made. The Auditor will be reporting again to the Board in 2021/22 on progress being made to implement previous audit recommendations. The Board continues to monitor performance and the action being taken at each Board meeting.

5. The Pensions Regulator has identified data quality and record keeping as a key area of performance as it impacts directly on member benefits. Because of the seriousness of the problems in the pensions administration team, it was necessary for the Council to send a report to the Regulator highlighting the issues and setting out an action plan to resolve the situation. This is a high priority for action during 2020/21.

6. There were some membership changes on the Board during the year. Councillor Abdal Ullah joined the Board in October 2020 replacing Cllr Asma Islam as a representative for Pension Fund employers. Steve Hill also stood down from the Board in July 2020 after being a Board member since inception. I would like to record my thanks to both Cllr Islam and Steve Hill for their contributions to the work of the Board. Attendance over the 3 meetings reduced slightly to 76% compared with 82% in the previous year. Nonetheless the Boards attendance remains high as the Board continues to focus on the key issues affecting the Fund and its beneficiaries. The detailed attendance information is set out in the appendix to this report.

7. At the end of March 2021, the Tower Hamlets Pension Fund had total assets of £1.956 billion and a membership of 21,921 comprising pensioners, deferred pensioners and current contributors. With a funding level of c 102 % the Fund is in a strong financial position, representing a significant improvement over recent years.

8. In my role as Chair I am invited to attend the Council's Pension Committee to present and report on behalf of the Board to the Pensions Committee on Governance matters, and on issues arising from our consideration of policy and

administration reports. From my perspective this arrangement works very well: it helps to ensure that the Board's views are considered by the Pensions Committee and strengthens the overall governance of the Fund.

9. The management of Pension Fund Investment and administration has become ever more complex, and a structured programme of training and development for individual members, and the Board collectively, is necessary in order that the Board can discharge its responsibilities. The Pensions Regulator also continues to emphasise the importance of training and development. With this in mind, the Board has received a training sessions at each meeting over the past year as follows:

   - A presentation from Goldman Sachs on ESG and impact investing.
   - Proposals from Hymans Robertson for training and development of Board members.
   - A presentation and training session from Aon on developing an investment strategy and Investment Strategy Statement for the Fund.

   Training and development for Members of the Pensions Committee and Board is an essential support to good governance. Members also undertake training and development on an individual basis outside of Board meetings and this is recorded by Council officers as part of an overall register of training undertaken.

10. Most of the Tower Hamlets Fund's assets are now managed on a pooled basis and are invested through the London collective investment vehicle (CIV) rather than being managed directly. Approximately 70% of the Tower Hamlets Fund is now invested collectively, one of the highest percentages across the London Boroughs. One issue identified during the investment training session was the importance of the future arrangements for performance monitoring of investments held by the CIV. The Board will be receiving a presentation from the CIV on performance monitoring and other developments in June 2021 and will continue to monitor the CIV working alongside the Council to help deliver the best outcome for the Fund and its beneficiaries.

John Jones

Independent Chair

May 2021

MEMBERS OF THE TOWER HAMLETS PENSION BOARD

Independent Chair: John Jones

Vice-Chair: David Stephen Thompson

John Gray: Admitted Bodies Representative for Active Fund Members

Roger Jones: Representing Pension Fund Employers

Nneka Oroge: Active Fund Members representative

Annette McKenna: Representing Admitted Bodies Employers

Councillor Abdul Ullah: Representing Pension Fund Employers

Substitutes

Michael Alderson: Representing Pension Fund Employers

BOARD MEMBER ATTENDANCE 2020-21

	21 July 2020	13th October 2020		22th March 2020
John Jones	✓	✓		✓
David Thompson	✓	x		✓
Nneke Oroge	✓	x		x
John Gray	✓	x		✓
Steve Hill/Roger Jones	x	✓		✓
Annette McKenna	✓	✓		✓
Cllr. Asma Islam/ Cllr.Abdul Ullah	✓	✓		x