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| <p>Non-Executive Report of the:</p> <p>Pensions Committee</p> <p>Monday, 20 November 2023</p> |  |
| <p>Report of: Julie Lorraine, Corporate Director Resources</p> | <p>Classification: Open</p> |
| <p>Funding Update 21 June 2023</p> | |

Executive Summary

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

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

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

The funding level is only a snapshot in time based on a single set of assumptions about the future and is therefore sensitive to the choice of assumptions, in particular the expected future investment return assumption.

Based on the Fund targeting an annual future investment return which has a 92% likelihood of being achieved on an ongoing basis, the past service funding position has improved from being 123% funded (surplus of £37m) to being 155% funded (surplus of £70m). The improvement has been largely driven by strong investment performance since 31 March 2022.

Recommendations:

The Pensions Board is recommended to:

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

1. **REASONS FOR THE DECISIONS**

- 1.1 Tower Hamlets Council as the Fund's administering authority recognises that effective risk management is an essential part of good governance.
- 1.2 The purpose of the valuation is to review the current funding strategy and ensure that the Fund has a contribution plan and investment strategy in place that will enable it to pay members' benefits as they fall due. This report is for noting.

2. **ALTERNATIVE OPTIONS**

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

3. **DETAILS OF THE REPORT**

- 3.1 Since the 2022 triennial valuation, this report considers the funding position on 21 June 2023:
 - The past service funding position has improved from a surplus of a £37m (123% funded) to £70m (155% funded). This funding position is based on the Fund targeting an annual future investment return which has a 92% likelihood of being achieved.
 - The future investment return required to be notionally fully funded has remain at 3.4% p.a. The likelihood of the Fund's assets achieving this required level of return has increased from 78% to 92%.

Investment returns since the valuation at 31 March 2022

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

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

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

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

4. EQUALITIES IMPLICATIONS

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

5. OTHER STATUTORY IMPLICATIONS

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

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

Risk Management

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

6. COMMENTS OF THE CHIEF FINANCE OFFICER

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

7. COMMENTS OF LEGAL SERVICES

- 7.1 The Constitution delegates to the Pensions Committee the function of setting the overall strategic objectives for the Pension Fund.
- 7.2 Regulation 58 of the Local Government Pension Scheme Regulations 2013 requires the Council as an administering authority to publish and maintain a funding strategy statement. This report provides the Committee and Board with an update on the whole Fund's actuarial position at 21 June 2023.
- 7.3 When preparing, maintaining, or publishing the funding strategy statement, the Council is required to make such revisions as it considers appropriate following a material change to the policy set out in the statement; any revisions must be made following consultation with such persons as the Authority considers appropriate.
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Linked Reports, Appendices and Background Documents

Linked Report

- List any linked reports
- NONE

Appendices

- Hymans Funding Update report 21 June 2023 - Appendix 1

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

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

List any background documents not already in the public domain including officer contact information.

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

Officer contact details for documents:

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