TOWER HAMLETS

London Borough of Tower Hamlets Pension Fund

Annual Report and Accounts 2022/23

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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. I took the Chair in May 2024 from Councillor Muhammad Ahmadul Kabir whom I thank for his work and diligence in chairing the Committee. 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 and therefore recognise the issues around the historic pension scheme membership data and the impact on the present value of promised retirement benefits at 31 March 2020. The Council and The Pensions Committee are committed to ensuring that any issues are resolved.

The Fund's Actuary completed the Fund's triennial actuarial valuation as at 31 March 2022 during the year. This valuation revealed that the Fund's assets significantly exceeded its liabilities and that it had an actuarial surplus of 123% at 31 March 2022. (The annual report has the details for the 2019 valuation as that is the valuation which determined the contributions for the year ended 31 March 2023).

As with other pension funds around the country, the Fund experienced a fall in investment values during the year largely due to the markets' negative reaction to the budget presented by the UK government in September 2022. The Fund's value decreased by £85.8m (-4%) from £2.023 billion to £1.937 billion over the year. However, as a result of the increase in interest rates which the Bank of England's Monetary Policy Committee was forced to undertake as part of the remedial action for that budget, the Fund's liabilities also decreased substantially from £2,498 billion to £1,837 billion during the same period. This resulted in a further increase in the Fund's actuarial surplus.

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 56% to 6 of the LCIV funds with an additional 23% in low cost index-tracker funds managed by Legal and General.

The committee continues to pursue its commitment to climate change. The Fund has moved its Legal and General investments entirely to low carbon funds. It has also invested in the LCIV renewable fund and in sustainable equities and funds aligned to the Paris Agreement.

The Pensions Administration team has been strengthened with additional staff to deal with its increasing workload. The Fund's membership now stands at 23,341 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 Ana Miah

Chair, Pensions Committee

December 2024

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 2023

The Pensions Committee during 2022/23 was made up of seven Councillor Members, an Employer Representative and a Scheme Member representative.

Pensions Committee:
Councillors:
Chair: Councillor Ahmodul Kabir (from May 2023)
Chair: Councillor Muhammad Bellal Uddin (from May 2022 to April 2023)
Chair: Councillor Kyrsten Perry (from May 2019 to April 2022)
Vice Chair: Councillor Rachel Blake
Councillor Mufeedah Bustin
Councillor David Edgar
Councillor James King
Councillor Ayas Miah
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
Tower Hamlets Town Hall,
160 Whitechapel Road
London, E1 1BJ

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:

Paul Audu – Interim Head of Pensions & Treasury (since 8th January 2024)
Miriam Adams – Interim Head of Pensions & Treasury (until 31st December 2023)

Corporate Director for Resources and S151 officer:
Julie Lorraine (from September 2023)
Caroline Holland (from January 2023 to August 2023)
Kevin Bartle (from February 2021 to January 2023)
Neville Murton (from November 2018 to January 2021)
Zena Cooke (until November 2018)

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

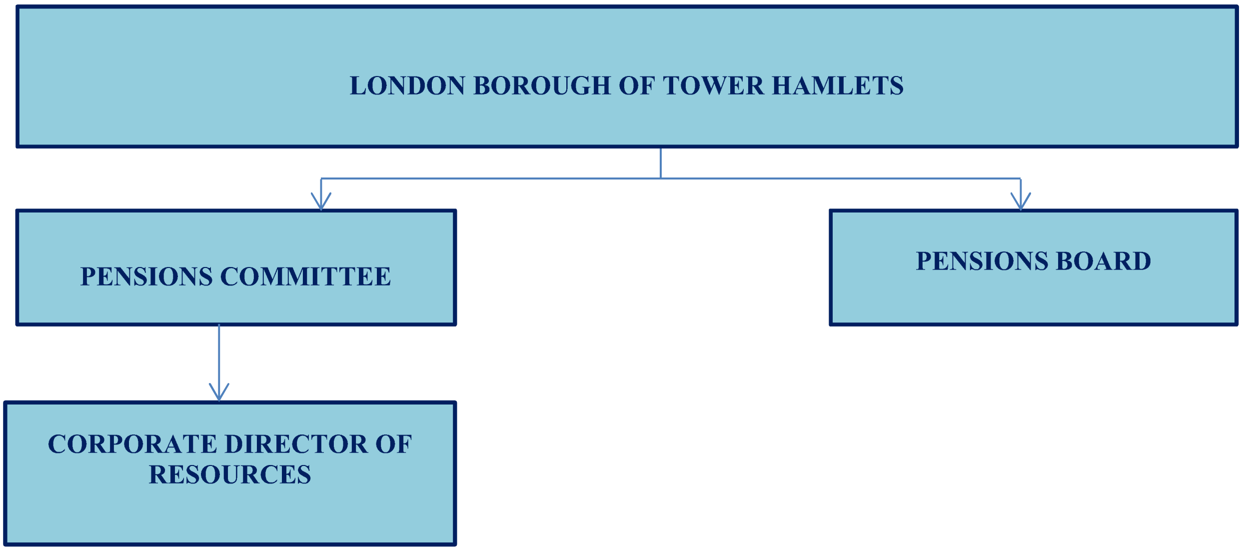
Schroder Real Estate Capital Partners and Schroder Investment Management Limited
1 London Wall Place, London EC2Y 5AU

Governance and Oversight Review

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. In addition, since 2015 there has been a regulatory requirement for a Pensions Board to assist the Authority in securing compliance with regulations and to ensure the effective and efficient governance and administration of the Fund.

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 current governance arrangements of the Fund.



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

Pensions Committee Membership and Meeting Attendance 2022/23

	Adminstering Authority /Member representative/Other	*Meeting Date* 27 June 2022	03 Oct 2022	31 Oct 2022	12 January 2023	13 March 2023	22 March 2023	Attendance (%)
Voting Members								
Cllr Bellal Uddin (chair)	Adminstering Authority	Y	Y	Y	Y	Y	Y	100%
Cllr Iqbal Hossain (vice-chair)	Adminstering Authority	Y	Y	Y	Y	Y	Y	100%
Cllr Rachel Blake	Adminstering Authority	N	Y	N	Y	Y	N	50%
Cllr Abdul Mannan	Adminstering Authority	Y	Y	Y	N	Y	Y	83%
Cllr Abdal Ullah	Adminstering Authority	N	N	Y	Y	N	N	33%
Cllr Abdul Malik	Adminstering Authority	Y	N	N	Y	N	N	33%
Cllr Ayas Miah	Adminstering Authority	Y	N	N	Y	Y	N	50%
	Average attendance %							64%
	Proportion of voting members not from Administering Authority %							0%
Non-voting Member								
Kehinde Akintunde	Member representative	Y	Y	Y	Y	N	N	67%
John Jones	Independent	Y	Y	Y	N	Y	Y	83%

Training was provided to the Committee during 2022/23. 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

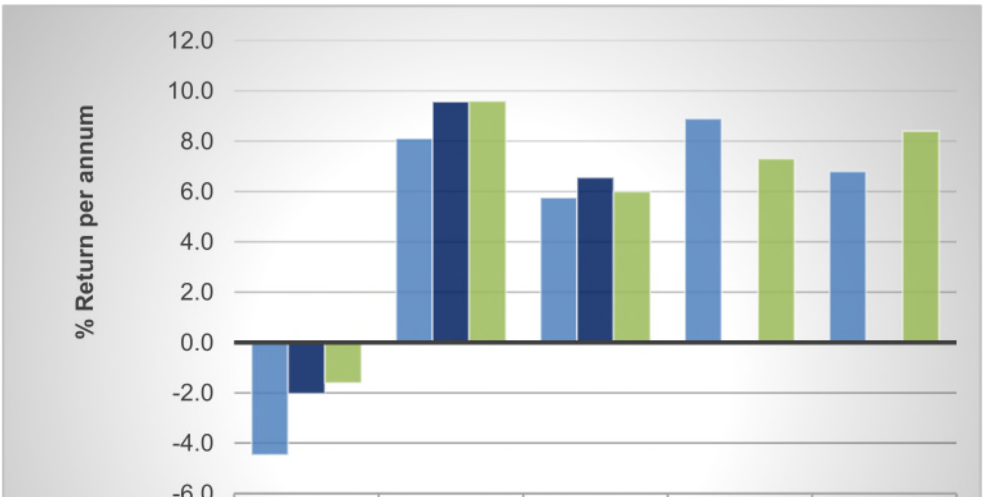
This section comments on the annual performance and long-term results of the Fund to 31 March 2023 based on information from the Pensions Investments Research Consultants Limited (PIRC) which compares the activity of the Fund against the Funds customised benchmark and the PIRC measure of Local Authority average based on some 64 Local Government Pension Scheme Funds.

Over the last twelve months the PIRC measure of the local authority (LA) average returned a negative performance averaging -1.6%. This negative performance was mostly due to deeply negative bond performance and flat equity performance. The Fund's investment assets returned -4.5% over the past year ranking it in the 73rd percentile. The Fund's below average performance during the year was mainly due to underperformance of equities in comparison to its peers. The Fund's other asset classes (in Bonds, Alternatives and Diversified Growth) generally performed better than average offsetting some of the equity impact. PIRC also noted that the Fund has less exposure to alternatives than its peers.

The Fund's performance over the five and ten year period to 31 March 2023 has been 5.8% p.a. and 6% p.a. respectively which is in line with the average of LGPS funds. Over the most recent three year period it has been 8.1% p.a. which is below the LGPS average of 9.6% p.a.

Changes made to the Fund's investment strategy since the year end have had a positive impact with the Fund performing above average in 2023/24. These changes included continuing to move out of the Goldman Sachs and Insight bond funds, ending the synthetic equity strategy with Schroders, increasing investments in sustainable passive equity with Legal and General Investment Management and increasing exposure to alternatives.

Fund Performance (One, Three, Five Ten and 20 Years)



	1 Year	3 Years	5 Years	10 Years	20 Years
Fund	-4.5	8.1	5.8	8.9	6.8
Benchmark	-2.0	9.6	6.6		
LGPS Average	-1.6	9.6	6.0	7.3	8.4

Fund Management Activity

The London Borough of Tower Hamlets Pension Fund has specialist investment managers which manage both actively managed and passive mandates. Goldman Sachs manages Global Bonds. Insight Investment Management manages Global Bonds and a Liquidity Fund. The London Collective Investment Vehicle (LCIV) actively manages Sustainable Equity, Multi Asset Credit, Diversified Growth Fund (DGF), Renewable Infrastructure and Housing mandates. Schroders manages Index Linked Gilts and Property. Legal & General Investment Management (LGIM) manages passive mandates for Low Carbon Equities.

London Collective Investment Vehicle ('LCIV' or 'London CIV')

The London CIV was formed as a 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) for its public market investments. The LCIV also manages private market fund of funds.

For the LBTH Pension Fund, the London CIV currently manages four investment portfolios under the Authorised Contractual Scheme (ACS) and two investment portfolios under private market fund of funds. These are discussed below:

<u>LCIV ACS (Public Market) Funds</u>

a) **LCIV (Baillie Gifford) Paris Aligned Global Alpha Growth-** this portfolio was funded on the 13 April 2021 at a market value of £426.7m. The market value of the assets as at 31 March 2023 was £348m. Over the year the fund has shown a return of -5.37%, underperforming its benchmark by 3.93%.

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 2023 was £181.9m. This portfolio gave a return over the year of -8.45%, underperforming the benchmark by 14.39%. It has also underperformed the benchmark over the longer term with excess returns over three years of -0.44% per annum and -3.7% 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 2023 was £223.5m. The fund return over the year was 1.26%, underperforming the benchmark by 4.16%. However returns over 3 and 5 years were 9.45% and 6.12%, overperforming the benchmark by 5.47% and 2.13% respectively.

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 holds assets the manager expected to rise in price. The short position is when the manager sells 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 £114.8m at 31 March 2023. This portfolio returned -4.42% over 1 year, underperforming the benchmark by 2.01% and returned 7.04% p.a. over 3 years, outperforming its benchmark by 1.84% p.a.

<u>LCIV Private Market Funds</u>

a) **LCIV Renewable Infrastructure Fund** – this is a fund of funds which invests in renewable energy funds. The long-term objective is to seek to deliver an IRR (net of fees) of 7-10%, with a target yield of 3-5% per annum. The fund had investments in funds managed by Quinbrook, Stonepeak, Foresight, Macquarie and BlackRock. The TH Pension Fund commenced investment in this Fund on 29 March 2021. As at 31 March 2023 the value of TH Pension Fund's investments in this Fund was £54.9m. Over the year to 31 March 2023, the Fund returned 33.3%. It has returned 16.97% since inception, overperforming its benchmark by 9.98%.

b) **LCIV UK Housing Fund** – the TH Pension Fund commenced investments in this Fund at 31 March 2023 with an initial investment of £0.5m. The Fund's objective is to: 1) achieve an internal rate of return, net of all fees, costs and expenses of between 5-7% and a target yield of 3-4% per annum, and 2) invest in strategies that increase the supply of good quality, affordable housing in the UK.

Schroder's Investment Management

Schroder currently manage two investment portfolios for the Fund.

a) **Property Investment** - 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 2022 was £198.1m.

The fund has delivered returns over 1, 3 and 5 years of -11.77%., 3.27% and 3.15% p.a., outperforming its benchmark by 2.73%, 0.84% and 0.73% respectively.

b) **Equity Protection Strategy / Index Linked Gilts** – 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. Since then the fund has consisted of Index Linked Gilts.

As at 31 March 2023 this portfolio was valued at £114.7m. The strategy has returned 5.18% p.a. over the last 3 years, underperforming its benchmark by 10.4%.

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 £53m at 31 March 2022.

The portfolio has returned 0.36%, 1.55% and 0.26% p.a. over 1,3 and 5 years, underperforming its benchmark by 6.38%, 3.56% and 4.8% p.a. 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 £39.8m at 31 March 2023. 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.

The portfolio has returned 1.52%, 3.07% and -0.11% p.a. over 1,3 and 5 years, underperforming its benchmark by 6.38%, 3.56% and 4.8% p.a. respectively.

Legal & General Investment Management - LGIM manages passive equities on behalf of the Pension Fund. These were procured before the set up of the LCIV but came under pooled management when pooling commenced with the LCIV. 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 2023, the Low Carbon hedged fund had a market value of £335.9m and the Low Carbon unhedged fund had a market value of £110.6m. The Low Carbon hedged fund returned -7.14%, 15.84% and 8.16% p.a. over 1,3 and 5 years respectively. The Low Carbon unhedged fund returned -1.4% and 16.56% over 1 and 3 years respectively. As expected from a tracking manager, both portfolios approximately matched the benchmark returns.

Asset Allocation

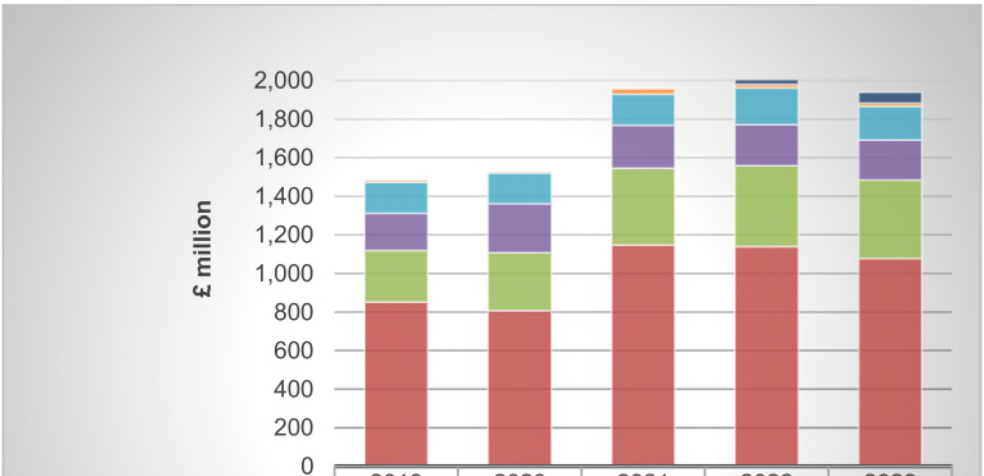
The asset allocation within the portfolio is in line with or within the agreed tolerance of the benchmark asset allocation as set out in the latest Investment Strategy Statement at Appendix 2. The Committee has agreed to take corrective action and rebalance asset allocation where allocation exceeds the investment ranges.

Analysis of Asset Allocation

Asset Class	Target Strategic Asset Allocation	Investment Range	Fund Position	Variance
Active Global Equities	29.0%	(24% - 34%)	26.7%	-2.3%
Passive Low Carbon Global Equities	21.0%	(16% - 26%)	23.0%	2.0%
Total Global Equities	**50.0%**	**(45% - 55%)**	**49.7%**	**-0.3%**
Property	9.0%	(6% - 12%)	9.0%	0.0%
Diversified Growth	20.0%	(15% - 25%)	20.9%	0.9%
Multi Asset Credit	6.0%	(3% - 9%)	5.9%	-0.1%
Renewable Energy Infrastructure	6.0%	(3% - 9%)	2.8%	-3.2%
Index Linked Gilts	6.0%	(3% - 9%)	5.9%	-0.1%
Other / Legacy	3.0%		4.8%	1.8%
Cash	0.0%		0.9%	0.9%
Total	**100.0%**			

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.

ANALYSIS OF ASSET CLASS



	2019	2020	2021	2022	2023
Infrastructure	0.0	0.0	0.0	33.2	54.9
Cash	10.5	3.0	28.1	18.4	18.1
Pooled Property	161.7	159.3	161.4	190.7	173.2
Pooled Bonds and Credit	191.2	254.6	220.6	212.3	207.8
Diversified Growth	267.4	299.4	398.0	419.5	405.4
Global Equities	852.6	808.1	1148.5	1139.8	1078.6

Financial Accounts

During the financial year 2022/23 the value of the Fund decreased by £86m (-4.25%) from £2,023m to £1,937m. This was mainly due to the fall in value of investments during the year.

Fund Income

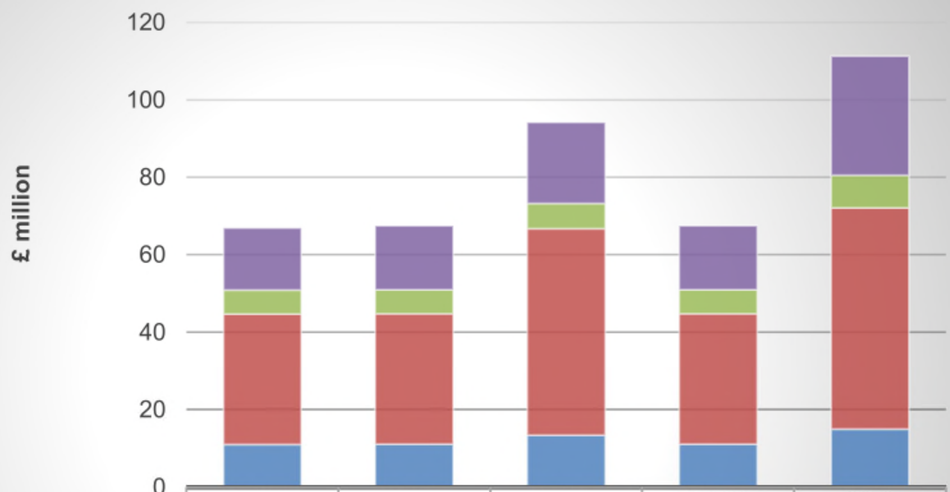
There was an overall increase of £7.4m in the amount of income received by the Fund in 2022/23 compared to 2021/22.

Fund Income Variance Analysis

Type of Income	2022 £m	2023 £m	Variance %
Employee Contributions	-13.9	-15.0	7.9%
Employer Contributions	-55.9	-57.1	2.1%
Transfer Values Received	-7.0	-8.4	20.0%
Investment Income	-27.2	-30.8	13.2%
Total Fund Income	**-104.0**	**-111.3**	**7.0%**

Investment income shows the largest increase of £3.6m. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) increased by £1.4m. 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. Employer and employee contributions increased over the year by £2.5m.

Fund Income Analysis

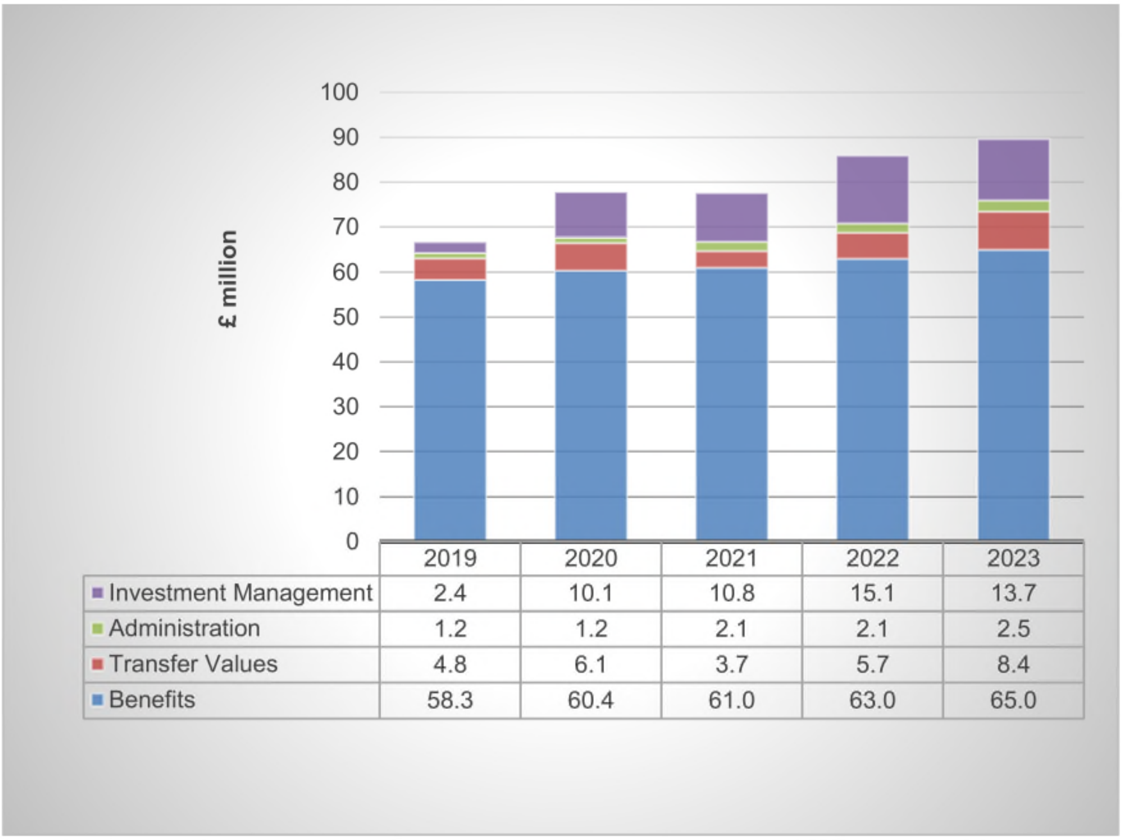


	2019	2020	2021	2022	2023
Investment Income	16.0	16.5	21.0	16.5	30.8
Transfer Values Received	6.2	6.2	6.5	6.2	8.4
Employer Contributions	33.7	33.7	53.3	33.7	57.1
Employee Contributions	11.0	11.1	13.4	11.1	15.0

Fund Expenditure

In 2022/23 the overall Fund expenditure increased by £3.7m (4.3%). The biggest increase was in Transfer values, up £2.7m (46.7%). Transfer values 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



Expenditure Variance Analysis

Type of Expenditure	2022 £m	2023 £m	Variance %
Benefits	63.0	65.0	3.2%
Transfer Values	5.7	8.4	47.4%
Administration	2.1	2.5	19.0%
Investment Management	15.1	13.7	-9.3%
Total Fund Expenditure	**85.9**	**89.6**	**4.3%**

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).

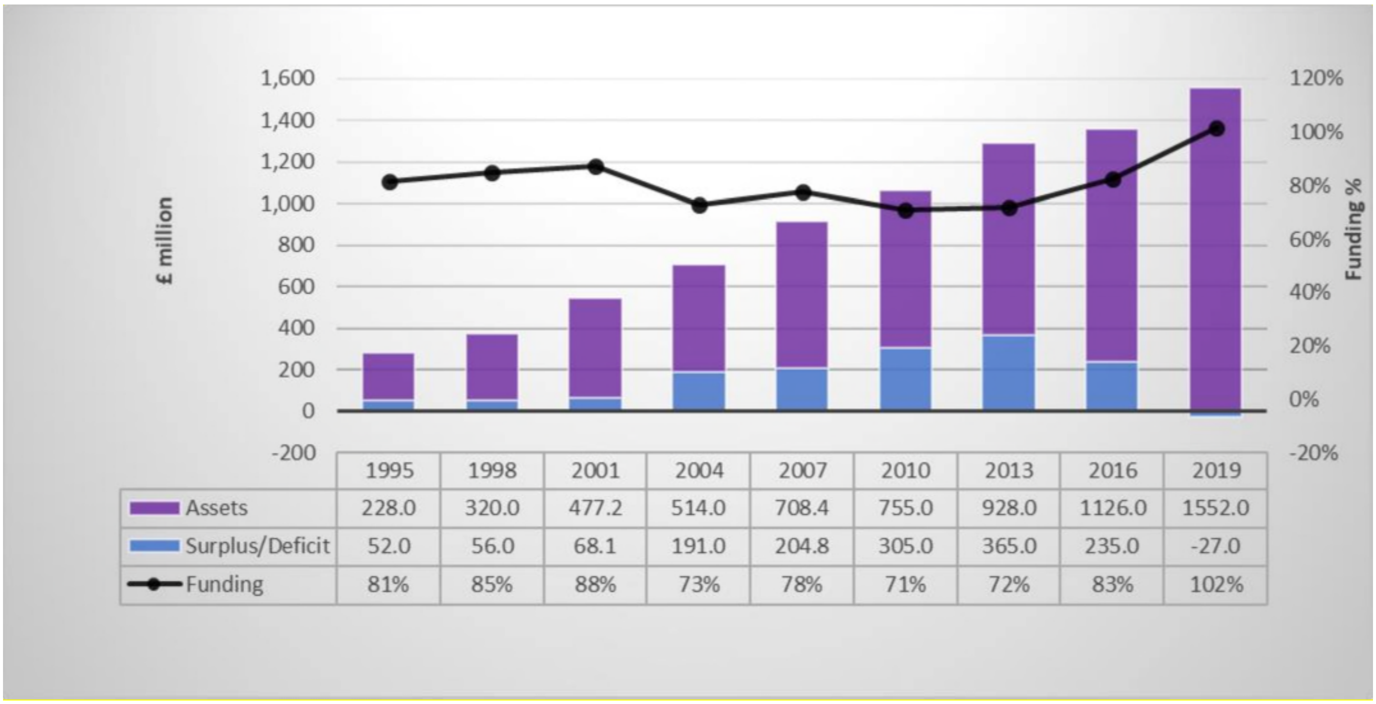
Management Expenses	2019	2020	2021	2022	2023
Members (average during year)	20,756	21,438	21,972	22,437	23,147
Investment Management	£2.4m	£10.1m	£10.8m	£15.1m	£13.7m
cost per member	£115.63	£471.13	£491.53	£673.00	£591.87
Administration	£1.1m	£1.0m	£1.5m	£1.6m	£2.0m
cost per member	£52.47	£47.81	£68.45	£73.41	£86.10
Oversight and Governance	£0.1m	£0.2m	£0.6m	£0.5m	£0.5m
cost per member	£5.35	£8.16	£27.13	£20.19	£21.90
Total Fund Management Expenses	**£3.6m**	**£11.3m**	**£12.9m**	**£17.2m**	**£16.2m**
cost per member	**£173.4**	**£527.1**	**£587.1**	**£766.6**	**£699.9**

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 2021/22, 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.

The last two actuarial valuation exercises have 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 2022/23 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.

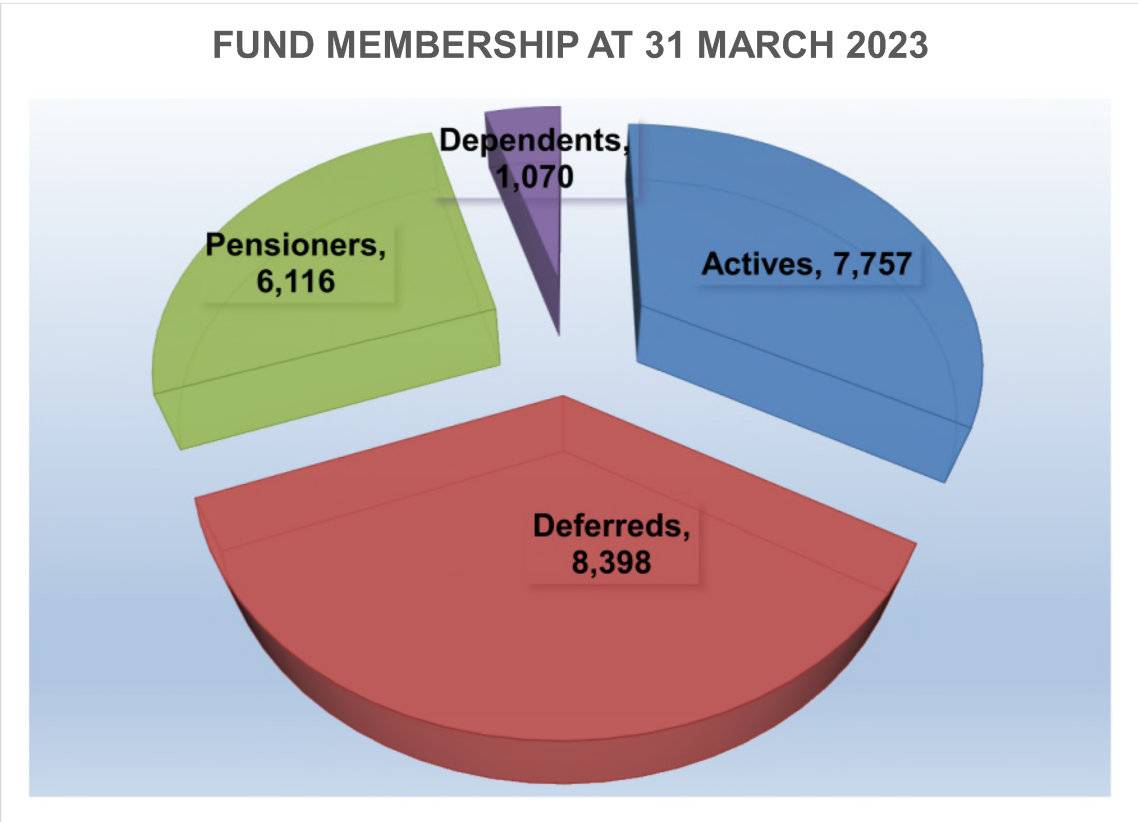
It should be noted that the foregoing is not an exhaustive list and that certain conditions have to be met for an individual to be entitled to the benefits outlined.

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 23,341 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 increased by 1.7% between 2021/22 and 2022/23. The number of active members (those currently contributing to the fund) has increased by 105 members (1.4%). The deferred membership category (members who have contributed in the past but who have not yet become entitled to their benefits) has increased by 77 (0.9%) Pensioners and dependents have increased by 185 (3.1%) and by 22 (2.1%).

Movement in Fund Membership

Membership Type	31-Mar-22	31-Mar-23	Variance	Variance %
Actives	7,652	7,757	105	1.4%
Deferreds	8,321	8,398	77	0.9%
Pensioners	5,931	6,116	185	3.1%
Dependants	1,048	1,070	22	2.1%
Total	22,952	23,341	389	1.7%

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

Membership Type	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23
Actives	6,780	7,523	7,230	7,652	7,757
Deferreds	7,829	7,960	7,993	8,321	8,398
Pensioners	5,220	5,509	5,644	5,931	6,116
Dependants	1,024	1,031	1,054	1,048	1,070
Total	20,853	22,023	21,921	22,952	23,341

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 and scheduled bodies participating in the Fund are set out below.

Admitted Bodies

- Age UK
- Atlantic Cleaning
- Compass contract
- East End Homes
- Gateway Housing Association
- Greenwich Leisure Ltd
- Juniper Catering
- Juniper Cleaning
- Medequip
- Nourish Catering
- Olive Dining
- Phoenix
- One Housing Group
- Purgo
- Ridgecrest
- Taylor Shaw
- Tower Hamlets Community Housing

- Vibrance *(formerly Redbridge Community Housing Ltd)*
- Wettons Cleaning Services Limited

Scheduled Bodies

- Boleyn Trust (*Clara Grant*)
- Canary Wharf College
- City Gateway
- Cyril Jackson Academy
- East London Arts and Music
- Letta Trust *(Stebon & Bygrove)*
- London Enterprise Academy
- Mulberry Academy
- Mulberry Trust (*Stepney Green*)
- Paradigm Trust
- University Schools Trust
- St Pauls Way Communuity School
- T4 Trust (*Ian Mikardo Academy*)
- 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	Contributions from Members £	Contributions from Employers £
Age UK	4,807	15,630
Arnhem Wharf Primary School	62,275	242,917
Atlantic Cleaning Services Limited	840	5,484
Bangabandhu Primary School	45,113	180,445
Beatrice Tate School	68,952	270,326
Ben Jonson Primary School	59,100	327,508
Bishop Challoner School	86,770	301,868
Blue Gate Fields Junior School	23,986	90,720
Bonner Primary School	52,505	201,712
Bowden House School	63,686	233,551
Canary Wharf College	36,065	106,682
Canon Barnett Primary School	22,233	87,665
Cayley Primary School	40,845	161,743
City Gateway	14,026	35,363
Clara Grant (Boleyn Trust)	35,871	140,234
Columbia Primary School	38,036	148,116

Contributing Employers	Contributions from Members £	Contributions from Employers £
Compass Contract	3,262	20,689
Cubitt Town Junior School	59,400	233,490
Cyril Jackson Academy	26,063	102,793
Cyril Jackson Primary School	0	0
East End Homes	62,728	287,253
East London Arts & Music	17,711	53,627
Gateway Housing (Bethnal Green & Vic)	1,027	18,742
Globe Primary School	34,228	132,404
Greenwich Leisure Limited	14,363	48,326
Halley Primary School	23,129	94,036
Hermitage Primary School	33,437	134,985
Ian Mikardo Academy (T4 Trust)	24,549	84,526
Juniper Catering St Saviours	89	622
Juniper Cleaning St Saviours	325	2,285
L B Tower Hamlets	11,385,644	44,874,938
Langdon Park Community School	76,506	285,457
Lansbury Lawrence Primary School	42,655	161,128
Lawdale Junior School	10,294	42,446
LETTA Trust	74,264	282,533
London Enterprise Acadamy	21,012	65,626
Malmesbury Primary School	43,856	175,595
Marion Richardson Primary School	38,178	152,095
Mayflower Primary School	28,265	113,878
Medequip	2,009	10,755
Mowlem Primary School	20,370	80,279
Mulberry Academy	222,936	750,673
Nourish Catering – Chisenhale/Old Palace	4,472	34,997
Nourish Catering – Thomas Baxter/John Scarr	5,018	36,115
Oaklands School	82,968	301,015
Olga Primary School	44,365	164,207
Olive Dining St Paul´s	9,150	32,877
One Housing (Toynbee Island)	9,474	60,363
Paradigm Trust	65,095	213,310
Phoenix Autism Trust (Closed Scheme)	8,421	40,911
Phoenix Autism Trust (Open Scheme)	6,466	17,476
Purgo Cyril Jackson	3,033	18,243
Purgo St Paul´s	7,649	26,676
Redbridge CHL (Vibrance)	1,691	8,977
Ridge Crest Cleaning Services Ltd	21,116	114,980
Sir William Burrough Academy	31,844	85,102
St Johns Church	21,204	78,136

Contributing Employers	Contributions from Members £	Contributions from Employers £
St Paul's Whitechapel	20,356	79,650
St Pauls Way Trust Academy	154,988	391,195
St Peter´s London Docks CE Primary School	29,167	114,791
Stephen Hawking School	71,638	278,362
Stepney All Saints CofE Secondary School	103,579	375,978
Stepney Green (Mulberry Trust)	55,091	204,048
Stepney Greencoat C.E Primary School	13,580	54,109
Stepney Park Primary	46,838	182,152
Swan Housing Association		0
Taylor Shaw	32,506	141,200
Taylor Shaw (Stepney Green)	8,827	58,730
THCH Monthly (Closed Scheme)	1,747	10,106
THCH Monthly (Open Scheme)	4,511	20,170
Tower Hamlets Homes	1,194,148	3,031,631
Wapping High School	14,307	64,262
Wettons Cleaning Services Ltd	1,365	8,744
Woolmore Primary School	36,367	139,086
Grand Total	**15,032,391**	**57,146,744**

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 2022/23. 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	516	477	92.44	129	10	61.18
Retirements - letter notifying estimate of retirement benefits	743	725	97.58	106	10	84.87
Retirements - letter notifying actual retirement benefits	406	394	97.04	58	10	48.93
Deferment - calculate and notify deferred benefits	572	564	98.6	81	10	91.39
Transfers in/out - letter detailing transfer quote	391	388	99.23	78	10	57.02
Refund - process and pay refund	349	340	97.42	87	10	66.67
Divorce quote - letter detailing cash equivalent value and other benefits	20	18	90	3	10	100
Joiners - notification date of enrolment	1898	1887	99.42	316	10	81.45

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 2022/23		£m
MANAGER	**FUND**	
Investments Within Asset Pool		
London LGPS CIV	Global Alpha Equity	348.3
	Multi-Asset Credit	114.8
	Diversified Growth	181.9
	Absolute Return	223.5
	Sustainability Fund	168.9
	Renewables Fund	54.9
Sub-total		**1,092.3**
Investments Outside Asset Pool		
Schroder	Synthetic Equities / IL Gilts	114.7
	Real Estate	173.2
Legal & General	MSCI World Low Carbon Index (GBP Hedged)	335.9
	MSCI World Low Carbon Index (Unhedged)	110.6
Goldman Sachs	Strategic Absolute Return Bonds	53.2
Insight Investment	Absolute Return Bonds	39.8
Legacy	Miscellaneous	0.2
LBTH	Internally managed cash	18.1
Sub-total		**845.7**
Grand Total		**1,938.0**

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 0.7% of Fund assets. LCIV costs appear higher than other managers. This difference reflects the more complex strategies managed by LCIV such as diversified growth, infrastructure 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	28.0		28.0	0.003%					28.0	0.001%
Management Fees	137.8	7,359.2	7,497.0	0.686%	111.8	1,576.1	1,687.9	0.200%	9,184.9	0.474%
Transaction Costs		4,152.7	4,152.7	0.380%		278.4	278.4	0.033%	4,431.1	0.229%
Custody Fees					66.2		66.2	0.008%	66.2	0.003%
Total	**165.8**	**11,511.9**	**11,677.7**	**1.069%**	**178.0**	**1,854.5**	**2,032.5**	**0.240%**	**13,710.2**	**0.707%**

ACTUARIAL VALUATION

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 employers 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 of 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 Director of Finance

The Corporate Director of 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 of Resources has:

- Selected suitable accounting policies 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 of 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 61 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 2023 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2023, except for, the effects at 31 March 2023 of issues relating to the quality of historical pension scheme membership data on the present value of promised retirement benefits.

Julie Lorraine
Corporate Director for Resources and S151 officer

11th December 2024

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LONDON BOROUGH OF TOWER HAMLETS ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the pension fund financial statements for the year ended 31 March 2023, which comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26.

Respective responsibilities of the Chief Financial Officer and the auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of London Borough of Tower Hamlets, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office.

Basis for qualified opinion

The pension fund is administered by London Borough of Tower Hamlets ("the Authority), therefore the Authority includes the pension fund's financial statements within its statement of accounts. The Accounts and Audit (Amendment) Regulations 2024 ("the Regulations") require the Authority to publish its statements of accounts, including the pension fund's financial statements and accompanying auditor's reports, for the year ended 31 March 2023 and 31 March 2022 by 13 December 2024.

The Authority published its draft statements of accounts, including the pension fund's financial statements, for the years ended 31 March 2023 and 31 March 2022 on 4th February 2024 and its draft pension fund financial statements on 4th February 2024. Following the introduction of the Regulations, there was insufficient time to complete the necessary audit work to form an audit opinion on the pension fund's financial statements for the years ended 31 March 2023 and 31 March 2022.

As a result, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items within the pension fund's financial statements.

From the procedures that we performed, we identified the following:

Present value of promised retirement benefits

- Note 2 refers to Note 20 which sets out the present value of promised retirement benefits of £1,837m as at 31 March 2023 and £2,499m as at 31 March 2022. As explained in note 3m, errors were identified in a sample of membership data used to calculate the information provided by the Council to the actuary for the purpose of the valuation of the present value of promised retirement benefits at 31 March 2023 and 1 March 2022. The present value of promised retirement benefits was corrected for some but not all of these errors. As a result of the volume of member records involved and as a result of the pervasive limitations set out above, it was not possible to determine whether any adjustments to these were necessary. A different membership data set, extracted from the same system used to calculate the pension liability at 31 March 2022, was used to calculate the pension liabilities noted in Appendix A as at 31 March 2023. As a result of the pervasive limitations set out above, we were unable to determine whether any adjustments to these amounts were necessary. We also reported on this matter in respect of the financial statements for the year ended 31 March 2022.

As a result, we also are unable to express an opinion upon whether the pension fund financial statements comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Qualified opinion

In our opinion, the pension fund financial statements are consistent, in all material respects, with the pension fund financial statements in the full annual statement of accounts of London Borough of Tower Hamlets for the year ended 31 March 2023.

As explained in the 'Basis for qualified opinion' section, we are unable to determine whether the financial statements comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Use of our report

This report is made solely to the members of London Borough of Tower Hamlets ('the Authority'), as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Jonathan Gooding.

Jonathan Gooding (Key Audit Partner)
For and on behalf of Deloitte LLP
London, United Kingdom

12th December 2024

The London Borough of Tower Hamlets Pension Fund

Appendix 1

Pension Fund Accounts

2022/23

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2021/22 £'000	2022/23 £'000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions	7	(69,725)	(72,134)
Transfers in	8	(7,041)	(8,412)
Benefits	9	62,980	64,998
Payments to and on account of leavers	10	5,971	8,696
NET (ADDITIONS) FROM DEALINGS WITH MEMBERS		**(7,815)**	**(6,852)**
Management expenses	11	17,193	16,207
NET DEDUCTIONS INCLUDING FUND MANAGEMENT EXPENSES		**9,378**	**9,355**
RETURN ON INVESTMENTS			
Investment Income	12	(27,183)	(30,820)
Change in market value of investments	14a	(49,485)	107,272
NET RETURN ON INVESTMENTS		**(76,668)**	**76,452**
Net (increase)/decrease in the Fund during the year		(67,290)	85,807
Add: Opening net assets of the scheme		(1,956,107)	(2,023,397)
CLOSING NET ASSETS OF THE SCHEME		**(2,023,397)**	**(1,937,590)**

NET ASSETS STATEMENT AS AT 31ST MARCH		2021/22 £'000	2022/23 £'000
Long Term Investments	14	150	150
Investments Assets	14	2,021,791	1,938,074
Current Assets	21	3,896	1,863
Current Liabilities	22	(2,440)	(2,497)
NET ASSETS		**2,023,397**	**1,937,590**

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.

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 2023

	31st March 2022	31st March 2023
Number of employees in the scheme		
LBTH	6,608	6,664
Other employers	1,044	1,093
	7,652	**7,757**
Number of pensioners		
LBTH	6,490	6,660
Other employers	489	526
	6,979	**7,186**
Number of deferred pensioners		
LBTH	7,734	7,779
Other employers	587	619
	8,321	**8,398**
Total number of members in pension scheme	**22,952**	**23,341**

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 range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2023. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2022 however, the 31 March 2019 valuation covers the three financial years to 31 March 23 and these rates have been applied from 1 April 2022.

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 Price Index.

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 2022/23 financial year and its financial position at 31 March 2023. 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 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 below) 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

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 from the underlying investments of the Pooled Investment Vehicles are 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.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – expense items

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

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

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

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

Where an investment manager's fee has not been received by the year end date an estimate is used based upon the market value of the fund.
Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

i) 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.

ii) 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.

iii) 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 indirectly 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 deposits held by the Fund's external managers which are repayable on demand without penalty.

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.

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 i.e. 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.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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).

The amount disclosed for the present value of promised retirement benefits relies on information about scheme members, such as their age and current salary or annual pension. Errors were identified in the information provided by the council to the actuary for the purpose of the valuation of the present value of promised retirement benefits at 31 March 2020, which may have a consequential effect on the present value of those benefits at 31 March 2022 and 31 March 2023. At the time of the signing of these accounts, the council was in the process of identifying and rectifying these errors.

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.

q) Annual allowance (VSP,MSP) and life time allowance

Members are entitled to request the Pension Fund pays their tax liabilities due in respect of annual allowance and lifetime allowance in exchange for a reduction in pension.

Where the Fund pays member tax liabilities direct to HMRC, it is treated as a expense in the year in which the payment occurs.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the Fund's accounting policies, which are described in note 3, the Fund is required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. There were no critical judgements made, apart from those involving estimations (which are presented separately below).

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
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.

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 0.1% decrease in the discount rate used would result in an increase in the pension liability of £31m.
„a 0.1% increase in salary increase rate would increase the earnings inflation value of the liabilities by approximately £2m.

b) Valuation of Investments at Level 3
The Pension Fund contains investments in unitised pooled property funds and renewable energy infrastructure that are classified within the financial statements as level 3 investments. These funds are valued according to non-exchange based market valuations. The final realised value of the pooled units may differ from the valuations presented in the accounts.

NOTE 6: EVENTS AFTER THE REPORTING DATE

Management have reviewed and can confirm that there are no signigicant events occurring after the reporting period.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 7: CONTRIBUTIONS RECEIVABLE

	2021/22 £'000	2022/23 £'000
Employees		
Council Employees' Normal Contributions	(11,813)	(12,830)
Admitted Bodies Employees' Normal Contributions	(174)	(196)
Scheduled Bodies Employees' Normal Contributions	(1,873)	(2,003)
Total	**(13,860)**	**(15,029)**
Employers		
Council Employers' Normal Contributions	(33,795)	(36,416)
Admitted Bodies Employers' Normal Contributions	(882)	(943)
Scheduled Bodies Employers' Normal Contributions	(5,214)	(5,644)
Total	**(39,891)**	**(43,003)**
Employers' Special Contributions	(2,296)	(438)
Deficit Funding	(13,678)	(13,664)
Total	**(15,974)**	**(14,102)**
Grand Total	**(69,725)**	**(72,134)**

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

	2021/22 £'000	2022/23 £'000
Transfer Values		
Transfer Values Received - Individual	(7,041)	(8,412)
Total	**(7,041)**	**(8,412)**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 9: BENEFITS PAYABLE

	2021/22 £'000	2022/23 £'000
Pensions	51,057	53,525
Lump Sum Retirement Benefits	10,853	9,026
Lump Sum Death Benefits	1,070	2,447
Total	**62,980**	**64,998**
By type of employer:		
Administering Authority	57,333	60,298
Scheduled Bodies	3,382	2,327
Admitted Bodies	2,265	2,373
Total	**62,980**	**64,998**

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2021/22 £'000	2022/23 £'000
Transfer Values Paid	5,709	8,375
Refunds to Members leaving service	262	321
Total	**5,971**	**8,696**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 11: MANAGEMENT EXPENSES

	2021/22 £'000	2022/23 £'000
Administration	1,654	1,990
Investment Management Expenses	15,086	13,710
Oversight & Governance	453	507
Total	**17,193**	**16,207**

NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

	Management Fees £'000	Transaction Costs £'000	2022/23 £'000
Pooled Investments	7,529	4,248	11,777
Pooled Property Investments	1,684	183	1,867
	9,213	**4,431**	**13,644**
Custody Fees			66
			13,710

	Management Fees £'000	Transaction Costs £'000	2021/22 £'000
Pooled Investments	10,746	2,264	13,010
Pooled Property Investments	1,881	123	2,004
	12,627	**2,387**	**15,014**
Custody Fees			72
			15,086

NOTE 12: INVESTMENT INCOME

	2021/22 £'000	2022/23 £'000
Pooled Property Investments	(5,775)	(6,150)
Pooled Investments -unit trusts and other managed fı	(21,374)	(24,402)
Interest on Cash Deposits	(34)	(268)
	(27,183)	**(30,820)**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 13: EXTERNAL AUDIT COSTS

	2021/22 £'000	2022/23 £'000
Audit Fees Payable in respect of external audit	18	35
Total	**18**	**35**

NOTE 14: INVESTMENTS

		2021/22 £'000	2022/23 £'000
Long Term Investments			
UK unquoted Equities	London CIV Ltd	150	150
Total Long Term Investments		**150**	**150**
Investment assets			
Pooled Funds	Fixed Income	212,321	207,801
	Global Equity	1,139,354	1,078,437
	Diversified Growth	419,463	405,453
	Property	190,717	162,213
	Infrastructure	33,199	53,689
Sub-Total		**1,995,054**	**1,907,593**
Other Investment Balances			
Cash Deposits		26,053	29,853
Amounts Receivable for Sales of Investments		0	0
Investment Income Due		684	628
Sub-Total		**26,737**	**30,481**
Total Investment Assets		**2,021,791**	**1,938,074**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market Value 31 Mar 2022 £'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 2023 £'000
Investment Assets					
Pooled Investments	1,804,337	31,623	(10,999)	(79,581)	1,745,380
Pooled Property Investments	190,717	6,231	(6,969)	(27,766)	162,213
	1,995,054	**37,854**	**(17,968)**	**(107,347)**	**1,907,593**
Other Investment Balances					
Cash Deposits	26,053			75	29,853
Amounts Receivable for Sales of Investments	0				0
Investment Income Due	684				628
Other	0				0
Net Investment Assets	**2,021,791**			**(107,272)**	**1,938,074**

	Market Value 31 Mar 2021 £'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 2022 £'000
Investment Assets					
Pooled Investments	1,767,144	263,787	(244,818)	18,224	1,804,337
Pooled Property Investments	149,166	22,967	(12,674)	31,258	190,717
	1,916,310	**286,754**	**(257,492)**	**49,482**	**1,995,054**
Other Investment Balances					
Cash Deposits	37,283			3	26,053
Amounts Receivable for Sales of Investments	2,814				0
Investment Income Due	665				684
Other	0				0
Net Investment Assets	**1,957,072**			**49,485**	**2,021,791**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 14B: INVESTMENTS ANALYSED BY FUND MANAGER

All managers have discretion to buy and sell investments within the limits set by the Pensions Committee and their respective Investment Management Agreement. Each manager has been appointed with clear strategic benchmarks which place maximum accountability for performance against the benchmark on the investment manager.

Northern Trust (NT) act as the Fund's global custodian. They are responsible for safe custody and settlement of all investment and collection of income and complete a monthly reconciliation of its own portfolio valuation to external fund manager reports. The account for the Fund is held with National Westminster Bank.

Security	Market value as at 31st March 2022 £'000	% total of investment assets	Market value as at 31st March 2023 £'000	% total of investment assets
Investments managed by regional asset pool (London CIV)				
London LGPS CIV Lt Global Alpha Growth PARIS aligned	368,061	18.2%	348,306	18.0%
London LGPS CIV Lt Rf Absolute Return A Gbp Di	220,748	10.9%	223,538	11.5%
London LGPS CIV Lt Diversified Growth A	198,715	9.8%	181,915	9.4%
LCIV CQS Credit Multi Asset-A	120,075	5.9%	114,769	5.9%
LCIV Sustainability Fund	182,918	9.0%	168,921	8.7%
LCIV Renewables Fund	34,825	1.7%	54,879	2.8%
	1,125,342	55.7%	1,092,328	56.4%
Investments managed outside of regional asset pool				
Schroder	310,724	15.4%	287,834	14.9%
Legal & General	473,869	23.4%	446,553	23.0%
Goldman Sachs	53,015	2.6%	53,206	2.7%
Insight Investment	39,231	1.9%	39,826	2.1%
Legacy	424	0.0%	196	0.0%
Internally managed cash	19,186	0.9%	18,131	0.9%
	896,449	44.3%	845,746	43.6%
	2,021,791	100.0%	1,938,074	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 2022 £'000	% total of net assets	Market value as at 31st March 2023 £'000	% total of net assets
London LGPS CIV Lt Global Alpha Growth Paris aligned	368,061	18.2%	348,306	18.0%
Mfo GPCU - Msciworldlowcarbtarin Dgcurhofc	361,707	17.9%	335,935	17.3%
LCIV Sustainability Fund	182,918	9.0%	168,921	8.7%
Schroder Inv Mg E Bespoke Investment Fund 9 I	114,514	5.7%	114,666	5.9%
London LGPS CIV Lt Rf Absolute Return A Gbp Di	220,748	10.9%	223,538	11.5%
London LGPS CIV Lt Diversified Growth A	198,715	9.8%	181,915	9.4%
LCIV CQS Credit Mult Asset-A	120,075	5.9%	114,769	5.9%
Gpcl - Msciworldlw Carbontargetindofc	112,155	5.5%	110,610	5.7%
	1,678,893	83.0%	1,598,660	82.5%

NOTE 14C: STOCK LENDING

The fund does not directly participate in stock lending. Investments held in pooled mandates such as LCIV Diversified Growth fund, LCIV Ruffer Absolute Return Funds. In pooled mandates such as the LCIV Diversified Growth and Absolute return Funds as we just hold units of the Baillie Gifford Diversified Growth Fund and LF Ruffer Absolute Return Fund we do not do stock lending either.

NOTE 14D: PROPERTY HOLDINGS

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

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.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 16: FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market based information.

Description of asset	Valuation hierarchy 21/22	Valuation hierarchy 22/23	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
Pooled Investments - Absolute Return	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
Pooled Investments - Infrastructure	Level 3	Level 3	Latest available fair value provided by the manager, adjusted for cash movements subsequent to theat date as required	Manager valuation statements are prepared in accordance with ECVA guidelines	Upward valuations are only considered when there is a validation of the investment objectives and such progress can be demonstrated

Fair Value Hierarchy	Market Value as at 31 Mar 2023	Quoted market price	Using observable inputs	With significant observable inputs	Total
		Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000	£'000
Financial assets at fair value through profit and loss					
Equities	150		150		150
Pooled investments					
Fixed Income	207,801		207,801		207,801
Global Equity	1,078,437		1,078,437		1,078,437
Diversified Growth	405,453		405,453		405,453
Property	162,213			162,213	162,213
Infrastructure	53,689			53,689	53,689
	1,907,743	**0**	**1,691,841**	**215,902**	**1,907,743**

	Market Value as at 31 Mar 2022	Quoted market price	Using observable inputs	With significant observable inputs	Total
		Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000	£'000
Financial assets at fair value through profit and loss					
Equities	150		150		150
Pooled investments					
Fixed Income	212,321		212,321		212,321
Global Equity	1,139,354		1,139,354		1,139,354
Diversified Growth	419,463		419,463		419,463
Property	190,717			190,717	190,717
Infrastructure	33,199			33,199	33,199
	1,995,204	**0**	**1,771,288**	**223,916**	**1,995,204**

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 2022 £'000	Transfers in/out of level 3 £'000	Purchases £'000	Sales £'000	Unrealised gains (losses) £'000	Realised gains (losses) £'000	Market Value 31 Mar 2023 £'000
Pooled Property Funds	190,717	-	6,231	(6,969)	(27,930)	164	162,213
Infrastructure Funds	33,199	-	14,338	(6,553)	12,705	-	53,689
Total	**223,916**	**-**	**20,569**	**(13,522)**	**(15,225)**	**164**	**215,902**

	Assessed valuation range (+/-) %	Value 31 Mar 2023 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled Property Funds	10%	162,213	178,434	145,992
Total		**162,213**	**178,434**	**145,992**

	Market Value 1 Apr 2021 £'000	Transfers in/out of level 3 £'000	Purchases £'000	Sales £'000	Unrealised gains (losses) £'000	Realised gains (losses) £'000	Market Value 31 Mar 2022 £'000
Pooled Property Funds	149,166	-	22,967	(12,674)	34,508	(3,250)	190,717
Infrastructure Funds	-	-	38,362	(5,198)	35	-	33,199
Total	**149,166**	**-**	**61,329**	**(17,872)**	**34,543**	**(3,250)**	**223,916**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

Market Value as at 31 Mar 2022				Market Value as at 31 Mar 2023		
Designated as fair value through profit and loss	Financial Assets at amortised cost	Financial liabilities at amortised cost		Designated as fair value through profit and loss	Financial Assets at amortised cost	Financial liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial assets			
150	0	0	Equities	150	0	0
1,804,337	0	0	Pooled investments	1,745,380	0	0
190,717	0	0	Pooled property Investments	162,213	0	0
0	0	0	Cash held with External Manager	0	0	0
0	0	0	Cash held Internally	0	0	0
0	26,737	0	Other investment balances	0	30,481	0
0	3,896	0	Debtors	0	1,863	0
1,995,204	**30,633**	**0**		**1,907,743**	**32,344**	**0**
			Financial liabilities			
0	0	(2,440)	Creditors	0	0	(2,497)
0	**0**	**(2,440)**		**0**	**0**	**(2,497)**
1,995,204	**30,633**	**(2,440)**	**Total**	**1,907,743**	**32,344**	**(2,497)**
2,023,397			**Grand Total**	**1,937,590**		

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

Financial Assets	2021/22 £'000	2022/23 £'000
Fair value through profit or loss	(49,482)	107,347
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	(3)	(75)
Total Financial Assets	**(49,485)**	**107,272**

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 cont.

OTHER PRICE RISK - sensitivity analysis

Asset type	Market Value as at 31/03/2023 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	29,853	0.9%	30,122	29,584
Pooled Investments:				
Fixed Income	207,801	6.8%	221,931	193,671
Global Equity	1,078,437	14.8%	1,238,046	918,828
Diversified Growth	405,453	6.4%	431,402	379,504
Property	162,213	4.0%	168,702	155,724
Infrastructure	53,689	6.8%	57,340	50,038
Other Investment income due	628	0.9%	634	622
Amounts receivable for sales	0	0.9%	0	0
Total investment assets	1,938,074		2,148,177	1,727,971

Asset type	Market Value as at 31/03/2022 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	26,053	0.9%	26,287	25,819
Pooled Investments:				
Fixed Income	212,321	6.8%	226,759	197,883
Global Equity	1,139,354	14.8%	1,307,978	970,730
Diversified Growth	419,463	6.4%	446,309	392,617
Property	190,717	4.0%	198,346	183,088
Infrastructure	33,199	6.8%	35,457	30,941
Other Investment income due	684	0.9%	690	678
Amounts receivable for sales	0	0.9%	0	0
Total investment assets	2,021,791		2,241,826	1,801,756

CURRENCY EXPOSURE - asset type

Asset type	Market Value as at 31/03/2023 £'000	Change in year in the net assets available to pay benefits 6.3%	(6.3%)
Overseas Assets			
Overseas Fixed Income Funds	207,697	220,782	194,612
Overseas Equity Funds	335,935	357,099	314,771
Overseas Property Funds	33532	35,645	31,419
Total change in assets available	577,164	613,526	540,802

Asset type	Market Value as at 31/03/2022 £'000	Change in year in the net assets available to pay benefits 7.3%	(7.3%)
Overseas Assets			
Overseas Fixed Income Funds	206,759	221,852	191,666
Overseas Equity Funds	361,707	388,112	335,302
Overseas Property Funds	35,497	38,088	32,906
Total change in assets available	603,963	648,052	559,874

NOTES TO THE PENSION FUND ACCOUNTS

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

Currency risk - contd.

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 being 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 consultation with its investment

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 cont.

OTHER PRICE RISK - sensitivity analysis

Asset type	Market Value as at 31/03/2023 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	29,853	0.9%	30,122	29,584
Pooled Investments:				
Fixed Income	207,801	6.8%	221,931	193,671
Global Equity	1,078,437	14.8%	1,238,046	918,828
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Infrastructure	53,689	6.8%	57,340	50,038
Other Investment income due	628	0.9%	634	622
Amounts receivable for sales	0	0.9%	0	0
Total investment assets	**1,938,074**		**2,148,177**	**1,727,971**

Asset type	Market Value as at 31/03/2022 £'000	Percentage change %	Value on increase £'000	Value on decrease £'000
Cash and cash equivalents	26,053	0.9%	26,287	25,819
Pooled Investments:				
Fixed Income	212,321	6.8%	226,759	197,883
Global Equity	1,139,354	14.8%	1,307,978	970,730
Diversified Growth	419,463	6.4%	446,309	392,617
Property	190,717	4.0%	198,346	183,088
Infrastructure	33,199	6.8%	35,457	30,941
Other Investment income due	684	0.9%	690	678
Amounts receivable for sales	0	0.9%	0	0
Total investment assets	**2,021,791**		**2,241,826**	**1,801,756**

CURRENCY EXPOSURE - asset type

Asset type	Market Value as at 31/03/2023 £'000	Change in year in the net assets available to pay benefits 6.3%	(6.3%)
Overseas Assets			
Overseas Fixed Income Funds	207,697	220,782	220,782
Overseas Equity Funds	335,935	357,099	357,099
Overseas Property Funds	33532	35,645	35,645
Total change in assets available	**577,164**	**613,525**	**613,525**

Asset type	Market Value as at 31/03/2022 £'000	Change in year in the net assets available to pay benefits 7.3%	7.3%
Overseas Assets			
Overseas Fixed Income Funds	206,759	221,852	219,785
Overseas Equity Funds	361,707	388,112	384,495
Overseas Property Funds	35,497	38,088	37,733
Total change in assets available	**603,963**	**648,052**	**642,013**

NOTES TO THE PENSION FUND ACCOUNTS

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

INTEREST RATE RISK

Asset type	Market Value as at 31/03/2023	Market Value as at 31/03/2022
	£'000	£'000
Cash and cash equivalents		
Cash	29,853	26,053
Total	**29,853**	**26,053**

Interest rate risk sensitivity analysis

Asset type	Market Value as at 31/03/2023	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps
	£'000	£'000	£'000
Cash and cash equivalents			
Cash	29,853	299	(299)
Total	**29,853**	**299**	**(299)**

Asset type	Market Value as at 31/03/2022	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps
	£'000	£'000	£'000
Cash and cash equivalents			
Cash	26,053	261	(261)
Total	**26,053**	**261**	**(261)**

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 2022/23. 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

CIPFA's code of practice on Local Authority Accounting 2022/23 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The promised retirement benefits at 31 March 2023 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2022 using financial assumptions that comply with IAS19.

The actuarial present value of promised retirement benefits calculated in line with IAS19 assumptions is estimated to be £1,837 million (£2,498 million in 2021/22). The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, the actuary has not made an allowance for unfunded benefits.

Year ended	31 Mar 2022	31 Mar 2023
	£m	£m
Active members	872	597
Deferred members	601	385
Pensioners	1,026	855
	2,499	1,837

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2023 and 31 March 2022. The impact of the change in financial assumptions to 31 March 2023 is to decrease the actuarial present value by £878m. The impact of the change in demographic assumptions is to decrease the actuarial present value by £17m.

Demographic assumptions

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 10% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

Average future life expectancies at age 65 years	Male	Female
Current pensioners	21.5	23.9
Future pensioners	22.6	25.5

Sensitivity Analysis

The sensitivities regarding the principal assumptions used to measure the obligations are set out below:

Change in assumption at 31 March 2023	Approximate % increase to promised retirement benefits	Approximate monetary amount (£m)
0.1% p.a. decrease in the Discount Rate	2.0%	31
1 year increase in member life expectancy	4.0%	73
0.1% p.a.increase in the Salary Increase Rate	0.0%	2
0.1% p.a. increase in the Pension Increase Rate (CPI)	2.0%	29

Financial assumptions

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

Year ended	31 March 2022	31 March 2023
Inflation/pension increase rate assumption	3.2%	3.0%
Salary increase	3.4%	3.0%
Discount rate	2.7%	4.8%

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 21: CURRENT ASSETS

	2021/22 £'000	2022/23 £'000
Contributions due	2,974	975
Sundry debtors	351	477
Prepayments	571	411
Total	**3,896**	**1,863**

NOTE 22: CURRENT LIABILITIES

	2021/22 £'000	2022/23 £'000
Sundry creditors	(1,396)	(1,537)
Transfer values payable (leavers)	(371)	0
Benefits payable	(673)	(960)
Total	**(2,440)**	**(2,497)**

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

In accordance with Regulation 4 (1)(b) of the Pension Scheme (Management and Investment of Funds) Regulation 2016, the contributions paid and the assets of these investments are not included in the Fund's Accounts.

	2021/22		2022/23	
	Market Value* £'000	Contributions Paid £'000	Market Value £'000	Contributions Paid £'000
Aviva	1,286	52	1,282	67
Equitable Life / Utmost Life	736	3	637	2
	2,022	**55**	**1,919**	**69**

Additional voluntary contributions (AVC's) were paid to Aviva and Utmost Life during the year.

* The market value is as at 5 April for Utmost and 31 March 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 £1,261k (£1,241k 2021/22) 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 £4.2m (£4.4m 2021/22) from this company.

NOTE 25A: KEY MANAGEMENT PERSONNEL

Key management personnel for the pension fund include Pension Fund Committee Members, the Corporate Director for Resources, the Director Finance Procurement & Audit and the Head of Pensions and Treasury. There were no costs apportioned to the Pension Fund in respect of the Corporate Director for Resources post for 2021/22 and 2022/23.

Total remuneration payable to key management personnel from the Pension Fund is set out below:

	2021/22 £'000	2022/23 £'000
Short-term benefits	23	23
Post-employment benefits	616	694
	639	**717**

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund has committed £120m to the London CIV Renewable Energy Infrastructure Fund. Of this commitment, £66.7m was still outstanding at 31 March 2023.

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

Funding Strategy Statement

April 2022

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 Taxpayer: 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 Taxpayers);
- 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 Taxpayer 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 academy's 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 taxpayers. 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 taxpayers 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) <u>Pooling</u>

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) <u>Letting employer retains pre-contract risks</u>

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) <u>Fixed contribution rate agreed</u>

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.

Payment of cessation debt

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.

Consideration of surplus / exit credit

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.

<u>Deferred Debt Agreement ("DDA") alternative to immediate cessation</u>

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 an 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:

0. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
1. within the determined time horizon (see note 3.3 Note (c) for further details),
2. 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.

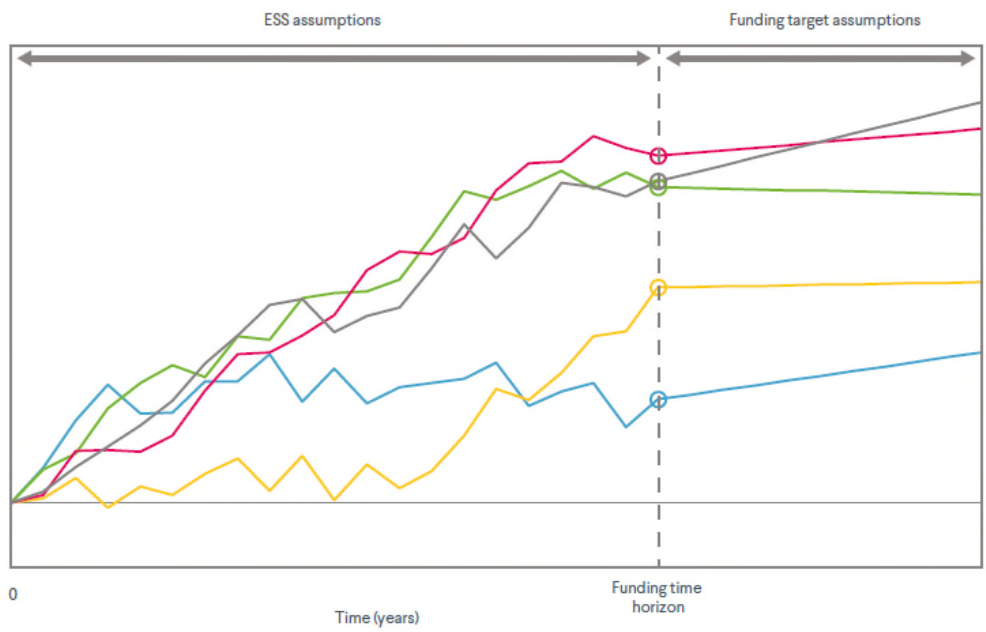
Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

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 the 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 meetings 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
Tower Hamlets Town Hall
160 Whitechapel Road
London, E1 1BJ

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
Tower Hamlets Town Hall
160 Whitechapel Road
London, E1 1BJ
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	Method of Distribution	Audience Group
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	E-mail or Letter to Home Address where email not known.	New Members
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	Employer	New Members
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)	E-mail or letter to Home Address where email not known	Members leaving the scheme
Obtain transfer details for transfer in, and calculate and	Paper Based or Electronic	Within 20 workings days from date of request	2 months from date of request	Letter to Home Address or Member Self Service	Active Member

provide quotation to member					
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)	Letter to Home Address, Member Self Service or IFA	Deferred Member
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	Letter to Home Address or Member Self Service	Active and Deferred Member
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	Letter to Home Address or Member Self Service	Active and Deferred Member
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	Letter to Dependants Home Address	Dependant Member

dependant(s) of amount of death benefits		death, and notification of benefit letter sent no more than 10 days from receiving correctly completed forms.	event no more than 2 months from date of becoming aware of 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	Member Self Service or Statement to Home Address	Active and Deferred Member
Provide Pension Saving Statement to eligible members	Paper Based or Electronic	By 6 October each year	By 6 October each year	Letter to Home Address or Member Self Service	Active Member
General Member Enquiries	Paper Based or Electronic	Within 15 working days		Email or Letter to Home Address	All Members
Pensions Increase Letters	Paper Based or Electronic	By 30 April each year	By 30 April each year	Member Self Service or Letter to Home Address	Pensioner Member
Pensioner P60s (HMRC requirement)	Paper Based or Electronic	By 31 May each year	By 31 May each year	Member Self Service or Letter to Home Address	Pensioner Member

Member Scheme Guide	Paper Based or Electronic	Always Available Online (Link also in New Starter Pack)	Within 2 months of request	Fund Website or Member Self Service	All members
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)		Member Self Service or Letter to Home Address	Active Member
Deferred Member Newsletters	Paper Based or Electronic	By 31 August in line with ABS		Member Self Service or Letter to Home Address	Deferred Member
Pensioner Member Newsletters	Paper Based or Electronic Paper Based or Electronic	By 30 April in line with Pension Increase Letter		Member Self Service or Letter to Home Address	Pensioner Member
Presentations/Roadshows	Paper Based or Electronic	Twice per year per or as required		Via Fund	Active Member
Drop In-Sessions	Face to Face	As requested, up to a maximum of 2 per year per Fund		Via Fund	Active Member
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	E-mail or letter to Home Address	All Members
Employer Training	Face to Face/Microsoft Teams	As requested		Via Fund	Scheme Employer

Employer Guides	Electronic	Online/On request		LGPS Regs Website	Scheme Employer
Briefing papers	Electronic	As and when required	As and when required	Email or Face to Face meetings	Union Representatives
Employer Newsletter	Electronic or Paper Based on Request	Half Yearly Newsletters		E-mail to Fund Contacts	Scheme Employer
Member, employer or third-party enquiries	Incoming via post	Workflow cases created based on enquiry type and associated SLA		Telephone Email	All Groups
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.		Various	Active and Deferred Members
ISA19/FRS102 Accounting Reports	Electronic	Annually		E-mail	Scheme Employer
Annual General Meeting	Microsoft Teams/Face to Face	Provie availability to promote MSS at the AGM		Via Fund	All Groups
Pension Fund Report and Accounts	Electronic	Annually		E-mail	All Groups
Website					All Groups
Pensions Team Helpline					All Groups
Pensions Administration Strategy	Electronic	Always available (reviewed at least every 3 years)		E-mail	Scheme Employer
Pension Fund Valuation Report	Electronic	Triennially		E-mail	Scheme Employer

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:

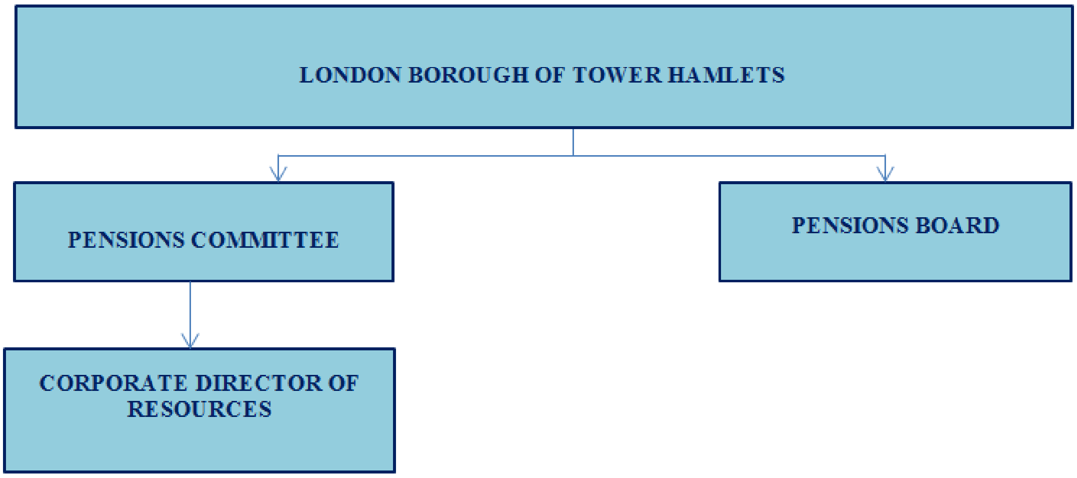
- around 20,000 current and former members of the Fund, and their dependants
- over 20 employers within the Tower Hamlets Council area or with close links to Tower Hamlets Council
- the local taxpayers within the London Borough of Tower Hamlets.

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
160 Whitechapel Road
London
E1 1BJ

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.

TOWER HAMLETS

LONDON BOROUGH OF TOWER HAMLETS

Administering Authority for
Tower Hamlets Pension Fund

APPENDIX 6
ANNUAL REPORT OF THE PENSIONS BOARD
FOR 2022/23

ANNUAL REPORT OF THE PENSIONS BOARD 2022-23

1. This report sets out the work carried out by the Tower Hamlets Pension Board during the financial year 2022-23 to discharge its role, in support of the London Borough of Tower Hamlets in managing the Pension Fund. During the year the work of the Board continued to be affected by the Covid pandemic. As part of the arrangements introduced by the Council the Board held hybrid meetings during the year with some Members present in person to ensure that the meetings were quorate, and others attending online.

2. To recap 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 are available on the Council's website.

3. 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 Tower Hamlets Pension Fund. For this arrangement to be successful it is important that the Board carries out its responsibilities in a positive and constructive way. In my capacity as Chair I have regular contact with Council officers to ensure that the Board addresses the issues necessary to discharge its responsibilities. The Pensions Committee Chair may also attend each Pension Board meeting.

4. The impact of the Covid pandemic and the disruption this had on every-day life continued during the year. As a consequence, the Board held hybrid meetings on 3 occasions during 2022/23: in June and November 2022 and in February 2023. The meeting scheduled for September was cancelled following the death of the Queen. In line with the arrangements put in place by Tower Hamlets Council, these hybrid meetings were arranged so that the work of the Board and governance of the Fund could continue.

5. The cycle of Board meetings follows the timetable for the Pensions Investment Committee and helps strengthen the overall governance of the Fund. The Board continues to focus on the key issues affecting the Fund and its beneficiaries, and agrees a forward work plan at the start of the year to ensure that it best placed to support the Council in the delivery of the LGPS in Tower Hamlets. Because the Board meets in advance of the Pensions Committee, it does allow for comments and views to be taken into consideration by the Committee and thereby enhancing the Board's oversight role.

6. A feature of the past year was the continuing focus on responsible investment and the decarbonisation of the Fund, and the Board receive regular reports and updates on these issues. In addition, and as part of its oversight and scrutiny role the Board has regular updates at each meeting on:
    - progress in finalising the audit of the Fund's annual accounts and issuing the Annual report;
    - A review of voting and engagement on ESG issues affecting the Fund's investments;
    - monitoring and review of the risk register and assessment of new risks;
    - monitoring and review of the performance of the pensions administration service including examining workflow statistics and progress in addressing work backlogs;
    - update and monitoring of the staffing position in the pensions team and recruitment to vacant posts
    - Review of the decisions of the Pensions Investment Committee and discussion of any issues of concern;

7. There have been full agendas for each Board meeting. In addition to the agenda items considered at each meeting, the Board also discussed other issues during the year including:

    - The development of an annual work plan for the Board;
    - Consideration of the Fund's Policy on Representation and Voting;
    - Consideration of the Fund's Governance Compliance statement;
    - Consideration of developments affecting the LGPS including progress with the London CIV;
    - Continuing oversight of the London CIV and the benefits identified from membership;
    - Briefing on the requirements of Climate Change disclosures;

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. In my report last year, the main area of concern for the Board was the performance of the pensions administration team exacerbated by problems in recruiting staff to vacant posts and the long term back log of work. This continued to be the major area of concern during 2022/23 and until this is fully addressed the team will continue to have difficulty in delivering a fully effective service. During the year it became clear that good progress is being made in recruiting staff to address the backlog of work. In this respect the outlook for the coming year is more positive than in the past. Nonetheless it will be

important for both the Committee and the Board to continue to monitor the position so that action can be taken if and when necessary.

10. However, the quality of data provided by employers to the pensions team still falls short of that required. Because the online iconnect system is not in place and operational, pensions staff are diverted from other tasks. The reasons for this are complex, with IT and systems issues still to be resolved as well as clarity around organisational responsibilities for data quality. An officer working group is in place in order to identify solutions to these issues. It is most important that the quality of key information from employers is addressed and high level support is provided to the Pensions team so that these issues are addressed during the year ahead. The Pensions Regulator places great importance on data quality so this must remain a high priority during 2023/24.

11. There were some changes in membership of the Board during the year. Roger Jones and Michael Alderson both stood down from the Board during the year and I would like to record my thanks to them for their contributions to the work of the Board. I would also like to record thanks to Cllr Ullah for his work on the Board over the past year. Despite the disruption caused by the Covid pandemic, there was almost a full attendance at Board hybrid meetings during the year at 90%, a significant increase from 79% in the previous year. The detailed attendance record of Board Members is set out in the Appendix to this report.

12. At the end of March 2023, the Tower Hamlets Pension Fund had total assets of £1.94 billion and a membership of 23,341 comprising pensioners, deferred pensioners and current contributors. The investment of a major part of the Fund's assets are now managed through the London CIV and the LGIM tracker Fund, and the Pension Board are updated on developments regularly at Board meetings. Out of total assets of £1.94 billion, £1.54bn (79.4%) is now managed on this basis**.** Going forward this percentage will increase and more assets are transferred into the London CIV.

13. Pension Fund investment and administration is becoming ever more complex so training and development for Members of the Pensions Committee and Board is an essential support to good governance. In previous reports I have commented on the importance of a structured programme of training and development for individual members and the Board collectively to discharge their responsibilities. One consequence of the Covid pandemic has been the wider use of virtual online training programmes. The Council has acquired a comprehensive training package from Hymans Robertson covering all aspects of pension fund management to be completed by Committee and Board members. I would repeat my previous recommendation to encourage all members to complete this training.

14. Members of the Board have also attended various training sessions over the past year. This is recorded by Tower Hamlets Council and presented to the Board for review and

consideration of future events. Regular training sessions continue to be arranged and incorporated as part of Board meetings. During the past year these included:

- Presentation by a Fund manager on climate change and ESG issues;
- Presentation and training session by the Fund actuary on the requirements of the 2022 Triennial valuation;
- Presentation on the outcome of the 2022 actuarial valuation;
- Training session from Hymans Robertson on the new Funding Strategy Statement.

Other topics covered included investing in Affordable Housing as an asset class, and measuring the Carbon Footprint of the Fund. Training and development remains an important area to address of attention for the Pensions Regulator as part of their role in promoting high standards of corporate governance in Pension Funds.

15. In conclusion, good progress has been made in addressing issues and improving performance in a number of areas over the past year. During the year ahead the Board will continue to have oversight and to scrutinise the performance of the Fund, and to work alongside the Council in delivering the best outcome for the Fund and its beneficiaries.

John Jones
Independent Chair
24th May 2023

MEMBERS OF THE TOWER HAMLETS PENSION BOARD 2022/23

Independent Chair: John Jones
Vice-Chair: David Stephen Thompson
John Gray: Admitted Bodies Representative for Active Fund Members
Roger Jones: Representing Pension Fund Employers to 28th Nov 2022
Chris Boylett: Representing Pension Fund Employers w.e.f. 27th Feb 2023
Nneka Oroge: Active Fund Members representative
Annette McKenna: Representing Admitted Bodies Employers
Councillor Abdul Mannan: Representing Pension Fund Employers

Substitutes
Michael Alderson: Representing Pension Fund Employers

BOARD MEMBER ATTENDANCE 2022-23

	13 June 2022		28 November 2022	27 February 2023
John Jones	✓		✓	✓
John Gray	✓		✓	✓
David Thompson	✓		✓	✓
Nneka Oroge	✓		✓	x
Annette McKenna	✓		✓	✓
Cllr. Abdul Mannan	✓		✓	✓
Roger Jones/ Michael Alderson/ Chris Boylett	✓		x	✓