



LONDON BOROUGH OF TOWER HAMLETS PENSION FUND

ANNUAL REPORT AND ACCOUNTS 2023/24



Contents

FOREWORD BY CHAIR OF PENSIONS COMMITTEE	3
GOVERNANCE OF THE PENSION SCHEME	4
STAFF, ADVISERS AND INVESTMENT MANAGERS	5
GOVERNANCE AND OVERSIGHT REVIEW	6
PENSIONS COMMITTEE ATTENDANCE	7
KNOWLEDGE AND SKILLS POLICY STATEMENT	8
RISK MANAGEMENT	10
INVESTMENT PERFORMANCE REVIEW	11
THE SCHEME DETAILS	20
PENSIONS ADMINISTRATION	26
ASSET POOLS	30
ACTUARIAL VALUATION	33
STATEMENT OF RESPONSIBILITIES	35
INDEPENDENT AUDITOR'S REPORT	36
APPENDIX 1 - PENSION FUND ACCOUNTS	38
APPENDIX 2 – INVESTMENT STRATEGY STATEMENT	67
APPENDIX 3 - FUNDING STRATEGY STATEMENT	78
APPENDIX 4 - COMMUNICATIONS STRATEGY STATEMENT	105
APPENDIX 5 - GOVERNANCE COMPLIANCE STATEMENT	123
APPENDIX 6 - PENSIONS BOARD ANNUAL REPORT 2023/24	138

Foreword by Chair, Pensions Committee

It is my privilege as Chair of the Pensions Committee to introduce the annual report and accounts for the year ending 31 March 2024. I took the Chair in May 2023 from Councillor Muhammad Bellal Uddin whom I thank for his work and diligence in chairing the Committee.

The Pensions Committee has delegated 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 developments. The Committee is responsible for making informed decisions to ensure that the Pension Fund is managed in an efficient and effective way.

Pooling remained one of the major themes during 2023/24. The Scheme Advisory Board (SAB) published a statement to help LGPS Funds to effectively manage and administer surpluses ahead of the upcoming triennial actuarial valuation in March 2025. The long anticipated TPR General Code of Practice, due to take effect late March, was laid in Parliament in January 2024 covering all governance including investment and administration. Climate change was also prominent in LGPS discussions especially around ESG decisions. The Financial Markets Law Committee confirmed that this financial risk can be integrated into Pensions Committees' fiduciary obligation. Global markets remained volatile in 2023/24. The market value of the Fund's diversified investments increased by £208m (10.71%) to £2.1 billion, demonstrating resilience.

The Fund worked collaboratively with the London Collective Investment Vehicle (LCIV) to develop suitable products to invest in. During the year the Fund held 50.2% of its investments in 7 LCIV funds including Global Alpha Paris-Aligned Equity, Sustainable Global Equity, Absolute Return, Diversified Growth, UK Affordable Housing, Renewable Energy Infrastructure, and Multi-Asset Credit with an additional 26.1% in low-cost index-tracker funds managed by Legal and General.

The Fund continues to take steps to reduce its carbon footprint by investing in Legal and General low carbon funds. The Fund's 2023 Carbon Metrics Review covered more than 85% of the Fund's assets including Diversified Growth, Absolute Return Bonds (now disinvested) and Multi-Asset Credit.

On behalf of the Committee, I would like to thank the Chief Officers of the Fund and the Pensions team for their work during the year. The Fund's membership now stands at 23,800 members comprising of active members, deferred members, pensioners and dependents.

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

Councillor Ahmodul Kabir
Chair, Pensions Committee

September 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 2024

The Pensions Committee during 2023/24 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)

Vice Chair: Councillor Iqbal Hossain

Councillor Abdul Malik (until April 2023)

Councillor Bodrul Choudhury (from May 2023)

Councillor Abdul Wahid (from May 2023)

Councillor Jahed Choudhury

Councillor Rachel Blake

Councillor Ayas Miah

Councillor Abdal Ullah

Trade Union Representative (non-voting):

Kehinde Akintunde (GMB)

Admitted Bodies Representative (non-voting):

Vacant

Contact details for the Pensions Committee:

Paul Audu

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)

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 - Ernst and Young LLP
 2 St. Peter's Square
 Manchester, M2 3EY

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

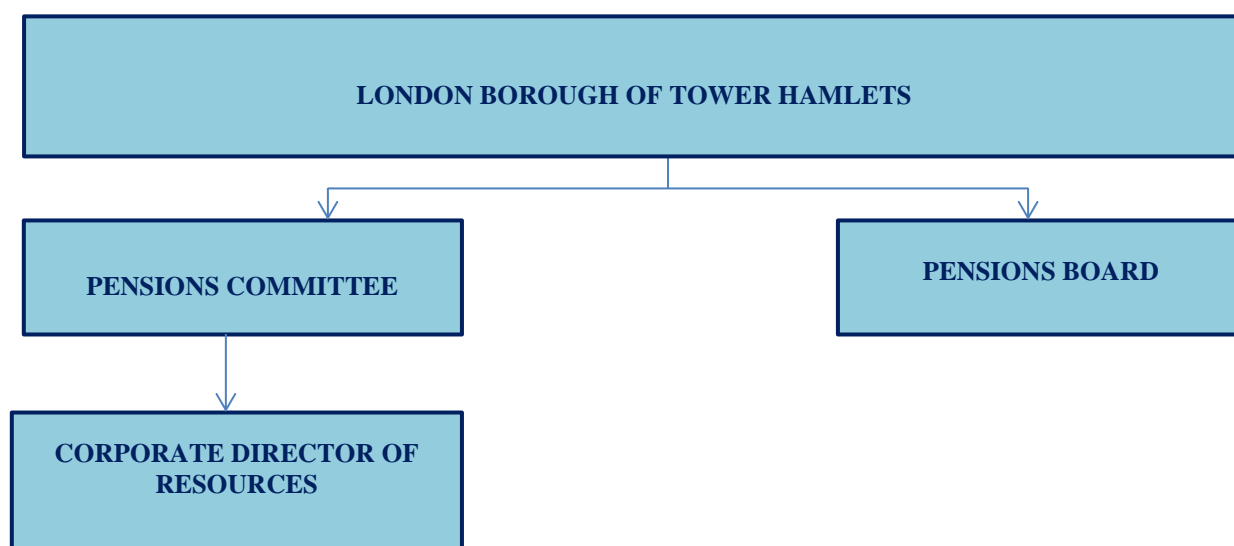
Schroder Real Estate Capital Partners and Schroder Investment Management Limited
 1 London Wall Place, London EC2Y 5AU

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 new governance arrangement with effect from 1 April 2018.



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

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

Pensions Committee Membership and Meeting Attendance 2023/24

	Administering Authority /Member representative/Other	Meeting Date				Attendance (%)
		July 2023	September 2023	December 2023	March 2024	
Voting Members						
Cllr Ahmodul Kabir (chair)*	Administering Authority	Y	Y	Y	Y	100%
Cllr Iqbal Hossain (vice-chair)*	Administering Authority	Y	Y	Y	Y	100%
Cllr Bodrul Choudhury	Administering Authority	Y	Y	N	N	50%
Cllr Rachel Blake (vice-chair)	Administering Authority	Y	Y	Y	N	75%
Cllr Jahed Choudhury	Administering Authority	Y	Y	Y	Y	100%
Cllr Ayas Miah	Administering Authority	N	N	N	N	0%
Cllr Abdal Ullah	Administering Authority	Y	Y	N	N	50%
Cllr Abdul Wahid	Administering Authority	N	N	N	N	0%
Substitute						
Cllr Sirajul Islam	Administering Authority			Y		25%
		Average attendance %				56%
	Proportion of voting members not from Administering Authority %					0%
Non-voting Member						
Kehinde Akintunde	Member representative	Y	Y	Y	Y	100%
John Jones	Independent	Y	N	N	Y	50%
<i>* from May 2023</i>						

Training was provided to the Committee during 2023/24. 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 service organisation 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.

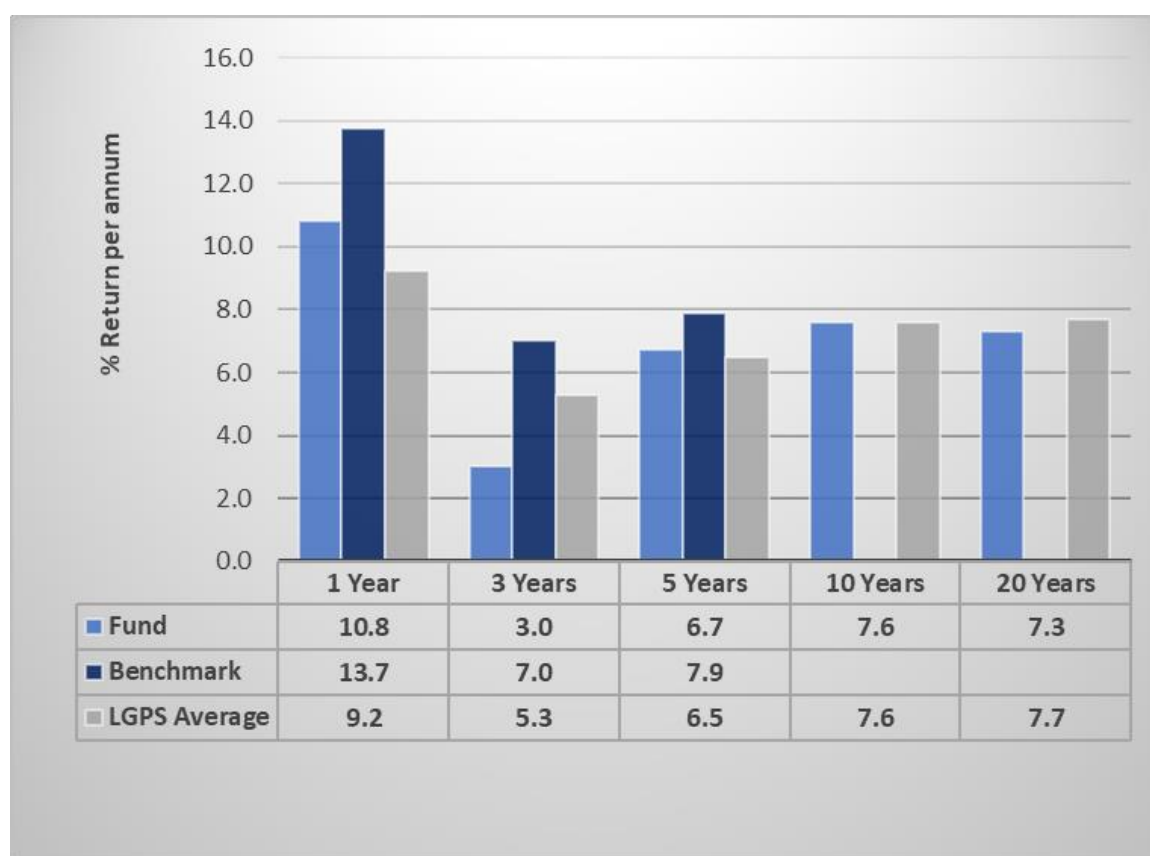
Investment Performance Review

This section comments on the annual performance and long-term results of the Fund to 31 March 2024 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 63 Local Government Pension Scheme Funds. Overall, the Fund's performance was ranked in the 48th percentile over the year to 31 March 2024.

Over the last twelve months the PIRC measure of the local authority (LA) average returned 9.2% in what has been an excellent year following the recovery from the COVID pandemic. The Fund's investment assets returned 10.8% and has been in line with the average over both the 5 and 10 years but has trailed the average over the longer term and most recent 3 years with 3% return and ranking in the 85th percentile. The equity funds within the portfolio delivered a return of 20.4% over the year although the equity protection fund was some way behind with -2.9% return. The diversified growth funds returned -1.7% due to a high allocation to equities with the individual funds. All other asset classes delivered positive returns over the year with bond funds at 6.3%, multi-asset credit 11.5% and property 3.3%.

The Fund performance over the 10 and 20 years has been below average, ranking in the 46th and 78th percentile respectively. In the medium term the Fund has performed better, with a ranking in the 44th percentile over five years.

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



Fund Management Activity

The London Borough of Tower Hamlets Pension Fund has specialist investment managers which manage both actively managed and passive mandates. 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. Insight manages a Liquidity Fund.

London Collective Investment Vehicle (LCIV)

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:

LCIV ACS (Public Market) Funds

- 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 2024 was £404m. Since inception the fund has shown a return of -1.35%, underperforming the benchmark by -10.19%.
- 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 2024 was £87.8m. This portfolio gave a return over the year of 3.84%, underperforming the benchmark by 4.73%. It has also underperformed the benchmark over the longer term with excess returns over three years of -6.48% per annum and -3.88% 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 2024 was £184.37m. The portfolio underperformed the benchmark for one year by 13.96% and for 3 years by 4.81% and outperformed the benchmark for 5 years by 0.17%.

- d) **LCIV Multi Asset Credit LCIV (MAC) Fund** – LCIV invest in CQS Credit Multi Asset Fund with an objective to return London Interbank Offered Rate (LIBOR) +4-5% per annum over a 4-year rolling period and the expected volatility for this fund is 4-6% over a 4-year rolling period. Multi Asset Credit (MAC) – are strategies that make investments in multiple areas of credit. This involves bonds and loans from non-government issuers. Investments can be held as long or short. A long position is when the portfolio manager 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 £127.99m at 31 March 2024. This portfolio has outperformed the benchmark by 2.01% over one year and underperformed the benchmark by -3.93%p.a. over 3 years and by 2.66% over 5 years.

LCIV Private Market Funds

- 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 2024 the value of TH Pension Fund's investments in this Fund was £77.07m. Over the year to 31 March 2024, the Fund returned -2.26%. It has returned 9.81% since inception, overperforming its benchmark by 2.82%.
- 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. The value of the Pension Fund's holding at 31 March 2024 was £0.48m. It has returned 0.02% since inception.

Schroder's Investment Management

Schroder currently manage two investment portfolios for the Fund.

- a) **Property Investment** - The value of this mandate on 20 September 2004 was £90m. The performance target for this mandate is to outperform the Investment Property Databank (IPD) UK Pooled Property Fund Indices All Balanced Funds Median benchmark by 0.75% net of fees over a rolling three-year period. The market value of assets at 31 March 2024 was £225.5m.

The fund has delivered excess returns over 1, 3 and 5 years of 3.98%, 1.91% and 1.18% respectively.

b) **Equity Protection Strategy / Index Linked Bonds** – In September 2018 the Fund implemented an equity protection strategy by investing in Schroders Bespoke Pooled Vehicle to manage equity downside risk on the Fund total equity holdings. The equity protection component of the strategy was discontinued, but the Fund has retained the Index Linked Bonds that were held as part of the strategy.

As at 31 March 2024 the portfolio was valued at £191.2m. Over one year it outperformed its benchmark by 3.93% but underperformed it over 3 years by 2.55%.

Goldman Sachs – The Fund has disinvested most of its investment in the Goldman Sachs Strategic Absolute Return Bond II (STAR II). A residual amount of £0.07m remained at 31 March 2024.

Insight Investment Management – Insight manages liquidity funds on behalf of the Pension Fund. At 31 March 2024, Insight liquidity funds were valued at £88.38m

The Fund previously had investments in Insight's BNY Mellon Global Funds. Most of these investments have been disinvested. A residual value of less than £0.05m remains at 31 March 2024.

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 2024, the Low Carbon Hedged fund had a market value of £424.95m and the Low Carbon unhedged fund had a market value of £136.18m. As expected from a tracking manager, all the portfolios approximately matched the benchmark returns with the lowest excess return being -0.1% over 1,3 and 5 years.

Asset Allocation

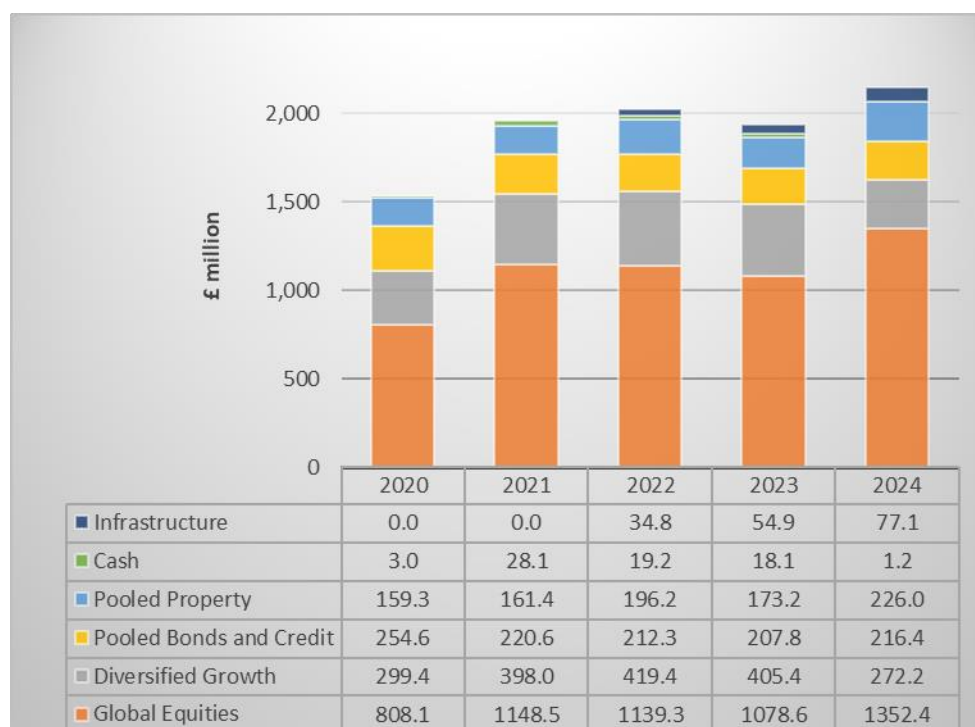
The asset allocation within the portfolio is in line with or within the agreed tolerance of the benchmark asset allocation as set out in the latest Investment Strategy Statement at Appendix 2. The Committee has agreed to take corrective action and rebalance asset allocation where bond to equity allocation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

Analysis of Asset Allocation

Asset Class	Benchmark	Fund Position	Variance
Global Equities	50.0%	54.1%	4.1%
Indexed Linked Gilts	6.0%	8.9%	2.9%
Multi Asset Credit*	6.0%	6.0%	0.0%
Property	12.0%	10.6%	-1.4%
Diversified Growth	15.0%	12.7%	-2.3%
Renewable Infrastructure	6.0%	3.6%	-2.4%
UK Affordable Housing	5.0%	0.0%	-5.0%
Liquidity Fund (Pooled)	0.0%	4.1%	4.1%
Cash	0.0%	0.1%	0.1%

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



Financial Accounts

During the financial year 2023/24 the value of the Fund increased by £207.5m (10.71%) from £1,937.6m to £2,145.1m.

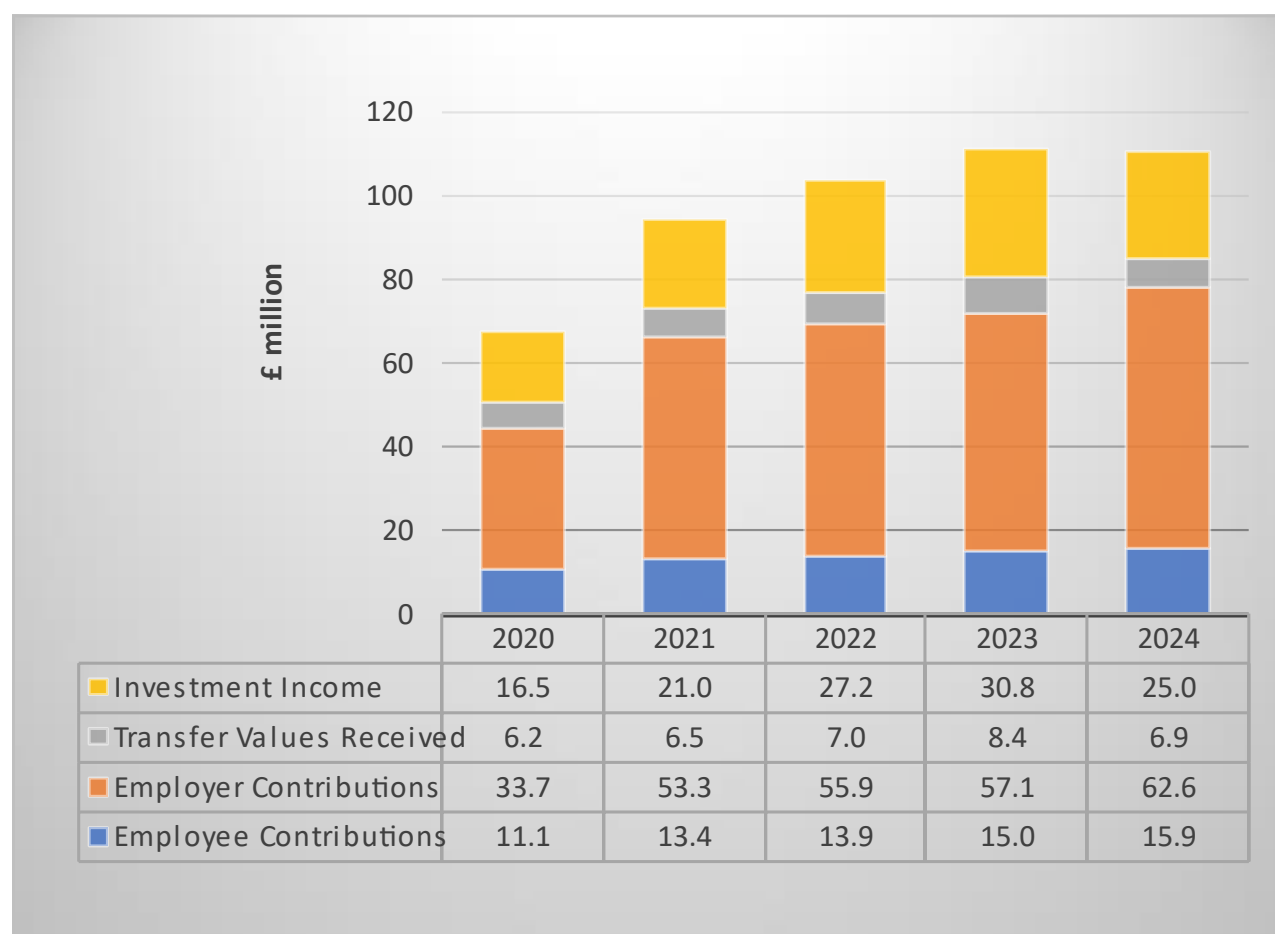
Fund Income

There was an overall increase of £5.9m in the amount of income received by the Fund in 2023/24 compared to 2022/23.

Fund Income Variance Analysis

Type of Income	2022/23 £m	2023/24 £m	Variance %
Employee Contributions	-15.0	-15.9	5.6%
Employer Contributions	-57.1	-62.6	9.6%
Transfer Values Received	-8.4	-6.9	-18.5%
Investment Income*	-30.8	-25.0	-18.8%
Total Fund Income	-111.4	-110.4	-0.9%

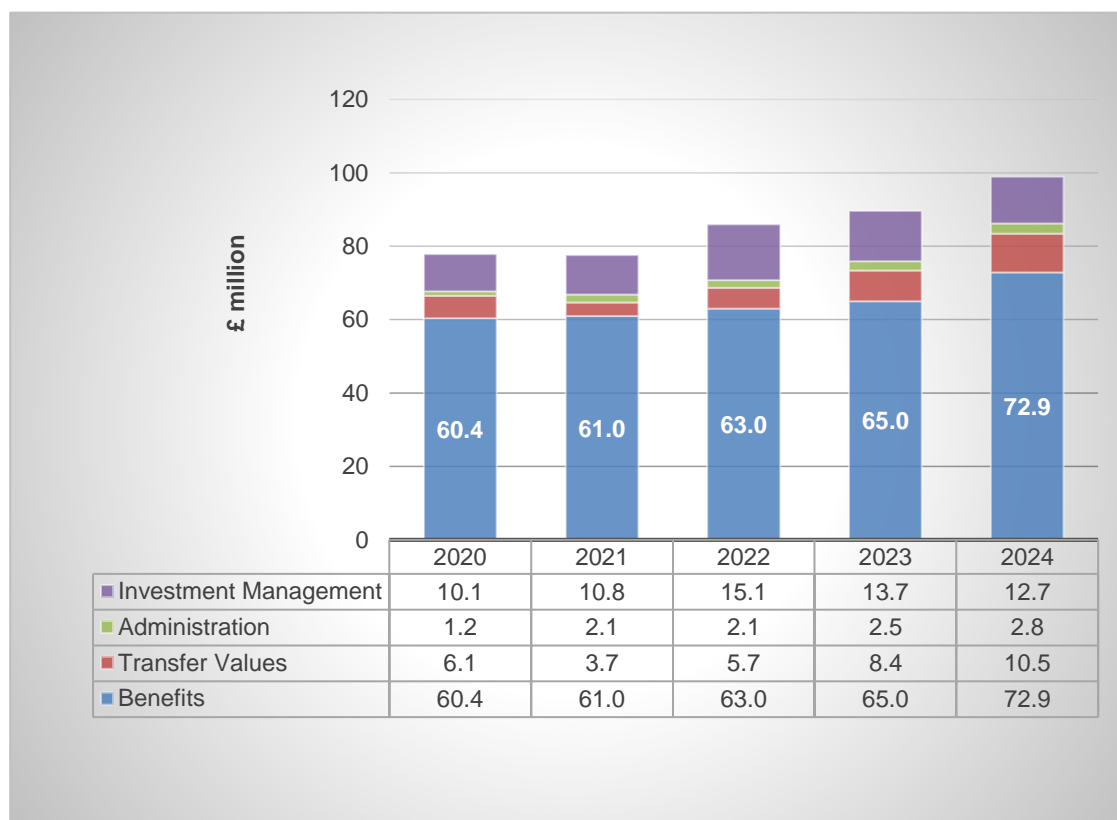
Employer contributions show the largest increase of £5.5m. Transfer Values received (amounts paid over when a fund member transfers their benefits from one fund to another) decreased by £1.5m. It is not possible to predict the value of transfer value payments as they are dependent on individual's length of service and salary and as such may vary significantly. Employee contributions increased over the year by £0.9m. The fall in investment income was due to a re-classification of a portion of investment income in the current year to change in market value of investments.

Fund Income Analysis

Fund Expenditure

In 2023/24 the overall Fund expenditure increased by £9.3m (10.4%). The biggest increase was in Transfer values, up £2.1m (25%). 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	2023 £m	2024 £m	Variance %
Benefits	65.0	72.9	12.2%
Transfer Values	8.4	10.5	25.7%
Administration	2.5	2.8	10.5%
Investment Management	13.7	12.7	-7.7%
Total Fund Expenditure	89.6	98.9	10.4%

Management Costs

Management costs of the Fund are classified into 3 categories: investment management, administration and oversight and governance. The table below shows these costs over the

past 5 years and the cost per member. (Note that from 2020 the investment costs included additional costs of pooled investments not previously reported).

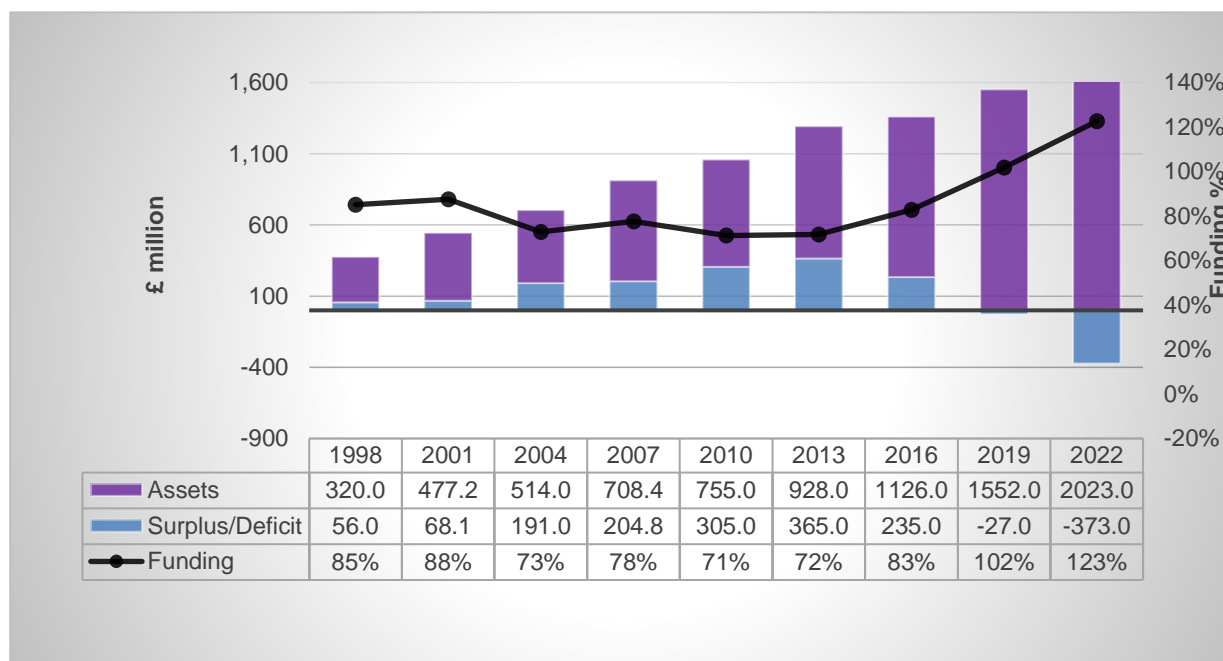
	2020	2021	2022	2023	2024
Management Expenses					
Members (average during year)	21,438	21,972	22,437	23,147	23,571
Investment Management					
cost per member	£10.1m £471.13	£10.8m £491.53	£15.1m £673.00	£13.7m £591.87	£12.7m £538.80
Administration					
cost per member	£1.0m £47.81	£1.5m £68.45	£1.6m £73.41	£2.0m £86.10	£2.4m £103.39
Oversight and Governance					
cost per member	£0.2m £8.16	£0.6m £27.13	£0.5m £20.19	£0.5m £21.90	£0.4m £15.40
Total Fund Management Expenses					
cost per member	£11.3m £527.1	£12.9m £587.1	£17.2m £766.6	£16.2m £699.9	£15.5m £657.6

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 2022. The Actuary calculated that the Pension Fund is 123% funded which equates to a surplus of £373m.

Movement in Funding Level



The funding level has improved from 85% in 2016 to 123% in 2022. 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 has increased to 20.9% from that calculated at the 2019 valuation of 19.9% of pensionable pay. This is due to rising inflation. The Secondary rates have decreased from an average of approximately £15m per annum over three years per the 2019 valuation to approximately £14.3m per annum over three years per the 2022 valuation. This is due to strong investment performance since the last valuation. (The new rates commence from the 1 April following the one-year anniversary of the valuation date).

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

It should be emphasised that the deficit does not affect employees' pension entitlement. The Council is under a statutory obligation to provide sufficient funds to pay pensions and has adopted a strategy recommended by the Actuary to achieve full funding in twenty years. Councils can take a long-term perspective because of their financial stability and statutory backing. The 2022 valuation exercise, like the 2019 exercise, continues to show the Fund to be gradually maturing as the number of employee members increases at a slower rate than the increase in deferred and pensioner numbers.

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 2025.

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 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 2023/24 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.

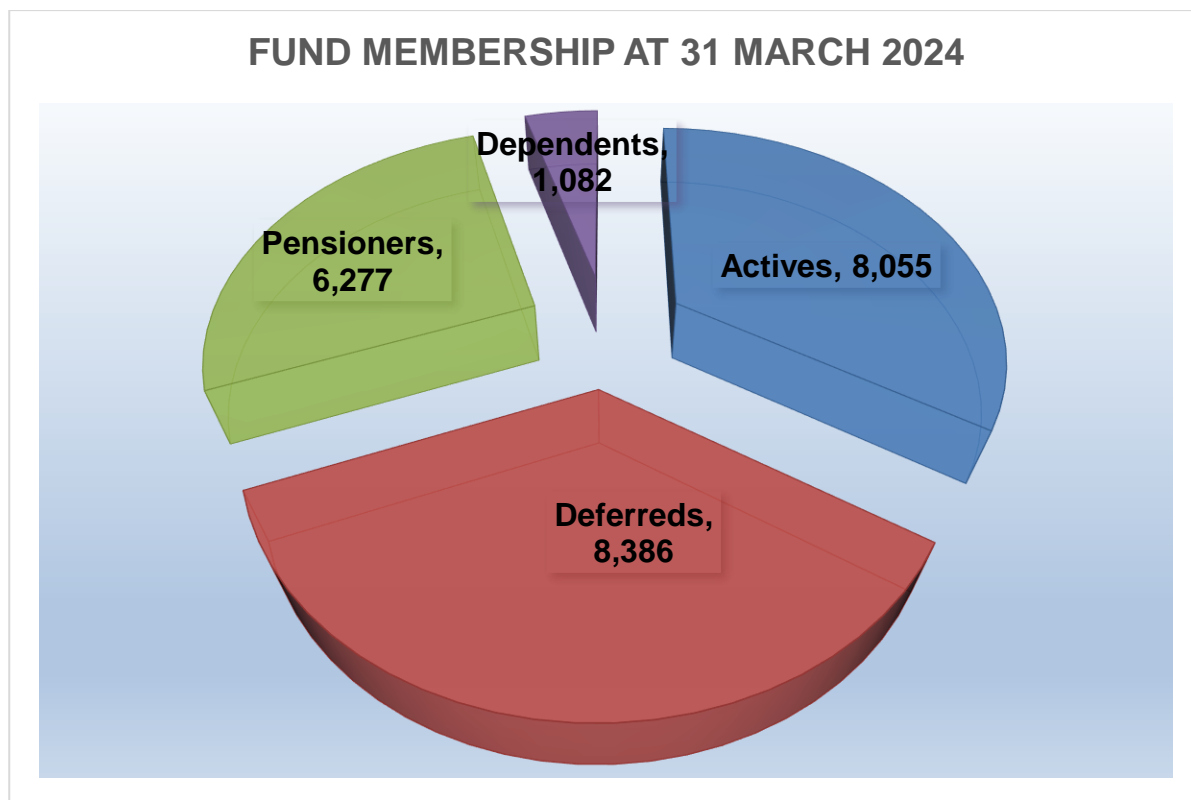
It should be noted that the foregoing is not an exhaustive list and that certain conditions have to be met for an individual to be entitled to the benefits outlined.

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 23,800 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 2% between 2022/23 and 2023/24. The number of active members (those currently contributing to the fund) has increased by 298 members (3.8%). The deferred membership category (members who have contributed in the past but who have not yet become entitled to their benefits) has decreased by 12 (-0.1%). Pensioners and dependents have increased by 161 (2.6%) and by 12 (1.1%).

Movement in Fund Membership

Membership Type	31-Mar-23	31-Mar-24	Variance	Variance %
Actives	7,757	8,055	298	3.8%
Deferreds	8,398	8,386	-12	-0.1%
Pensioners	6,116	6,277	161	2.6%
Dependants	1,070	1,082	12	1.1%
Total	23,341	23,800	459	2.0%

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

Membership Type	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24
Actives	7,523	7,230	7,652	7,757	8,055
Deferreds	7,960	7,993	8,321	8,398	8,386
Pensioners	5,509	5,644	5,931	6,116	6,277
Dependants	1,031	1,054	1,048	1,070	1,082
Total	22,023	21,921	22,952	23,341	23,800

Fund Employers

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

Administering Authority

- Tower Hamlets LBC
- Tower Hamlets Schools
- Central Foundation
- Itres (Fortnightly Payroll)
- TH EPM MPP

Admitted Bodies

- Accent
- Age UK
- Atlantic Cleaning
- East End Homes
- Greenwich Leisure Ltd
- Juniper Catering
- Nourish new
- Nourish Catering (Thomas Buxton/John Scurr)

- Olive Dir new
- Olive Dining (St Pauls way)
- Olive Dining (Morpeth/Bow/Central)
- Phoenix – Open
- Phoenix - Closed
- Purgo St Pauls Way
- Purgo Cyril Jackson
- Ridge Crest Cleaning
- Tower Hamlets Community Housing – open scheme
- Vibrance (*formerly Redbridge Community Housing Ltd*)
- Wettons Cleaning Services Limited

Scheduled Bodies

- Bishop Challinor Catholic federation of schools
- Boleyn Trust (*Clara Grant*)
- Canary Wharf College
- Cyril Jac UST
- Day One Trust - East London Arts & Music
- Ian Mikardo Academy (T4 Trust)
- Letta Trust (*Stebon & Bygrove*)
- London Enterprise Academy
- Mulberry Academy
- Mulberry Trust (*Stepney Green*)
- Olga Primary School
- Paradigm Trust (*Culloden, Old Ford & Solebay Academy*)
- Sir William Burrough (UST)
- St Pauls Way Community School
- 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 £
London Borough of Tower Hamlets	14,108,545	56,587,980
Age UK	4,561	13,816
Atlantic Cleaning Services Limited	861	5,686
Canary Wharf College	48,301	153,527
Canon Barnett Academy	21,779	75,727
City Gateway	5,637	13,239
Clara Grant (Boleyn Trust)	35,831	142,105
Compass Contract	224	1,416
Cyril Jackson Academy	27,135	115,540
East End Homes	55,705	1,905,477
East London Arts & Music	27,495	83,474
Greenwich Leisure Limited	15,564	52,369
Ian Mikardo Academy (T4 Trust)	18,856	62,356
Juniper Cleaning St Saviours	322	2,254
LETTA Trust	80,517	303,596
London Enterprise Academy	27,204	85,562
Mulberry Academy	262,759	905,616
Nourish Catering – Chisenhale/Old Palace	2,111	15,506
Nourish Catering – Thomas Baxter/John Scarr	3,389	26,152
Olive Dining – Bow school	2,119	17,814
Olive Dining – Central Foundation Girls School	3,919	29,467
Olive Dining – Morpeth School	2,601	20,860
Olive Dining St Paul's	9,264	29,446
One Housing (Toynbee Island)	10,050	328,014
Paradigm Trust	73,622	255,210
Phoenix Autism Trust (Closed Scheme)	15,340	61,166
Phoenix Autism Trust (Open Scheme)	7,088	30,880
Purgo Cyril Jackson	3,325	14,553
Purgo St Paul's	8,408	24,909
Redbridge CHL (Vibrance)	1,807	44,367
Ridge Crest Cleaning Services Ltd	2,300	5,502
Ridge Crest Cleaning – Stebon	5,124	35,497
Sir William Burrough Academy	32,188	119,350
St Pauls Way Trust Academy	174,884	467,624
Stepney Green (Mulberry Trust)	57,303	199,579
Taylor Shaw	5,072	39,071
Taylor Shaw (Stepney Green)	3,248	21,787
THCH Monthly (Closed Scheme)	1,271	7,350
THCH Monthly (Open Scheme)	4,411	136,295
Tower Hamlets Homes	684,725	161,566
Wapping High School	11,467	29,318
Wettons Cleaning Services Ltd	2,026	4,905
Total	15,868,358	62,635,928

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 undertaken by the Pensions Administration team are shown in the table below together the number of cases dealt with in 2023/24. 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.

Table A – Total Number of casework

Ref	Casework KPI	Total number of cases open as at 31 March	Total number of new cases created in the year (1 April to 30 March)	Total number of cases completed in year	Total number of cases completed in previous year
A1	Deaths recorded of active, deferred, pensioner and dependent members	60	504	543	477
A2	Deferred member retirements	21	244	253	206
A3	Active member retirements	18	202	213	188
A4	Deferred benefits	19	427	424	564
A5	Transfers in (including interfunds in, club transfers)	13	125	116	126
A6	Transfers out (including interfunds out, club transfers)	10	180	168	192
A7	Refunds	15	295	298	340
A8	Divorce quotations issued	2	31	33	18
A9	Actual divorce cases	2	2	3	3
A10	Member estimates requested either by scheme member and employer	21	832	821	440
A11	New joiner notifications	11	1113	1115	1887
A12	Aggregation cases	33	165	182	203
A13	Optants out received after 3 months membership	29	520	522	393

Table B – Time taken to Process casework

Ref	Casework KPI	Suggested fund target	% completed within fund target in year	% completed in previous year
B1	Communication issued with acknowledgement of death of active, deferred, pensioner and dependent member	5 days	65.23	61.18
B2	Communication issued to deferred member with pension and lump sum options (quotation)	15 days	84.15	85.66
B3	Communication issued to active member with pension and lump sum options (quotation)	15 days	88.35	84.35
B4	Communication issued to deferred member with confirmation of pension and lump sum options (actual)	15 days	56.28	37.19
B5	Communication issued to active member with confirmation of pension and lump sum options (actual)	15 days	55.61	62.29
B6	Payment of lump sum (both actives and deferreds)	15 days		
B7	Communication issued with deferred benefit options	30 days	91.42	91.39
B8	Communication issued to scheme member with completion of transfer in	15 days	57.27	68.91
B9	Communication issued to scheme member with completion of transfer out	15 days	70.06	77.05
B10	Payment of refund	10 days	65.36	66.67
B11	Divorce quotation	45 days	96.67	100
B12	Communication issued following actual divorce proceedings i.e application of a Pension Sharing Order	15 days	0	0
B13	Communication issued to new starters	40 days	100	81.45
B14	Member estimates requested by scheme member and employer	15 days	88.35	84.35

Table C – Communications and Engagement

Ref	Engagement with online portals	Percentage as at 31 March
C1	% of active members registered	35.06
C2	% of deferred member registered	16.73
C3	% of pensioner and survivor members	17.04
C4	% total of all scheme members registered for self-service	23.04
C10	Number of employer engagement events held in year (in-person and online)	0
	a) Active members	1
	b) Deferred members	1
	c) Pensioners	3+

Administration KPI Table D - Resources

Ref	Resources	
D1	Total number of all administration staff (FTE)	13
D2	Average service length of all administration staff	17.5
D3	Staff vacancy rate as %	15
D4	Ratio of all administration staff to total number of scheme members (all staff including management)	1760/1
D5	Ratio of administration staff (excluding management) to total number of scheme members	2030/1

Data E – Data Quality

	Annual Benefit Statements	
	Data category	
E1	Common data score	94
E2	Scheme specific data score	68
E3	Percentage of active, deferred and pensioner members recorded as 'gone away' with no home address held, or address is known to be out of date	1369
E4	Percentage of active, deferred and pensioner members with an email address held on file	52
Employer performance		
E5	Percentage of employers set up to make monthly data submissions	100
E6	Percentage of employers who submitted monthly data on time during the reporting year	100

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 2023/24			
MANAGER	FUND	£m	% of Fund
Investments Within Asset Pool			
London LGPS CIV	Global Alpha Equity	404.2	18.8%
	Multi-Asset Credit	128.0	6.0%
	Diversified Growth	87.8	4.1%
	Absolute Return	184.4	8.6%
	Sustainability Fund	195.7	9.1%
	Renewables Fund	77.1	3.6%
	UK Housing	0.5	0.0%
Sub-total		1,077.6	50.2%
Investments Outside Asset Pool			
Schroder	I/L Gilts	191.2	8.9%
	Real Estate	225.5	10.5%
Legal & General	MSCI World Low Carbon Index (GBP Hedged)	425.0	19.8%
	MSCI World Low Carbon Index (unHedged)	136.2	6.3%
Goldman Sachs	Strategic Absolute Return Bonds	0.0	0.0%
Insight Investment	Absolute Return Bonds	0.0	0.0%
	ILF Liquidity Bond	88.4	4.1%
Legacy	Miscellaneous	0.2	0.0%
LBTH	Internally managed cash	1.2	0.1%
Sub-total		1,067.8	49.8%
Grand Total		2,145.3	100.0%

Asset Table

£m Asset values as at 31 March 2024	Pooled	Under pool management	Not pooled	Total
Equities (including convertible shares)	600	561		1,161
Bonds	128		280	408
Property			226	226
Hedge funds	184			184
Diversified Growth Funds (including multi-asset funds)	88			88
Private equity				-
Private debt				-
Infrastructure	77			77
Derivatives				0
Cash and net current assets			1	1
Other				-
Total	1,077	561	507	2,145

Supplementary table

£m Asset values as at 31 March 24	Pooled	Under pool management	Not pooled	Total
UK Listed Equities	21	20		41
UK Government Bonds	123		191	314
UK Infrastructure	32			32
UK Private Equity				-

Levelling up

£m Asset values as at 31st March 2024	Pooled	Under pool Management	Not Pooled	Total
UK Levelling Up				
LCIV UK Housing Fund	0.48	-	-	0.48

Investment in this fund has recently commenced.

Investment Costs Comparison

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

	London CIV Asset Pool				Non-Asset Pool				Whole Fund	
Category	Direct Costs £000	Indirect Costs £000	Total Costs £000	% of Asset Value	Direct Costs £000	Indirect Costs £000	Total Costs £000	% of Asset Value	Total Costs £000	% of Asset Value
Asset Pool Costs	14.5		14.5	0.001%					14.5	0.001%
Management Fees		9,199.6	9,199.6	0.819%	849.6	2,474.2	3,323.8	0.373%	12,523.3	0.622%
Transaction Costs		2,452.0	2,452.0	0.218%		38.2	38.2	0.004%	2,490.2	0.124%
Custody Fees					72.0		72.0	0.008%	72.0	0.004%
Total	14.5	11,651.6	11,666.1	1.038%	921.5	2,512.4	3,433.9	0.386%	15,085.5	0.749%

ACTUARIAL VALUATION

Actuarial Valuation March 2022

An actuarial valuation of the London Borough of Tower Hamlets Pension Fund was carried out by Hymans Robertson LLP as at 31 March 2022 to determine the contribution rates that should be paid into the Fund by the employing authorities as from 1 April 2023 to 31 March 2026 in order to maintain the solvency of the Fund.

On the basis of the assumptions adopted, the valuation revealed that the funding level at the valuation date was 123% and the estimated surplus on the Fund was £373m. 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 £14.3m per annum.

Individual employer rates are required under Regulation 62(4) for the period 1 April 2023 to 31 March 2026 resulting in a Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

Employer Name as per 31 March 2019	Minimum Contribution for the year ending					
	Year ending 31 March 2024	Additional Monetary Deficit Payment	Year ending 31 March 2025	Additional Monetary Deficit Payment	Year ending 31 March 2026	Additional Monetary Deficit Payment
London Borough of Tower Hamlets (non-schools)	18.6%	£13.65m	18.6%	£13.65m	18.6%	£13.65m
London Borough of Tower Hamlets (schools)	24.3%		25.3%		26.3%	
Tower Hamlets Community Housing Limited	48.7%	£117k	48.7%	£117k	48.7%	£117k
Mulberry Trust	23.5%		23.5%		23.5%	
St Paul's Way Trust pool incl. contractor	17.6%		17.6%		17.6%	
Cyril Jackson pool incl contractor	25.1%		25.1%		25.1%	
Redbridge Community Housing Limited	62.4%	£27k	62.4%	£27k	62.4%	£27k
East End Homes Limited	60.8%	£1,445,000	60.8%	£1,445,000	60.8%	£1,445,000
Greenwich Leisure Limited	28.6%		28.6%		28.6%	
Gateway Housing Association (Bethnal Green & Victoria Park)	60.7%	£175k	60.7%	£175k	60.7%	£175k
One Housing Group (Toynbee Island Homes)	60.8%	£234k	60.8%	£234k	60.8%	£234k
Tower Hamlets Homes	18.4%		18.4%		18.4%	
Sir William Burrough School	22.2%		22.2%		22.2%	
Canary Wharf College	19.7%		19.7%		19.7%	
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%	

Employer Name as per 31 March 2022	Minimum Contribution for the year ending					
	Year ending 31 March 2024	Additional Monetary Deficit Payment	Year ending 31 March 2025	Additional Monetary Deficit Payment	Year ending 31 March 2026	Additional Monetary Deficit Payment
East London Arts and Music	19.4%		19.4%		19.4%	
Paradigm Trust	20.8%		20.8%		20.8%	
Wettons Cleaning Services Ltd	37.0%		37.0%		37.0%	
Medequip	34.8%		34.8%		34.8%	
Taylor Shaw (Morpeth, Bow, Central Foundation)	35.0%		35.0%		35.0%	
Atlantic Cleaning	35.9%		35.9%		35.9%	
Juniper Cleaning (St Saviours)	38.7%		38.7%		38.7%	
Juniper Catering (St Saviours)	40.5%		40.5%		40.5%	
Age UK	18.9%		18.9%		18.9%	
Clara Grant	25.4%		25.4%		25.4%	
Taylor Shaw Stepney Green	34.2%		34.2%		34.2%	

In addition to the certified contribution rates, payments to cover the additional liabilities 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 tables below show the main assumptions used in the 2022 valuation.

Funding Target

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

Salary and Benefits

Financial assumptions (per annum)	31 March 2019	31 March 2022
Investment returns	4.0%	4.6%
Benefit increase and CARE revaluation	2.3%	2.7%
Salary increase	2.5%	2.7%

Life Expectancy

Assumed life expectancy	31 March 2019	31 March 2022
Male – Current pensioners	21.5	21.7
Male – Future pensioners	22.6	22.8
Female – Current pensioners	23.5	24.2
Female – Future pensioners	25.0	25.7

The next triennial valuation of the Fund is due as at 31 March 2025. The contribution rates payable by the individual employers will be revised with effect from 1 April 2026.

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 Corporate Director of Resources

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 38 to 66 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 2024 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2024, except for, the effects at 31 March 2024 of issues relating to the quality of historical pension scheme membership data on the present value of promised retirement benefits.



Julie Lorraine

Corporate Director of Resources and Section 151 Officer

Date : 28 February 2025

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

Opinion

We have examined the pension fund financial statements for the year ended 31 March 2024, which comprise the Fund Account, the Net Assets Statement and the related notes.

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of London Borough Of Tower Hamlets for the year ended 31 March 2024 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

Respective responsibilities of the Director of Corporate Resources and the Auditor

As explained more fully in the Statement of the Director of Corporate Resources Responsibilities, the Director of Corporate Resources is responsible for the preparation of the pension fund's financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

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 2023/24.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only.

- Foreword by the chair of the Pensions Committee
- Governance of the Pension Scheme
- Staff, Advisers and Investment Managers
- Governance and oversight review
- Pensions Committee attendance
- Knowledge and Skills policy statement
- Risk Management
- Investment performance review
- The scheme details
- Pensions administration
- Asset pools
- Actuarial valuation
- Statement of responsibilities

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.



Hassan Rohimun (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Manchester
28 February 2025

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The London Borough of Tower Hamlets Pension Fund

Appendix 1

Statement of Accounts 2023/24

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2022/23 £'000	2023/24 £'000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions	7	(72,134)	(78,505)
Transfers in from other pension funds	8	(8,412)	(6,856)
Benefits	9	64,998	72,921
Payments to and on account of leavers	10	8,696	10,823
NET (ADDITIONS)/DEDUCTIONS FROM DEALINGS WITH MEMBERS		(6,852)	(1,617)
Management expenses	11	16,207	15,449
NET (ADDITIONS)/DEDUCTIONS INCLUDING FUND MANAGEMENT EXPENSES		9,355	13,832
RETURN ON INVESTMENTS			
Investment Income	12	(30,820)	(25,760)
Taxes on Income		-	5
Change in market value of investments	14a	107,272	(195,556)
NET RETURN ON INVESTMENTS		76,452	(221,311)
Net (increase)/decrease in the Fund during the year		85,807	(207,479)
Add: Opening net assets of the scheme		(2,023,397)	(1,937,590)
CLOSING NET ASSETS OF THE SCHEME		(1,937,590)	(2,145,069)
NET ASSETS STATEMENT AS AT			
		31 MARCH 2023 £'000	31 MARCH 2024 £'000
Long Term Investments	14	150	150
Investments Assets	14	1,938,074	2,144,119
Current Assets	21	1,863	5,368
Current Liabilities	22	(2,497)	(4,568)
NET ASSETS		1,937,590	2,145,069

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 Pensions 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 include local authorities, academies, colleges and similar 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 2024

	31st March 2023	31st March 2024
Number of active employees		
LBTH	6,664	7,188
Other employers	1,093	867
	7,757	8,055
Number of pensioners		
LBTH	6,660	6,797
Other employers	526	562
	7,186	7,359
Number of deferred pensioners		
LBTH	7,779	7,723
Other employers	619	663
	8,398	8,386
Total number of members in pension scheme	23,341	23,800

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 2024. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2022 which covers the three financial years to 31 March 2026 and these rates have been applied from 1 April 2023.

Currently, employer contribution rates range from 18.2% to 62.4% of pensionable pay, plus deficit funding contributions.

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 2023/24 financial year and its financial position at 31 March 2024. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (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.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 2A: GOING CONCERN

The accounts have been prepared on a going concern basis. In carrying out its assessment that this basis is appropriate, made to 28 January 2025, the Council, as administering authority of the Pension Fund, has considered the additional qualitative and quantitative key requirements:

The basis for preparation is supported by legislation for local authorities, and the Code requirements on the basis of the continuation of services.

The Fund is cashflow positive meaning that the contributions received from the employers and members of the scheme exceed the benefits amount paid out. All employers within the fund are paying contributions as per the rates and adjustment certificate.

The latest statutory valuation at 31 March 2022 showed the Fund to have a funding level of 123%. This improved funding level has resulted in many Employers paying lower contribution rates from 1 April 2023 which will reduce the income from contributions over the next 3 years. If benefits exceed contributions over the next three years, it is expected that any shortfall will be able to be met through investment income or through disinvestments from liquid investments. More than 87% of the Fund's assets are readily liquidisable.

The Pension Fund has not utilised any borrowing during the 2023 - 2024 financial year or within the 2024 - 2025 year to date.

On this basis, the Pension Fund has a reasonable expectation that it will have adequate resources to continue in operational existence throughout the going concern period. For this reason, alongside the statutory guidance, the Fund continue to adopt the going concern basis in preparing these financial statements.

NOTE 2B: ACCOUNTING STANDARDS ISSUED, NOT ADOPTED

The Code of Practice on Local Authority Accounting in the United Kingdom 2023-2024 requires the disclosure of information relating to the expected impact of changes that will be required by a new standard that has been introduced but not yet adopted and applies to the adoption of the following disclosures as amended in the 2024-2025 code:

- IFRS 16 - Leases
- IAS 1 - Classification of current and non-current liabilities
- IAS 12 - Deferred Tax
- IFRS 7/IAS 7 - Supplier finance arrangements

The code requires implementation of the above disclosures from 1 April 2024. These changes are not considered to have a material effect on the Pension Fund accounts of 2023-2024.

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. Employer contributions 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.

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.

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. No estimates were required at 31 March 2023 or at 31 March 2024.

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.

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. The Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosure (PRAG/Investment Association, 2016) (see Note 17A).

h) Freehold and leasehold properties

The Fund has no direct investment in property.

i) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

j) 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.

k) Cash and cash equivalents

Cash comprises cash at bank 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.

l) Financial assets at amortised cost

Financial assets classified 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.

m) Financial liabilities

A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised cost are carried at amortised cost 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

n) Actuarial present value of promised retirement benefits

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

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 pension. Errors were identified in the information provided by the council to the actuary for the purposes of the valuation of present value of promised retirement benefits at 31 March 2020. At the time of signing of these accounts, the council was in the process of identifying and rectifying these errors. Consequently, there is uncertainty regarding the accuracy of the information provided to the actuary for the purposes of promised retirement benefits at 31 March 2023, which may have a consequential effect on the promised retirement benefits at 31 March 2024.

o) Additional voluntary contributions

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

p) Contingent assets and contingent liabilities

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

q) Recharges from the General Fund

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

r) Annual allowance (VSP,MSP) and lifetime 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 an expense in the year in which the payment occurs.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund liability

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

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19. Actuarial re-valuations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

In response to the government's guidance and criteria on pooling investments issued in 2015, the London Borough of Tower Hamlets Pension Fund is a founding member of the London Collective Investment Vehicle (LCIV) established as a Collective Investment Vehicle for LGPS Funds. At the end of 31 March 2024, the Fund has £1,077.6m (50.2%) under LCIV management. A further £561m (26.2%) is invested in Legal and General Passive Pool.

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

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

a) Actuarial present value of promised retirement benefits

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

For example:

A 0.1% decrease in the discount rate used would result in an increase in the pension liability of £32m.

A 0.1% increase in salary increase rate would increase the earnings inflation value of the liabilities by approximately £1m.

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 at £274.3m according to non-exchange based market valuations. As a result of this, the final realised value of the pooled units may differ from the valuations presented in the accounts.

NOTE 6: EVENTS AFTER THE REPORTING DATE

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 7: CONTRIBUTIONS RECEIVABLE

	2022/23 £'000	2023/24 £'000
Employees		
Council Employees' Normal Contributions	(12,830)	(14,109)
Admitted Bodies Employees' Normal Contributions	(196)	(148)
Scheduled Bodies Employees' Normal Contributions	(2,003)	(1,612)
Total	(15,029)	(15,869)
Employers		
Council Employers' Normal Contributions	(36,416)	(40,736)
Admitted Bodies Employers' Normal Contributions	(943)	(960)
Scheduled Bodies Employers' Normal Contributions	(5,644)	(4,868)
Total	(43,003)	(46,564)
Employers' Special Contributions	(438)	(599)
Deficit Funding	(13,664)	(15,473)
Total	(14,102)	(16,072)
Grand Total	(72,134)	(78,505)

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

	2022/23 £'000	2023/24 £'000
Transfer Values		
Transfer Values Received - Individual	(8,412)	(6,856)
Total	(8,412)	(6,856)

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 9: BENEFITS PAYABLE

	2022/23 £'000	2023/24 £'000
Pensions	53,525	59,533
Lump Sum Retirement Benefits	9,026	11,986
Lump Sum Death Benefits	2,447	1,402
Total	64,998	72,921
By type of employer:		
Administering Authority	60,298	66,177
Scheduled Bodies	2,326	3,416
Admitted Bodies	2,374	3,328
Total	64,998	72,921

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2022/23 £'000	2023/24 £'000
Transfer Values Paid	8,375	10,529
Refunds to Members Leaving Service	321	294
Total	8,696	10,823

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 11: MANAGEMENT EXPENSES

	2022/23 £'000	2023/24 £'000
Administration	1,990	2,395
Investment Management Expenses	13,710	12,653
Oversight & Governance	507	363
Total	16,207	15,411

NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

	Management Fees £'000	Transaction Costs £'000	2023/24 £'000
Pooled Investments	7,209	2,740	9,949
Pooled Property Investments	2,324	307	2,631
	9,533	3,047	12,580
Custody Fees			73
			12,653

	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

NOTE 12: INVESTMENT INCOME

	2022/23 £'000	2023/24 £'000
Pooled Property Investments	(6,150)	(6,579)
Pooled Investments -unit trusts and other managed fund	(24,402)	(18,487)
Interest on Cash Deposits	(268)	(694)
	(30,820)	(25,760)

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 13: EXTERNAL AUDIT COSTS

	2022/23 £'000	2023/24 £'000
Audit Fees Payable in respect of external audit	35	73
Total	35	73

NOTE 14: INVESTMENTS

	2022/23 £'000	2023/24 £'000
Long Term Investments		
UK unquoted Equities London CIV Ltd	150	150
Total Long Term Investments	150	150
Investment assets		
Pooled Funds		
Fixed Income	207,801	216,338
Global Equity	1,078,437	1,352,609
Diversified Growth	405,453	261,173
Property	162,213	206,332
Infrastructure	53,689	67,974
Sub-Total	1,907,593	2,104,426
Other Investment Balances		
Cash held for investments	29,853	30,483
Amounts Receivable for Sales of Investments	-	11,012
Amounts Payable for Purchases of Investments	-	(2,551)
Investment Income Due	628	553
Investment Income Other	0	196
Sub-Total	30,481	39,693
Total Investment Assets	1,938,074	2,144,119

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market Value 31 Mar 2023 £'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 2024 £'000
Investment Assets					
Pooled Investments	1,691,691	212,562	(268,834)	194,701	1,830,120
Pooled Property Investments	162,213	46,002	(3,222)	1,339	206,332
Private equity/Infrastructure	53,689	16,349	(1,014)	(1,050)	67,974
	1,907,593	274,913	(273,070)	194,990	2,104,426
Other Investment Balances					
Cash held for investments	29,853			566	30,483
Amounts Receivable for Sales of Investments	-				11,012
Amounts Payable for Purchases of Investments	-				(2,551)
Investment Income Due	628				553
Other	-				196
Net Investment Assets	1,938,074			195,556	2,144,119

	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 held for investments	26,053			75	29,853
Investment Income Due	684				628
Net Investment Assets	2,021,791			(107,272)	1,938,074

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 bank account for the Fund is held with National Westminster Bank.

Security	Market value as at 31st March 2023 £'000	% total of investment assets	Market value as at 31st March 2024 £'000	% total of investment assets
Investments managed by regional asset pool (London CIV)				
London LGPS CIV Lt Global Alpha Growth PARIS aligned	348,306	18.00%	404,171	18.9%
London LGPS CIV Lt Rf Absolute Return A Gbp Di	223,538	11.50%	184,376	8.6%
London LGPS CIV Lt Diversified Growth A	181,915	9.40%	87,810	4.1%
LCIV CQS Credit Multi Asset-A	114,769	5.90%	127,988	6.0%
LCIV Sustainability Fund	168,921	8.70%	195,656	9.1%
LCIV Renewables Fund	54,879	2.80%	77,071	3.6%
LCIV UK Housing Fund	-	0.00%	482	0.0%
	1,092,328	56.9%	1,077,554	50.3%
Investments managed outside of regional asset pool				
Schroder	287,834	15.0%	416,748	19.4%
Legal & General	446,552	23.3%	561,127	26.2%
Goldman Sachs	53,206	2.8%	65	0.0%
Insight Investment	39,826	2.1%	88,429	4.1%
Legacy	196	0.0%	196	0.0%
	827,614	43.1%	1,066,565	49.7%
	1,919,942	100.0%	2,144,119	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 2023 £'000	% total of net assets	Market value as at 31st March 2024 £'000	% total of net assets
London LGPS CIV Lt Global Alpha Growth Paris aligned	348,306	18.0%	404,171	18.8%
Mfo GPCU - Msciworldlowcarbtargetin Dgcurhofc	335,935	17.3%	424,951	19.8%
LCIV Sustainability Fund	168,921	8.7%	195,656	9.1%
Schroder Inv Mg E Bespoke Investment Fund 9 I	114,666	5.9%	191,181	8.9%
London LGPS CIV Lt Rf Absolute Return A Gbp Di	223,538	11.5%	184,376	8.6%
London LGPS CIV Lt Diversified Growth A	181,915	9.4%	76,798	3.6%
LCIV CQS Credit Mult Asset-A	114,769	5.9%	127,988	6.0%
Gpci - Msciworldlw Carbontargetindofc	110,610	5.7%	136,168	6.3%
	1,598,660	82.5%	1,741,289	81.1%

NOTE 14C: STOCK LENDING

The Fund does not participate in stock lending.

NOTE 14D: PROPERTY HOLDINGS

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

NOTE 15: ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

The objective for holding derivatives, if any are held, is mostly 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. No derivatives were held at the year end (2023: nil).

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 22/23	Valuation hierarchy 23/24	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 the 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 2024 £'000	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant observable inputs Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss					
Equities	150		150		150
<u>Pooled investments</u>					
Fixed Income	216,338		216,338		216,338
Global Equity	1,352,609		1,352,609		1,352,609
Diversified Growth	261,173		261,173		261,173
Property	206,332			206,332	206,332
Infrastructure	67,974			67,974	67,974
	2,104,576	0	1,830,270	274,306	2,104,576

Fair Value Hierarchy	Market Value as at 31 Mar 2023 £'000	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant observable inputs Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss					
Equities	150		150		150
<u>Pooled investments</u>					
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

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 2023	Transfers in/out of level 3	Purchases	Sales	Unrealised gains (losses)	Realised gains (losses)	Market Value 31 Mar 2024
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Pooled Property Funds	162,213	0	46,002	(3,222)	1,061	278	206,332
Infrastructure Funds	53,689	0	16,349	(58)	(2,006)	0	67,974
Total	215,902	0	62,351	(3,280)	(945)	278	274,306

	Assessed valuation range (+/-) %	Value 31 Mar 2023 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled Property Funds	10%	206,332	226,965	185,699
Total		206,332	226,965	185,699

	Market Value 1 Apr 2022	Transfers in/out of level 3	Purchases	Sales	Unrealised gains (losses)	Realised gains (losses)	Market Value 31 Mar 2023
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Pooled Property Funds	190,717	0	6,231	(6,969)	(27,930)	164	162,213
Infrastructure Funds	33,199	0	14,338	(6,553)	12,705	0	53,689
Total	223,916	0	20,569	(13,522)	(15,225)	164	215,902

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

Market Value as at 31 Mar 2023			Market Value as at 31 Mar 2024		
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	-	-	150	-	-
1,745,380	-	-	1,898,094	-	-
162,213	-	-	206,332	-	-
-	-	-	-	30,483	-
-	30,481	-	-	9,210	-
-	-	-	-	1,247	-
-	1,863	-	-	4,121	-
1,907,743	32,344	-	2,104,576	45,061	-
Financial liabilities					
-	-	(2,497)	-	-	(4,568)
-	-	(2,497)	-	-	(4,568)
1,907,743	32,344	(2,497)	2,104,576	45,061	(4,568)
1,937,590	Grand Total		2,145,069		

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	2022/23 £'000	2023/24 £'000
Financial Assets		
Fair value through profit or loss	107,347	(194,990)
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	(75)	(566)
Total Financial Assets	107,272	(195,556)

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

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

NOTES TO THE PENSION FUND ACCOUNTS**NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS****Risk and Risk Management**

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

The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for the Fund's risk management strategy rests with the Pensions Committee. Risk management policies are established that aim to identify and analyse the investment risks faced by the Fund and these are regularly reviewed by the Pensions Committee and Pension Board in the light of changing market and other conditions.

Credit risk

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

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

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

Liquidity risk

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

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

Should the Fund have insufficient money available to meet its commitments it may, under Regulation 5.2 borrow cash for up to 90 days. If there was a longer term shortfall then the Fund's assets could be sold to provide additional cash. A significant proportion of the Fund is made up of readily realisable assets. As at 31 March 2024, liquid assets were £1,871m representing 87.2% of total assets of the Fund assets (£1,938m as at 31 March 2023). The majority of these investments can be in fact liquidated within a matter of days.

Currency risk

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

NOTES TO THE PENSION FUND ACCOUNTS

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

Currency risk - 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, or by 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 advisors.

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

Interest rate risk

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

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

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 31/03/2024	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Cash and cash equivalents	30,483	0.6%	30,666	30,300
Pooled Investments:				
Fixed Income	216,338	8.7%	235,159	197,517
Global Equity	1,352,609	14.1%	1,543,327	1,161,891
Diversified Growth	261,173	6.2%	277,366	244,980
Property	206,332	8.0%	222,839	189,825
Infrastructure	67,974	10.7%	75,247	60,701
Other Investment income due	749	0.6%	753	745
Amounts receivable for sales	11,012	0.6%	11,078	10,946
Amounts receivable for purchases	(2,551)	0.6%	(2,566)	(2,536)
Total investment assets	2,144,119		2,393,869	1,894,369

Asset type	Market Value as at 31/03/2023	Percentage change	Value on increase	Value on decrease
	£'000	%	£'000	£'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

CURRENCY EXPOSURE - asset type

Asset type	Market Value as at 31/03/2024	Change in year in the net assets available to pay benefits
	£'000	5.6% (5.6%)
Overseas Assets		
Overseas Fixed Income Funds	191,181	201,887
Overseas Equity Funds	424,951	448,748
Overseas Property Funds	41,608	43,938
Total change in assets available	657,740	694,573

Asset type	Market Value as at 31/03/2023	Change in year in the net assets available to pay benefits
	£'000	6.3% (6.3%)
Overseas Assets		
Overseas Fixed Income Funds	207,697	220,782
Overseas Equity Funds	335,935	357,099
Overseas Property Funds	33,532	35,645
Total change in assets available	577,164	613,526

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 31/03/2024	Market Value as at 31/03/2023
	£'000	£'000
Cash and cash equivalents		
Cash	30,483	29,853
Total	30,483	29,853

Interest rate risk sensitivity analysis

Asset type	Market Value as at 31/03/2024	Change in year in the net assets available to pay benefits	
	£'000	+100 bps	-100 bps
	£'000	£'000	£'000
Cash and cash equivalents			
Cash	30,483	305	(305)
Total	30,483	305	(305)

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

CREDIT RISK

Summary	Rating	Market Value as at 31/03/2024	Market Value as at 31/03/2023
		£'000	£'000
Money Market Funds			
Schroder special situations sterling liquidity plus	A	16,319	10,447
Bank current accounts			
Northern Trust custody cash account	A	14,165	1,274
National Westminster Bank Plc	A	1,247	18,132

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 2022 covered the period up to 31 March 2025. This report details Fund assumptions and employer contributions for the three years covered by the 2022 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 actuary estimated the surplus of the Fund at the 31 March 2022 valuation was £373m and the funding level to be 123%.

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 2022 triennial valuation:

Valuation at 31 March 2022			
Primary rate	20.90%		
Secondary rate	Monetary amount /£m Equivalent to % of payroll		
	2023/24	14,011	6.90%
	2024/25	14,346	6.90%
	2025/26	14,699	6.90%

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 2023/24 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 2024 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 £1,866 million (£1,837 million in 2022/23). 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 2023	31 Mar 2024
	£m	£m
Active members	597	648
Deferred members	385	382
Pensioners	855	836
	1,837	1,866

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2024 and 31 March 2023. The impact of the change in financial assumptions to 31 March 2024 is to decrease the actuarial present value by £79m. The impact of the change in demographic assumptions is to decrease the actuarial present value by £8m.

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 2022 model, with a 25% weighting of 2022 (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	21.2	23.8
Future pensioners	22.3	25.2

Sensitivity Analysis

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

Change in assumption at 31 March 2024	Approximate % increase to promised retirement benefits	Approximate monetary amount (£m)
0.1% p.a. decrease in the Discount Rate	2.0%	32
1 year increase in member life expectancy	4.0%	75
0.1% p.a. increase in the Salary Increase Rate	0.0%	1
0.1% p.a. increase in the Pension Increase Rate (CPI)	2.0%	30

Financial assumptions

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

Year ended	31-Mar-23	31-Mar-24
Pension increase rate (CPI)	3.0%	2.8%
Salary increase	3.0%	2.8%
Discount rate	4.8%	4.8%

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 21: CURRENT ASSETS

	2022/23 £'000	2023/24 £'000
Cash at bank	-	1,247
Contributions due	975	2,821
Sundry debtors	477	305
Prepayments	411	995
Total	1,863	5,368

Page 1

NOTE 22: CURRENT LIABILITIES

	2022/23 £'000	2023/24 £'000
Sundry creditors	(1,537)	(4,179)
Transfer values payable (leavers)	-	-
Benefits payable	(960)	(389)
Total	(2,497)	(4,568)

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.

	2022/23		2023/24	
	Market Value* £'000	Contributions Paid £'000	Market Value £'000	Contributions Paid £'000
Aviva	1,282	67	1,475	94
Equitable Life / Utmost Life	637	2	637	2
	1,919	69	2,112	96

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 London Borough of Tower Hamlets Pension Fund ('the Fund' or 'the Pension Fund') is administered by the London Borough of Tower Hamlets ('the Council').

The Council incurred costs of £1,515k (£1,261k 2022/23) 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 until October 2023 when it was brought back inhouse. For the period to October 2023, the Fund received contribution payments totalling £2.6m (£4.2m 2022/23) 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 of 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 2022/23 and 2023/24.

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

	2022/23 £'000	2023/24 £'000
Short-term benefits	23	2
Post-employment benefits	694	72
	717	74

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund has committed £120m to the London CIV Renewables Fund and £100m to the London CIV UK Housing Fund. Out of this total commitment, £62.7m and £99.5m respectively was still outstanding at 31 March 2024.



The London Borough of Tower Hamlets
Pension Fund
Appendix 2
Investment Strategy Statement
April 2024

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.

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 2
Funding Strategy Statement
September 2023

Welcome to the London Borough of Tower Hamlets Pension Fund's funding strategy statement

This document sets out the funding strategy statement (FSS) for London Borough of Tower Hamlets Pension Fund.

The London Borough of Tower Hamlets Pension Fund is administered by London Borough of Tower Hamlets Council, known as the administering authority. London Borough of Tower Hamlets Council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 13 March 2023.

There's a regulatory requirement for London Borough of Tower Hamlets Council to prepare an FSS. You can find out more about the regulatory framework in [Appendix A](#). If you have any queries about the FSS, contact miriam.adams@towerhamlets.gov.uk.

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

The London Borough of Tower Hamlets Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in [Appendix B](#).

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependents
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers

with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at <https://www.towerhamletspensionfund.org/>.

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see [Appendix A](#))

1.6 How is the funding strategy specific to the London Borough of Tower Hamlets Pension Fund?

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations. Employer

contributions are made up of three elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution which will reflect the total assets the employer holds
- **an allowance for the fund's expenses** – usually added into the primary contribution rate.

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. Further information on the model is available in Appendix D. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in [Appendix D](#).

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

The fund permits the prepayment of employer contributions in specific circumstances. The fund's policy on prepayments will be published on the fund's website.

2.2 The contribution rate calculation

Table 2: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	Council	Colleges	Academies	Open to new entrants	Closed to new entrants	(all)
Funding target*	Ongoing, assumes long-term fund participation	Ongoing, assumes long-term fund participation	Ongoing, assumes long-term fund participation	Ongoing, but may move to low-risk exit basis		Contractor exit basis, assuming fixed-term contract in the fund
Minimum likelihood of success	70%	75%	75%	70% if guaranteed, 80% otherwise	70% if guaranteed, 80% otherwise	70% if guaranteed, 80% otherwise
Maximum time horizon	20 years	20 years	20 years	Average future	Average future	Outstanding contract term

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	Council	Colleges	Academies	Open to new entrants	Closed to new entrants	(all)
				working lifetime	working lifetime	
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					
Secondary rate	% of payroll or monetary amount	Monetary amount	% of payroll	% of payroll or monetary amount	% of payroll or monetary amount	% of payroll or monetary amount
Stabilised contribution rate?	Yes	No	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority				Preferred approach: contributions kept at primary rate. Contractors may be permitted to reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	At the discretion of the Administering Authority	At the discretion of the Administering Authority	None	None	None

* Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority

See [Appendix D](#) for further information on funding targets.

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The fund adopts a stabilised approach to setting contributions for the Council, as noted in the table above, which keeps contribution variations within a pre-determined range from year-to-year. The Council is a large, secure, long term employer that can better absorb the short term funding level volatility over the longer term.

After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy for the Council. For some other employers, contribution increases or decreases may be phased.

Contribution strategies which are overly reliant on future increases in contributions will not be permitted in the interests of intergenerational fairness and cost efficiency objectives.

Table 1: current stabilisation approach

Type of employer	Council
Maximum contribution increase per year	+1% of pay
Maximum contribution decrease per year	-1% of pay

Stabilisation criteria and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes.

2.4 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The fund's policy is available from the administering authority. A review may lead to an increase or decrease in contributions.

2.5 What is pooling?

The administering authority operates contribution rate pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In a contribution rate pool, contributions are set to target full funding for the pool as a whole, rather than for individual employers.

Employers in a pool maintain their individual funding positions, tracked by the fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate. Setting contributions in this way means that while the fund receives the contributions required, the risk that employers develop a surplus or deficit increases.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't disclosed to pooled employers, unless agreed by the administering authority.

CABs that are closed to new entrants aren't usually allowed to enter a pool.

If an employer leaves the fund, the required contributions are based on their own funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

2.6 What are the current contribution pools?

- **Schools** – generally pool with their funding council, although there may be exceptions for specialist or independent schools.
- **Smaller TABs** – may be pooled with the letting employer.

2.7 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or

permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

The fund permits the prepayment of employer contributions in specific circumstances. Further details will be available in the fund's prepayment policy available here <https://www.towerhamletspensionfund.org/>

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread in exceptional circumstances if the administering authority agrees.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum. Such strain costs are the responsibility of the member's employer to pay.

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.

To mitigate this, employers may choose to use external insurance. If an employer provides satisfactory evidence to the Fund 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.

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

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

Each fund employer has a notional share of the fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

If an employee moves one from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring (see section 4).

4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in [Appendix D](#), the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body. New designated employers may also join the fund if they pass a designation to do so.

On joining, the fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

5.2 New academies

New academies (including free schools) join the fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (i.e. members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. They won't be pooled with other employers unless the academy is part of a multi-academy trust (MAT). If they are part of a MAT, the new academy may be combined with the other MAT academies to set contribution rates. The new academies' contribution rate is based on the current funding strategy (set out in section 2) and the transferring membership.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

The Fund's Academies Policy is available here <https://www.towerhamletspensionfund.org/>

5.3 New admission bodies as a result of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. In general, the funding arrangements are set up as one of the following two options:

(i) Pass-through admissions

The Fund may look at new admission bodies being set up via a pass-through arrangement.

(ii) Other admissions

The liabilities for transferring active members will be calculated by the Fund actuary on the day before the outsourcing occurs. New contractors will be responsible for all pension risks and allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial allocation, depending on the contract-specific circumstances.

You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

Where the letting authority is an Academy and the new admission body will be set up on a pass-through arrangement, the 'DfE Academy Trust LGPS Guarantee policy' will apply to the outsourcing. In this situation, the Fund's policy is to require the new admission body to be closed to new members to ensure that the 'DfE Academy Trust LGPS Guarantee policy' applies. Alternatively, if the new admission body is set up via another arrangement (noted in ii above), the academy must ensure that the requirements set out in the 'DfE Academy Trust LGPS Guarantee policy' are met before completing an outsourcing. Where the 'DfE Academy Trust LGPS Guarantee policy' terms cannot be met, and no suitable alternative is agreed, the Fund may refuse the contractor entry to the Fund as an admission body. It is critical for any academy (or MAT) considering any outsourcing to contact the Fund initially to fully understand the administrative and funding implications.

The DfE Academy Trust LGPS Guarantee policy is retrospective and therefore may cover admission bodies not otherwise covered prior to May 2023.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the fund. Contribution rates will be set using the same approach as other designated employers in the fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely

- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

The Fund's admissions policy is available from the administering authority.

Where an academy is the letting employer, the Fund will expect academies to ensure and confirm that the outsourcing complies with the requirements set out in the '[DfE Academy Trust LGPS Guarantee](#)' before permitting an admission body in the Fund. Where this requirement is met, no additional risk assessment or security will typically be required for the admitted body as the pension liabilities will be covered by the DfE Academy Guarantee.

Where the admission body does not meet the requirements of the DfE Academy Trust LGPS Guarantee policy, the Fund will review each case individually to decide if the admission body must provide security before being admitted to the Fund. In these cases, the Fund will typically require the academy to evidence that they have sought and received permission from the Education and Skills Funding Agency to act as a guarantor.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

The bulk transfer policy is available here <https://www.towerhamletspensionfund.org/>

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the employer leaves the fund.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers from the risk of future loss when an employer leaves the scheme. The basis adopted for the cessation calculation is below. The assumptions for each basis are defined in [Appendix D](#).

- (a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in [Appendix D](#).
- (b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.
- (c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are recharged to the employer by the fund.

The cessation policy is available here <https://www.towerhamletspensionfund.org/>

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The exit credit policy is contained within the cessation policy and is available from the administering authority.

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement
- if an exiting employer enters into a deferred debt agreement, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The employer flexibility on exit policy is contained within the cessation policy and is available from the administering authority.

7.5 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the fund and either:

- a) their asset share runs out before all ex-employees' benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis
- b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors. Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward
- support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**
- ensure the fund meets its **solvency and long-term cost efficiency** objectives
- take a **prudent longer-term view** of funding those liabilities.

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with “persons the authority considers appropriate”. This should include ‘meaningful dialogue... with council tax raising authorities and representatives of other participating employers’.

The consultation process included issuing a draft version to participating employers and attending an open employers’ forum.

A3 How is the FSS published?

The FSS as required is emailed to participating employers and employee and pensioner representatives for consultation. Summaries are issued to members on request and a full copy is included in the fund’s annual report and accounts. Copies are freely available on request, sent to investment advisers and independent advisers and published on the website at <https://www.towerhamletspensionfund.org/>

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, reviewed by the Pensions Board and agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund’s approach to funding liabilities. It isn’t exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund’s annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at <https://www.towerhamletspensionfund.org/>

Appendix B – Roles and responsibilities

B1 The administering authority:

- 1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations
- 2 manages any conflicts of interest from its dual role as administering authority and a fund employer
- 3 collects employer and employee contributions, investment income and other amounts due
- 4 ensures cash is available to meet benefit payments when due
- 5 pays all benefits and entitlements
- 6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy
- 7 communicates with employers so they understand their obligations
- 8 safeguards the fund against employer default
- 9 works with the fund actuary to manage the valuation process
- 10 provides information to the Government Actuary's Department so they can carry out their statutory obligations
- 11 consults on, prepares and maintains the funding and investment strategy statements
- 12 tells the actuary about changes which could affect funding
- 13 monitors the fund's performance and funding, amending the strategy statements as necessary
- 14 enables the local pension board to review the valuation process.

B2 Individual employers:

- 1 deduct the correct contributions from employees' pay
- 2 pay all contributions by the due date
- 3 have appropriate policies in place to work within the regulatory framework
- 4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain
- 5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.
- 6 make any required exit payments when leaving the fund.

B3 The fund actuary:

- 1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency
- 2 provides information to the Government Actuary Department so they can carry out their statutory obligations
- 3 advises on fund employers, including giving advice about and monitoring bonds or other security
- 4 prepares advice and calculations around bulk transfers and individual benefits

- 5 assists the administering authority to consider changes to employer contributions between formal valuations
- 6 advises on terminating employers' participation in the fund
- 7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

- 1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement
- 2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS
- 3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements
- 4 governance advisers may be asked to advise the administering authority on processes and working methods
- 5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures
- 6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is set out in the board terms of reference available in the constitution of the administering authority at

<https://democracy.towerhamlets.gov.uk/documents/s203507/Part%20B%20Responsibility%20for%20Functions%20and%20Decision%20Making%20Procedures.pdf>.

Details of the key fund-specific risks and controls are below and set out in the risk register which is available on request.

C2 Financial risks	
Risk	Control
Fund assets don't deliver the anticipated returns that underpin the valuation of liabilities and contribution rates over the long term.	Anticipate long-term returns on a prudent basis to reduce risk of under-performing. Use specialist advice to invest and diversify assets across asset classes, geographies, managers, etc. Analyse progress at three-year valuations for all employers. Roll forward whole Fund liabilities between valuations.
Inappropriate long-term investment strategy.	Consider overall investment strategy options as part of the funding strategy. Use asset liability modelling to measure outcomes and choose the option that provides the best balance. Operate various strategies to meet the needs of a diverse employer group.
Active investment manager under-performs relative to benchmark.	Use quarterly investment monitoring to analyse market performance and active managers, relative to index benchmark.
Pay and price inflation is significantly more than anticipated.	Focus valuation on real returns on assets, net of price and pay increases. Use inter-valuation monitoring to give early warning. Invest in assets with real returns. Employers to be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Increased employer's contribution rate affects service delivery.	Consider phasing to limit sudden increases in contributions.
Orphaned employers create added Fund costs.	Seek a cessation debt (or security/guarantor). Spread added costs among employers
C3 Demographic risks	

Risk	Control
Pensioners live longer, increasing Fund costs.	Set mortality assumptions with allowances for future increases in life expectancy. Use the Fund actuary's experience and access to over 50 LGPS funds to identify changes in life expectancy that might affect the longevity assumptions early.
As the Fund matures, the proportion of actively contributing employees declines relative to retired employees	Monitor at each valuation, consider seeking monetary amounts rather than % of pay. Consider alternative investment strategies.
Deteriorating patterns of early retirements	Charge employers the extra cost of non ill-health retirements following each individual decision. Monitor employer ill-health retirement experience and insurance is an option
Reductions in payroll cause insufficient deficit recovery payments.	Review contributions between valuations. This may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.
C4 Regulatory risks	
Risk	Control
Changes to national pension requirements or HMRC rules.	Consider all Government consultation papers and comment where appropriate. Monitor progress on the McCloud court case and consider an interim valuation or other action once more information is known. Build preferred solutions into valuations as required.
Time, cost or reputational risks associated with any DLUHC intervention triggered by the Section 13 analysis	Take advice from the actuary and consider the proposed valuation approach, relative to anticipated Section 13 analysis.
Changes to employer participation in LGPS funds leads to impacts on funding or investment strategies.	Consider all Government consultation papers and comment where appropriate. Take advice from the fund actuary and amend strategy
C5 Governance risks	
Risk	Control
The administering authority is not aware of employer membership changes, for example a large fall in employee members, large number of retirements, or is not advised that an employer is closed to new entrants.	The administering authority develops a close relationship with employing bodies and communicates required standards. The actuary may revise the rates and adjustments certificate to increase an employer's contributions between valuations Deficit contributions may be expressed as monetary amounts

Actuarial or investment advice is not sought, heeded, or proves to be insufficient in some way	The administering authority maintains close contact with its advisers. Advice is delivered through formal meetings and recorded appropriately. Actuarial advice is subject to professional requirements like peer review.
The administering authority fails to commission the actuary to carry out a termination valuation for an admission body leaving the Fund.	The administering authority requires employers with Best Value contractors to inform it of changes. CABs' memberships are monitored and steps are taken if active membership decreases
An employer ceases to exist with insufficient funding or bonds.	It's normally too late to manage this risk if left to the time of departure. This risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body. Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Requiring a bond to protect the Fund, where permitted. Requiring a guarantor for new CABs. Regularly reviewing bond or guarantor arrangements. Reviewing contributions well ahead of cessation
An employer ceases to exist, so an exit credit is payable.	The administering authority regularly monitors admission bodies coming up to cessation. The administering authority invests in liquid assets so that exit credits can be paid.

C6 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

C7 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy the fund has included climate scenario stress testing in the contribution modelling exercise for the Council at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The Committee approved the draft 2020/21 TCFD report in March 2022. The results of these stress tests may be used in future to assist with additional disclosures prepared in line with future Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The same stress tests were not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the Council makes up the vast majority of the fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

The Fund has a Responsible Investment Policy Framework and a separate Climate Change Policy, both of which were last agreed by Pensions Committee in June 2021 and September 2021 respectively

Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns								Inflation (CPI)
		Index Linked Gilts (long)	UK Equity	Private Equity	Property	Listed Infrastructure Equity	Diversified Growth Fund (low equity beta)	All World ex UK Equity in GBP Unhedged	Multi Asset Credit (sub inv grade)	
10 years	16th %ile	-3.1%	-0.4%	-1.2%	-0.6%	-1.1%	1.4%	-0.4%	1.7%	1.6%
	50th %ile	-0.7%	5.7%	9.4%	4.4%	4.9%	3.2%	5.8%	3.5%	3.3%
	84th %ile	2.0%	11.6%	20.1%	9.5%	10.9%	5.1%	11.9%	5.2%	4.9%
20 years	16th %ile	-2.6%	1.7%	2.4%	1.4%	1.2%	2.1%	1.8%	2.8%	1.2%
	50th %ile	-0.9%	6.2%	10.0%	5.0%	5.6%	3.8%	6.3%	4.4%	2.7%
	84th %ile	0.8%	10.6%	17.6%	8.9%	10.1%	5.7%	11.1%	6.0%	4.3%
40 years	16th %ile	-1.1%	3.2%	4.7%	2.6%	2.6%	2.5%	3.4%	3.6%	0.9%
	50th %ile	0.3%	6.7%	10.3%	5.5%	6.1%	4.4%	6.8%	5.3%	2.2%
	84th %ile	1.9%	10.2%	16.1%	8.8%	9.8%	6.5%	10.4%	7.1%	3.7%
Volatility (Disp) (1 yr)		9%	18%	30%	15%	18%	5%	18%	6%	3%

D3 What financial assumptions were used? Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate. UK Government Bond yields are used in funding as an objective measure of the risk-free rate of return.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except transferee admission bodies and closed community admission bodies	2.2%
Low-risk exit basis	Community admission bodies closed to new entrants	0% **
Contractor exit basis	Transferee admission bodies	A margin consistent with the approach used to allocate assets to the employer on joining the fund

** subject to change if move to a risk-based cessation approach.

Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a whole fund funding level at the 2022 valuation, a discount rate of 4.6% applies. This is based on a prudent estimate of investment returns, specifically, that there is an 65% likelihood that the fund's assets will return future investment returns of 4.6% over the 20 years following the 2022 valuation date.

For certain employers that will cease based on a different discount rate from above, the funding levels have been calculated with reference to the relevant discount rate approach.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to 0.2% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	60% of maximum tax-free cash
50:50 option	0.5% of members will choose the 50:50 option.

Males

Figures will be inserted following the initial results report being produced.

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	606.46	1000.00	0.00	0.00	0.00	0.00
25	117	0.17	400.59	751.84	0.00	0.00	0.00	0.00
30	131	0.20	284.23	533.36	0.00	0.00	0.00	0.00
35	144	0.24	222.07	416.68	0.10	0.07	0.02	0.01
40	150	0.41	178.79	335.37	0.16	0.12	0.03	0.02
45	157	0.68	167.94	314.94	0.35	0.27	0.07	0.05
50	162	1.09	138.44	259.32	0.90	0.68	0.23	0.17
55	162	1.70	109.02	204.31	3.54	2.65	0.51	0.38
60	162	3.06	97.17	182.02	6.23	4.67	0.44	0.33
65	162	5.10	0.00	0.00	11.83	8.87	0.00	0.00

Females

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		III-health tier 1		III-health tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.10	563.88	514.11	0.00	0.00	0.00	0.00
25	117	0.10	379.42	345.88	0.10	0.07	0.02	0.01
30	131	0.14	318.05	289.90	0.13	0.10	0.03	0.02
35	144	0.24	274.51	250.12	0.26	0.19	0.05	0.04
40	150	0.38	228.47	208.09	0.39	0.29	0.08	0.06
45	157	0.62	213.20	194.16	0.52	0.39	0.10	0.08
50	162	0.90	179.75	163.52	0.97	0.73	0.24	0.18
55	162	1.19	134.12	122.13	3.59	2.69	0.52	0.39
60	162	1.52	108.09	98.31	5.71	4.28	0.54	0.40
65	162	1.95	0.00	0.00	10.26	7.69	0.00	0.00

D5 What assumptions apply in a cessation valuation following an employer's exit from the fund? Low-risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

1. The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 1.7% pa on 31 March 2022.
2. The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
3. Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

Contractor exit basis

Where there is a guarantor (eg in the case of contractors where the local authority guarantees the contractor's admission in the fund), the contractor exit basis will apply.

The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contributions rates. Specifically, the discount rate is set based on a margin above the risk-free rate consistent with the approach used to allocate assets to the employer on joining the fund.

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The London Borough of Tower Hamlets
Pension Fund
Appendix 4
Communications Strategy Statement

Introduction	107
Regulatory framework	107
Stakeholders of the Fund	108
Key objectives	108
Accessibility	109
Investment Communication	109
Responsible Investment	109
Freedom of Information	109
Communication Channel	109
Communicating with members	113
Communicating with Pension Fund Staff	114
Communicating with the Pension Fund Committee and Local Pension Board	115
Communicating with external bodies	115
Data Protection	116
Review	116
Further Information	116

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	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Annual benefit statements • Annual Newsletter • Member self service • Website • Telephone helpline • Scheme Literature • Calculation and costings (e.g. estimates) 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Member self service • Pensions Increase letters 	<ul style="list-style-type: none"> • You keep in touch with the Fund e.g. provide us with address

	<ul style="list-style-type: none"> • P60 • Calculation and costings (e.g. estimates) • Website • Telephone helpline • Annual newsletter • Pensioner member Survey 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Member self service • Payslip • P60 • Calculation and costings (e.g. estimates) • Website • Telephone helpline 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Ad hoc email alerts • Quarterly newsletters • Website • Webinars • Telephone helpline • Scheme information and guides • Annual Employer survey 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Website • Telephone helpline • Scheme information and guides 	<ul style="list-style-type: none"> • 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

		<ul style="list-style-type: none"> •Increase understanding of how the scheme works and what benefits are provided •To improve take up of the LGPS
Pension Fund Staff	<ul style="list-style-type: none"> •Team meeting •1:1 / Appraisals •Training & development •Training Matrix •Ad hoc meetings •Monthly newsletter 	<ul style="list-style-type: none"> •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	<ul style="list-style-type: none"> •Committee/Board Papers •Trainings •Minutes •Presentations 	<ul style="list-style-type: none"> •Ensure members are kept up to date with important information regarding the Fund. •Monitor success against the agreed measures
External bodies	<ul style="list-style-type: none"> •Response to enquiries and consultations 	<ul style="list-style-type: none"> • Respond to enquiries/statutory requirements
Union Representatives	<ul style="list-style-type: none"> • Response to enquiries •Ad hoc meetings •Training & development • Scheme information 	<ul style="list-style-type: none"> • 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](tel:02073644251).
- 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 provide quotation to member	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 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 dependant(s) of amount of death benefits	Paper Based or Electronic	Initial letter sent no more than 5 days from date of becoming aware of death, and notification of benefit letter sent no more than 10 days from receiving correctly completed forms.	As soon as possible but in any 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)	Letter to Dependants Home Address	Dependant Member
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	Provide 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 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:

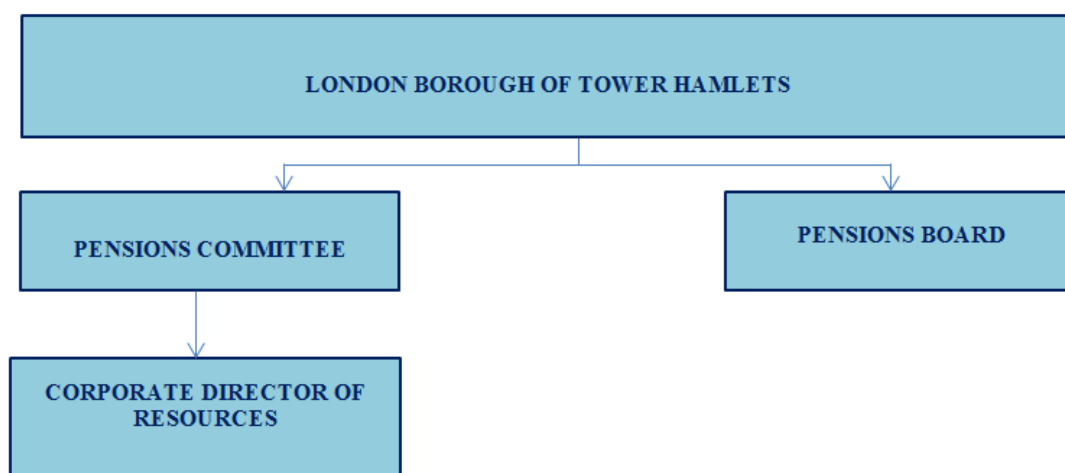
- all staff and Pensions Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is aware that good governance means an organisation 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?Committeeld=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 way 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?Committeeld=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
<p>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.</p> <p>Monitoring the implementation of these policies and strategies on an ongoing basis.</p>	<p>Rebalancing and cash management</p> <p>Implementation of strategic allocation including use of ranges</p> <p>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</p>	<p>CDR, DDoFPA & PIM (having regard to ongoing advice of the IC, IA, FA and OAP)</p>	<p>High level monitoring at PC with more detailed monitoring by OAP and or PIM</p>

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	<p>That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> • employing authorities (including non-scheme employers, e.g. admitted bodies), • scheme members (including deferred and pensioner scheme members), • independent professional observers, 	Compliant	Trade unions and admitted bodies are represented on the Pensions Committee.

PRINCIPLE	REQUIREMENT	COMPLIANCE	COMMENT
	<ul style="list-style-type: none"> expert advisors (on an ad-hoc basis). 		
	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Compliant	Papers for Committee and the Pensions Committee are made available to all members of both bodies at the same time and are published well in advance of the meetings in line with the council's committee agenda publication framework.
SELECTION & ROLE OF LAY MEMBERS	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	Members of the Pensions Committee/ Pensions Committee have access to the terms of reference of each body and are aware of their roles and responsibilities as members of these bodies/ Panel.
VOTING	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	Members of the Pensions Committee/ Pensions Committee does not currently confer voting rights on non-Councillors in line with common practice across the local government sector.
TRAINING/ FACILITY TIME/EXPENSES	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Compliant	Regular training is arranged for members of the Pensions Committee. In addition members are encouraged to attend external training courses. The cost of any such courses attended will be met by the Fund.
	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	The rule on training provision is applied equally across all members of the Pensions Committee.

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



London Borough of Tower Hamlets Pension Fund Appendix 6

Annual Report of the Tower Hamlets Pensions Board

ANNUAL REPORT OF THE TOWER HAMLETS PENSIONS BOARD 2023-24

1. This report sets out the work carried out by the Tower Hamlets Pension Board during the financial year 2023-24 to discharge its role, in support of the London Borough of Tower Hamlets, in managing the Pension Fund. 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 in 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 Board held hybrid meetings on 3 occasions during 2023/24: in June and November 2023 and in March 2024. The meeting scheduled for September 2023 had to be cancelled. 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.
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 Governance Compliance statement;
- Policy on administering authority discretions;
- Review of internal controls at investment managers and custodian;
- Funding Strategy statement and funding level update;
- Consideration of developments affecting the LGPS including progress with the London CIV.

8. As Chair of the Pension Board I am invited to attend the Council's Pension Committee to present a written 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. As reported in previous years, the main area of concern for the Board was the performance of the pensions administration team in addressing the long term back log of work. This was exacerbated by problems in recruiting staff to vacant posts and continued to be a major area of concern during 2023/24. During the year progress was made in recruiting staff and there were signs that the performance was improving. Nonetheless it is important that both the Committee and the Board receive regular reports monitoring performance so that action can be taken as and when necessary. Until this is fully addressed the team will continue to have difficulty in delivering a fully effective service.

10. An officer working group was established in 2022/23 to identify solutions to the improve data quality provided by employers to the pensions team. Because the online iconnect system is not yet fully operational, pensions staff were 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. 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. The Pensions Regulator places great importance on data quality so this must remain a high priority during 2024/25 and beyond.

11. Two important issues emerged during the year in discussions at Board meeting. First, our support for holding a Pensions AGM for key stakeholders as a further contribution to service user engagement. Secondly, the continuing need for employers to support the understanding and take up of the local government pension offer for new and existing employees particularly in the context of a maturing pension fund.
12. There were no changes in membership of the Board during the year. There was almost a full attendance at the 3 Board hybrid meetings during the year at 90%, in line with the same level of attendance as in the previous year. The detailed attendance record of Board Members is set out in the Appendix to this report.
13. At the end of March 2024, the Tower Hamlets Pension Fund had total assets of £2.1billion and a membership of 26,054 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. Including the LGIM mandates, the investments pooled now totals £1.6billion (76.2%). Going forward this percentage will increase, and more assets transferred to be managed through the London CIV.
14. 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. 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.

15. Members of the Board have also attended various training sessions over the past year and these are recorded by Tower Hamlets Council. Regular training sessions continue to be arranged and incorporated as part of Board meetings. During the past year the Board received 2 training sessions at meetings as follows:

- Presentation by the Independent Adviser to the Fund on Inflation and Interest rates;
- Training session from Hymans Robertson on the Pensions Regulators updated General Code of Practice 2024.

Training and development remains an important area to address for the Pensions Regulator as part of their role in promoting high standards of corporate governance in Pension Funds.

16. Although major issues remain to be resolved, progress has been made in addressing these and performance has improved in a number of areas. During the year ahead it is crucial that this progress and improved performance continues. 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
13th August 2024

MEMBERS OF THE TOWER HAMLETS PENSION BOARD 2023/24

Independent Chair: John Jones

Vice-Chair: David Stephen Thompson

John Gray: Admitted Bodies Representative for Active Fund Members

Chris Boylett: Representing Pension Fund Employers

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 2023-24

	26 June 2023		20 November 2023	11 March 2024
John Jones	✓		✓	✓
John Gray	✓		✓	✓
David Thompson	✓		✓	✓
Nneka Oroge	x		✓	✓
Annette McKenna	✓		✓	✓
Cllr. Abdul Mannan	✓		x	✓
Chris Boylett	✓		✓	✓