

PENSION FUND ACCOUNTS

PENSION FUND ACCOUNT	Note	2021/22 £'000	2022/23 £'000
DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED IN THE SCHEME			
Contributions	7	(69,725)	(72,134)
Transfers in	8	(7,041)	(8,412)
Benefits	9	62,980	64,998
Payments to and on account of leavers	10	5,971	8,696
NET (ADDITIONS)/DEDUCTIONS FROM DEALINGS WITH MEMBERS		(7,815)	(6,852)
Management expenses	11	17,193	16,207
NET (ADDITIONS)/DEDUCTIONS INCLUDING FUND MANAGEMENT EXPENSES		9,378	9,355
RETURN ON INVESTMENTS			
Investment Income	12	(27,183)	(30,820)
Taxes on Income		0	0
Change in market value of investments	14a	(49,485)	107,272
NET RETURN ON INVESTMENTS		(76,668)	76,452
Net (increase)/decrease in the Fund during the year		(67,290)	85,807
Add: Opening net assets of the scheme		(1,956,107)	(2,023,397)
CLOSING NET ASSETS OF THE SCHEME		(2,023,397)	(1,937,590)
NET ASSETS STATEMENT AS AT 31ST MARCH			
		2021/22 £'000	2022/23 £'000
Long Term Investments	14	150	150
Investments Assets	14	2,021,791	1,938,074
Current Assets	21	3,896	1,863
Current Liabilities	22	(2,440)	(2,497)
NET ASSETS		2,023,397	1,937,590

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 1 : DESCRIPTION OF THE FUND

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

a) General

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

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

The Fund is a contributory defined benefit pension scheme administered by London Borough of Tower Hamlets to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Fund is overseen by the London Borough of Tower Hamlets Pensions Committee which is a Committee of 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 2023

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 1 : DESCRIPTION OF THE FUND

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2023. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2022 however, the 31 March 2019 valuation covers the three financial years to 31 March 2023 and these rates have been applied from 1 April 2022.

Currently, employer contribution rates range from 15.8% to 41.4% of pensionable pay.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the LGPS became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Price Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits are explained on the LGPS website.

NOTE 2: BASIS OF PREPARATION

The statement of accounts summarises the Fund's transactions for the 2022/23 financial year and its financial position at 31 March 2023. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 20.

The Pension Fund accounts have been prepared on a going concern basis.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – revenue recognition

a) Contribution income

Normal contributions from both the members and the employer are accounted for on an accruals basis as follows:

Employee contribution rates are set in accordance with LGPS regulations using common percentage rates for all schemes which rise according to pensionable pay. 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 Fund's actuary in the rates and adjustment certificate issued to the relevant employing body.

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

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

b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund. Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see 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 agreement.

c) Investment income

Investment income arising from the underlying investments in pooled funds is either reinvested or taken as a cash dividend to support the Fund's cash requirements. Interest income from the underlying investments of the Pooled Investment Vehicles are recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an investment asset.

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

Changes in the value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Management expenses

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

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

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

i) Administrative expenses

All staff costs of the pensions administration team are recharged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

ii) Oversight and governance

All staff costs associated with governance and oversight are recharged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and recharged as expenses to the Fund.

iii) Investment management expenses

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11A and grossed up to increase the change in value of investments or to increase income if netted off from income received. Transaction costs met from the net asset value of the Fund are also grossed up and reported in Note 11A.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net assets statement

g) Financial assets

Investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13. The Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosure (PRAG/Investment Association, 2016) (see Note 16).

h) Freehold and leasehold properties

The Fund has no direct investment in property.

i) Derivatives

The Fund uses derivative financial instruments indirectly to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

j) Cash and cash equivalents

Cash comprises cash in hand and internally managed cash and includes deposits held by the Fund's external managers which are repayable on demand without penalty.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

k) Financial assets at amortised cost

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

l) Financial liabilities

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

Other financial liabilities classed as amortised cost are carried at amortised cost i.e. the amount carried in the net asset statement is the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis and included in administration costs.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

m) Actuarial present value of promised retirement benefits

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

n) Additional voluntary contributions

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

o) Contingent assets and contingent liabilities

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

p) Recharges from the General Fund

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

q) Annual allowance (VSP,MSP) and 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 2023, the Fund has £1,092m (56.4%) under LCIV management. A further £336m (17.3%) is invested in Legal and General Passive Pool.

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

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 £31m.

• A 0.1% increase in salary increase rate would increase the earnings inflation value of the liabilities by approximately £2m.

b) Valuation of Investments at Level 3

The Pension Fund contains investments in unitised pooled property funds and renewable energy infrastructure that are classified within the financial statements as level 3 investments. These funds are valued at £149m according to non-exchange based market valuations. As a result of this, the final realised value of the pooled units may differ from the valuations presented in the accounts.

NOTE 6: EVENTS AFTER THE REPORTING DATE

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

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

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 9: BENEFITS PAYABLE

	2021/22 £'000	2022/23 £'000
Pensions	51,057	53,525
Lump Sum Retirement Benefits	10,853	9,026
Lump Sum Death Benefits	1,070	2,447
Total	62,980	64,998
By type of employer:		
Administering Authority	57,333	60,298
Scheduled Bodies	3,382	2,326
Admitted Bodies	2,265	2,373
Total	62,980	64,997

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 11: MANAGEMENT EXPENSES

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

NOTE 11A: INVESTMENT MANAGEMENT EXPENSES

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

	Management Fees £'000	Transaction Costs £'000	2021/22 £'000
Pooled Investments	10,746	2,263	13,009
Pooled Property Investments	1,881	123	2,004
	12,627	2,386	15,013
Custody Fees			73
			15,086

NOTE 12: INVESTMENT INCOME

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 13: EXTERNAL AUDIT COSTS

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

NOTE 14: INVESTMENTS

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 14A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

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

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 14B: INVESTMENTS ANALYSED BY FUND MANAGER

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

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

Security	Market value as at 31st March 2022 £'000	% total of Fund	Market value as at 31st March 2023 £'000	% total of Fund
Investments managed by regional asset pool (London CIV)				
London LGPS CIV Lt Global Alpha Growth A	0	0.0%	0	0.0%
London LGPS CIV Lt Global Alpha Growth PARIS aligned	368,061	18.2%	348,306	18.0%
London LGPS CIV Lt Rf Absolute Return A Gbp Di	220,748	10.9%	223,538	11.5%
London LGPS CIV Lt Diversified Growth A	198,715	9.8%	181,915	9.4%
LCIV CQS Credit Multi Asset-A	120,075	5.9%	114,769	5.9%
LCIV Sustainability Fund	182,918	9.0%	168,921	8.7%
LCIV Renewables Fund	34,825	1.7%	54,879	2.8%
	1,125,342	55.7%	1,092,328	56.4%
Investments managed outside of regional asset pool				
Schroder	310,724	15.4%	287,834	14.9%
Legal & General	473,869	23.4%	446,553	23.0%
Goldman Sachs	53,015	2.6%	53,206	2.7%
Insight Investment	39,231	1.9%	39,826	2.1%
Legacy	424	0.0%	196	0.0%
Internally managed cash	19,186	0.9%	18,131	0.9%
	896,449	44.3%	845,746	43.6%
	2,021,791	100.0%	1,938,074	100.0%

The following investments represent over 5% of the net assets of the fund. All of these companies are registered in the UK Security

Security	Market value as at 31st March 2022 £'000	% total of Fund	Market value as at 31st March 2023 £'000	% total of Fund
London LGPS CIV Lt Global Alpha Growth A	0	0.0%	0	0.0%
London LGPS CIV Lt Global Alpha Growth Paris aligned	368,061	18.8%	348,306	17.2%
Mfo GPCU - Msciworldlowcarbtargetin Dgcurhofc	361,707	18.5%	335,935	16.6%
LCIV Sustainability Fund	182,918	9.4%	168,921	8.3%
Schroder Inv Mg E Bespoke Investment Fund 9 I	114,514	5.9%	114,666	5.7%
London LGPS CIV Lt Rf Absolute Return A Gbp Di	220,748	11.3%	223,538	11.0%
London LGPS CIV Lt Diversified Growth A	198,715	10.2%	181,915	9.0%
LCIV CQS Credit Mult Asset-A	120,075	6.1%	114,769	5.7%
Gpcl - Msciworldlw Carbondtargetindofc	112,155	5.7%	110,610	5.5%
	1,678,893	85.8%	1,598,660	79.0%

NOTE 14C: STOCK LENDING

The Fund does not directly participate in stock lending. Investments held in pooled mandates such as LCIV Diversified Growth fund, LCIV Ruffer Absolute Return Funds.

In pooled mandates such as the LCIV Diversified Growth and Absolute return Funds as we just hold units of the Baillie Gifford Diversified Growth Fund and LF Ruffer Absolute Return Fund we do not do stock lending either.

NOTE 14D: PROPERTY HOLDINGS

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

NOTE 15: ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 16: FAIR VALUE – BASIS OF VALUATION

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

Description of asset	Valuation hierarchy 21/22	Valuation hierarchy 22/23	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Pooled Investments - Equity Funds UK and Overseas Managed Funds	Level 2	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets	Evaluated price feeds	Not required
Quoted UK and Overseas Bonds	Level 2	Level 2	Fixed income securities are priced based on evaluated price provided by independent pricing services	Evaluated price feeds	Not required
Pooled Investments - Property Funds	Level 3	Level 3	Closing bid price where bid and offer prices are published	Adjusted for net capital current assets	Estimated acquisition and disposal costs
Pooled Investments - Multi Asset Credit	Level 2	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services	Evaluated price feeds	Not required
Pooled Investments - Absolute Return	Level 2	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets	Evaluated price feeds	Not required
Pooled Investments - Infrastructure	Level 3	Level 3	Latest available fair value provided by the manager, adjusted for cash movements subsequent to 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 2023	Quoted market price	Using observable inputs	With significant observable inputs	Total
	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
Financial assets at fair value 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

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 16 : TRANSFERS BETWEEN LEVELS 1 AND 2

There were no transfers in the year.

NOTE 16: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 Apr 2022	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

	35	Assessed valuation range (+/-) %	Value 31 Mar 2022	Value on Increase	Value on Decrease
			£'000	£'000	£'000
Pooled Property Funds		10%	162,213	178,434	145,992
Total			162,213	178,434	145,992

	Market Value 1 Apr 2021	Transfers in/out of level 3	Purchases	Sales	Unrealised gains (losses)	Realised gains (losses)	Market Value 31 Mar 2022
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Pooled Property Funds	149,166	0	22,967	(12,674)	34,508	(3,250)	190,717
Infrastructure Funds	0	0	38,362	(5,198)	35	0	33,199
Total	149,166	0	61,329	(17,872)	34,543	(3,250)	223,916

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 17A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

Market Value as at 31 Mar 2022			Market Value as at 31 Mar 2023		
Designated as fair value through profit and loss	Financial Assets at amortised cost	Financial liabilities at amortised cost	Designated as fair value through profit and loss	Financial Assets at amortised cost	Financial liabilities at amortised cost
£'000	£'000	£'000	£'000	£'000	£'000
Financial assets					
150	0	0	150	0	0
1,804,337	0	0	1,745,380	0	0
190,717	0	0	162,213	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	26,737	0	0	30,481	0
0	3,896	0	0	1,863	0
1,995,204	30,633	0	1,907,743	32,344	0
Financial liabilities					
0	0	(2,440)	0	0	(2,497)
0	0	(2,440)	0	0	(2,497)
1,995,204	30,633	(2,440)	1,907,743	32,344	(2,497)
Grand Total			Grand Total		
2,023,397			1,937,590		

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 17B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	2021/22 £'000	2022/23 £'000
Financial Assets		
Fair value through profit or loss	(49,482)	107,347
Amortised cost – realised gains on derecognition of assets	0	0
Amortised cost – unrealised gains	(3)	(75)
Total Financial Assets	(49,485)	107,272

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

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

NOTES TO THE PENSION FUND ACCOUNTS

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

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 2023, liquid assets were £1,938m representing 90.2% of total assets of the Fund assets (£2,021m as at 31 March 2022). 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 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 risk.

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

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

NOTES TO THE PENSION FUND ACCOUNTS

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

OTHER PRICE RISK - sensitivity analysis

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

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

CURRENCY EXPOSURE - asset type

Asset type	Market Value as at 31/03/2023 £'000	Change in year in the net assets available to pay benefits 6.3%	(6.3%)
Overseas Assets			
Overseas Fixed Income Funds	207,697	220,782	194,612
Overseas Equity Funds	335,935	357,099	314,771
Overseas Property Funds	33532	35,645	31,419
Total change in assets available	577,164	613,525	540,803

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

NOTES TO THE PENSION FUND ACCOUNTS

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

INTEREST RATE RISK

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

Interest rate risk sensitivity analysis

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

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

CREDIT RISK

Summary	Rating	Market Value as at 31/03/2023	Market Value as at 31/03/2022
		£'000	£'000
Money Market Funds			
Schroder special situations sterling liquidity plus	A	10,447	4,705
Bank current accounts			
Northern Trust custody cash account	A	1,274	2,161
National Westminster Bank Plc	A	18,132	19,187
Total		29,853	26,053

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 19: FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The valuation that took place as at 31 March 2019 covered the period up to 31 March 2023. This report details Fund assumptions and employer contributions for the three years covered by the 2019 valuation.

The key elements of the funding policy are:

- 1) to ensure the long-term solvency of the Fund, ie that sufficient funds are available to meet all pension liabilities as they fall due for payment
- 2) to ensure that employer contribution rates are as stable as possible
- 3) to minimise the long-term cost of the LGPS by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- 4) to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so and
- 5) to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

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

The triennial valuation undertaken as at 31 March 2019 covers the financial assumptions for 2022/23. The actuary estimated the surplus of the Fund to be £27m and the funding level to be 102%. This compared to a deficit at the previous valuation in 2016 of £235m and a corresponding funding level of 82.8%. The triennial valuation also sets the individual contribution rate to be paid by each employer from 1 April 2020 to 31 March 2023.

The contribution rates are made of two values, the Primary and Secondary rate. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer Secondary rates (before applying any pre-payment or capitalisation of future contributions).

The table below summarises the whole Fund Primary and Secondary Contribution rates at the 2019 triennial valuation:

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

50:50 option

It is assumed that 0.5% of members opt into the 50:50 option in the LGPS 2014 scheme.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Actuarial Value of Promised Retirement Benefits

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

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

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

Year ended	31 Mar 2022 £m	31 Mar 2023 £m
Active members	872	597
Deferred members	601	385
Pensioners	1,026	855
	2,498	1,837

Assumptions

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

Demographic assumptions

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

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

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

Sensitivity Analysis

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

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

Financial assumptions

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

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 21: CURRENT ASSETS

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

NOTE 22: CURRENT LIABILITIES

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

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

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

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

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

* The market value is as at 5 April for Utmost and 31 March for Aviva.

NOTE 24: AGENCY SERVICES

The Fund is fully reimbursed of all agency services costs paid on behalf of the administering authority.

NOTES TO THE PENSION FUND ACCOUNTS

NOTE 25: RELATED PARTY TRANSACTIONS

The LBTH Pension Fund is administered by the LBTH.

The Council incurred costs of £1,261k (£1,241k 2021/22) relating to administration of the Fund and has been reimbursed by the Fund for these expenses. All monies owing to and from the Fund were paid in the year.

During the year no Committee Members or Council Chief Officers with direct responsibility for Pension Fund issues, have undertaken any declarable transactions with the Pension Fund, other than administrative services undertaken by the Council on behalf of the Pension Fund.

The Council has a subsidiary company, Tower Hamlets Homes, who are within the Fund. During the year the Fund received contribution payments totalling £4.2m (£4.4m 2021/22) from this company.

NOTE 25A: KEY MANAGEMENT PERSONNEL

Key management personnel for the Pension Fund include Pension Fund Committee Members, the Corporate Director for Resources, the Director 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 2021/22 and 2022/23.

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

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

NOTE 26: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund has committed £120m to the London CIV Renewable Energy Infrastructure Fund, of this commitment, £66.9m was still outstanding at 31 March 2023.