LONDON BOROUGH OF BROMLEY PENSION FUND

ANNUAL REPORT 2018/19

THE LONDON BOROUGH
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FOREWORD

This Annual Report has been produced to keep pensioners and other interested stakeholders informed about the administration and performance of the London Borough of Bromley Pension Fund ("the Fund"). Regulation 57 of the Local Government Pension Scheme Regulations 2013 requires an administering authority to have regard to guidance given by the Secretary of State when preparing and publishing its Pension Fund Annual Report. Revised CIPFA guidance was issued by the Secretary of State in March 2019 and this report complies with the regulations and with the CIPFA guidance and includes additional disclosures required therein.

The Local Government Pension Scheme (LGPS) was established to provide death and retirement benefits for all eligible employees, mainly local government staff. The LGPS is a funded defined benefit scheme, with earnings-banded fixed employee contribution rates and variable employer rates depending on the funding level assessed every three years by the Fund's actuary. Benefits are defined in law and inflation-proofed in line with increases in the Consumer Prices Index for September. The scheme is operated by designated administering authorities - each maintains a pension fund and invests monies not needed immediately.

The Council's Pension Fund is a funded defined benefit career average (final salary until 31st March 2014) statutory scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2013. The Authority and employees pay contributions into the Fund, calculated at a level intended to ensure that pensions liabilities balance with investment assets over a period of time. The Fund provides benefits for members, including retirement pensions, lump sum retirement grants and widows' pensions.

The Fund is governed by the Superannuation Act 1972 and is administered in accordance with the following legislation:

- The LGPS (Management and Investment of Funds) Regulations 2016.
- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014.
- The LGPS Regulations 2013 (effective from 1st April 2014).

Pension benefits accrued prior to 1st April 2014 are based on final pensionable pay and length of pensionable service and are calculated as follows:

Service pre 1 April 2008:

- Pension: each year worked is worth 1/80 x final pensionable salary.
- Lump sum: automatic lump sum of 3/80 for each year worked x final pensionable salary. A proportion of the accrued pension may be exchanged for a one-off tax free cash payment (£1 pension equates to a £12 lump sum).

Service post 31 March 2008:

- Pension: each year worked is worth 1/60 x final pensionable salary.
- Lump sum: no automatic lump sum but a proportion of the accrued pension may be exchanged for a one-off tax free cash payment (£1 pension equates to a £12 lump sum).

With effect from 1st April 2014, the LGPS became a career-average scheme and pension benefits accrued from that date are calculated as follows:

- Pension: for each year of scheme membership, a pension equal to 1/49 of pensionable pay for that year will be added to an employee's pension account. Annual additions are then made to ensure the accrued pension keeps pace with inflation.

- Lump sum: no automatic lump sum, but a proportion of the accrued pension may be exchanged for a one-off tax free cash payment (£1 pension equates to a £12 lump sum).

As well as a change to the way in which benefits are calculated, the normal retirement age for benefits accrued after 31st March 2014 changed to the later of State Pension Age or age 65.

There is a range of other benefits provided under the scheme including, but not limited to, early retirement, disability/ill-health retirement and death benefits.

The London Borough of Bromley is a designated administering authority and is responsible for the administration of the scheme for its employees (and certain admitted bodies), excluding teachers, who have their own specific scheme. The Council discharges this responsibility through the Pensions Investment Sub-Committee consisting of seven councillors appointed by the Council. The Pensions Investment Sub-Committee is primarily responsible for investment and monitoring matters and reports to the General Purposes and Licensing Committee, which has overall responsibility for the administration of the scheme.

The Pensions Investment Sub-Committee has delegated the management of the Fund's active investments to professional investment managers, whose activities are specified in detailed investment management agreements and whose performance is monitored quarterly. The investment managers of the Fund are appointed by the Sub-Committee and, as at 31 March 2019, comprise Baillie Gifford, Blackrock, Fidelity, MFS International and Schroders. They are regulated by the Financial Conduct Authority (FCA). The Fund's investment managers are set individual performance targets marked against relevant market benchmarks.

2018/19 saw a good performance in terms of overall market returns with the total fund value rising from £970.7m as at 1st April 2018 to £1,039.2m at 31st March 2019. However, the fund return for the year of +7.99% was slightly below the benchmark of +8.27%. The Fund's medium and long-term returns have remained very strong overall, with returns of 6.7% for 2017/18 and 26.8% for 2016/17 against the benchmark of 3.1% and 24.6% respectively. The overall Fund ranked third against the 61 funds in the PIRC LGPS universe for the year to 31st March 2018, first over 3 years, second over 5 years and first over 10 years. Further details about the Fund's performance can be found on pages 13 to 19. The Fund's investment policy is summarised on pages 13 to 14 and further details are set out in the Investment Strategy Statement on pages 71 to 75.

This Annual Report was reported to the meeting of the General Purposes and Licensing Committee on 28th November 2019.

MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

The Fund

The London Borough of Bromley Pension Fund is part of the national Local Government Pension Scheme (LGPS), which is a statutory career average (final salary until 31st March 2014) scheme set up to provide pensions and retirement benefits for most local government employees including non-teaching staff in schools and for the employees of certain other bodies. It does not provide for teachers, who have a separate national scheme. Up to the local elections in May 2014, Councillors were eligible to join the scheme at the discretion of individual councils, although Councillors' pensions were based on career average Members' allowances. Since May 2014, however, Councillors can no longer be active members of the scheme.

As well as for its own employees, the Fund provides for employees who transferred from the Council to Clarion Housing Group (formerly Affinity Sutton), Bromley Mytime, Liberata, Certitude, The Landscape Group, Amey, Birkin Cleaning Services, Cushman & Wakefield, Creative Support, Mears, Lewis and Graves, Greenwich Leisure Ltd and British Telecom. These bodies are permitted under the regulations to contribute to the Fund and are termed Admission Bodies. It also provides for non-teaching staff in Ravensbourne College of further education within the borough which is termed a Scheduled Body. As at 31st March 2019, the Fund also provided for 96 school academies, which are also termed Scheduled Bodies. The Council is responsible for administering the Fund in accordance with various statutory regulations, the principal regulations being the Local Government Pension Scheme Regulations 2013. Day-to-day administration of the Fund, such as the collection of contributions and the payment of pensions, is contracted out to Liberata UK Ltd.

Fund management and advisers

Any decisions on discretionary matters, most of which are prescribed by the Regulations, are either taken by officers under delegated authority (generally by the Director of Finance) or referred to the General Purposes and Licensing Committee. The Pensions Investment Sub-Committee oversees the investment of the Fund and has a general responsibility to monitor the Fund's financial position. The Governance Policy Statement (pages 33 to 34) sets out the responsibilities of the various parties involved in managing the Fund. Meetings are held quarterly and the Sub-Committee's membership for the year 1st April 2018 to 31st March 2019 comprised:

> Councillor Keith Onslow (Chairman), Councillor Russell Mellor (Vice-Chairman), Councillor Gareth Allatt, Councillor Simon Fawthrop, Councillor David Jefferys, Councillor Gary Stevens, Councillor Simon Jeal.

Member attendance at Pensions Investment Sub-Committee meetings in 2018/19.

Councillor	22/05/18	24/07/18	13/09/18	07/11/18	14/01/19	05/03/19
Keith Onslow	Y	Y	Y	Y	Y	Y
Russell Mellor	Y	N	Y	Y	Y	Y
Gareth Allatt	Y	N	Y	Y	Y	Y
Simon Fawthrop	Y	Y	Y	Y	Y	Y
David Jefferys	Y	N	Y	Y	N	Y
Gary Stevens	Y	Y	Y	Y	Y	N
Simon Jeal	N	Y	Y	Y	Y	Y

In 2018/19, the Council used the services of a number of professional advisers, including:

Scheme Actuary
Mercer Ltd, No 4, St Paul's Square, Old Hall Street, Liverpool, L2 9SJ
Scheme adviser
MJ Hudson Allenbridge, 8 Old Jewry, London, EC2R 8DN
Auditors
Ernst & Young LLP, 1 More London Place, London, SE1 2AF
Investment managers
Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN
Blackrock, Drapers Gardens, 12 Throgmorton Avenue, London, EC2N 2DL
Fidelity Investment Management Ltd, Beechgate, Millfield Lane, Lower Kingswood, Surrey, KT20 6RP
MFS International, Paternoster House, 65 St Paul's Churchyard, London, EC4M 8AB
Schroders, 1 London Wall Place, London, EC2Y 5AU
Legal adviser
Director of Corporate Services, Civic Centre, Stockwell Close, BR1 3UH
Administrator of scheme benefits
Liberata UK Ltd, PO Box 1598, Croydon, Surrey, CR0 0ZW
Custodians of scheme assets
Bank of New York Mellon, 160 Queen Victoria Street, London, EC4V 4LA
Banker
HSBC plc, 71 Queen Victoria Street, London, EC4V 4AY
Secretary to the trustees
Director of Corporate Services, Civic Centre, Stockwell Close, BR1 3UH
AVC providers
Aviva, Rose Lane Business Centre, PO Box 520, Norwich, NR1 3WG
Equitable Life, PO Box 177, Walton Street, Aylesbury, Bucks, HP21 7YH
Performance monitoring
Pensions & Investment Research Consultants Limited (PIRC Ltd), Exchange Tower, 2 Harbour Exchange Square, London, E14 9GE
Bank of New York Mellon, 160 Queen Victoria Street, London, EC4V 4LA
Council officers
Peter Turner, Director of Finance
Tracey Pearson, Chief Accountant
James Mullender, Principal Accountant

Local Pension Board

From April 2015, a new governance structure for the LGPS and other public sector pension schemes came into force which, among other things, required the administering authority to set up a Local Pension Board to assist in the management and administration of the LGPS. The Board had to be established by 1st April 2015 and was required to be operational by 1st August 2015. The Board's composition and terms of reference were approved by Council in February 2015 and its membership comprises two employer and two member representatives. Its main function is to assist the administering authority with the good governance of the scheme, ensuring the Fund's adherence to legislation, statutory codes of practice and guidance. The Board meets at least once a year and submits an annual report on its work to the Council's Pensions Manager.

Risk Management

There are many factors that could have an adverse impact on achievement of the funding strategy and target funding levels. These can be categorised as administrative, management and investment risks. Some of the key potential risks are listed in a section of the Funding Strategy Statement (pages 60 to 70), together with comments on their materiality, on the procedures for monitoring them and on measures available to mitigate them. The risks listed have been categorised into four main areas, i.e. financial, demographic, regulatory and governance risks.

The Pensions Investment Sub-Committee is responsible for the prudent and effective stewardship of the London Borough of Bromley Pension Fund. As part of this duty, the Sub-Committee oversees the monitoring and management of risk. The risk management process involves the identification, analysis, control and monitoring of risk. A key tool for the management of risk is the risk register. The register incorporates an assessment of likelihood and impact of risk events as well as control measures in place and an overall risk score. The risk register is kept under review by the Director of Finance and is presented to Members.

Officers operate within the financial procedures and control environment of the Administering Authority. These are regularly audited by internal and external audit.

Management of Third Party Risk

The Fund's investment managers and its custodian issue annual internal control documents. These documents identify internal processes and procedures and details of the audit testing done on them during the year. These provide comfort to the Fund that risk management and control policies and procedures are in place within these organisations. The Director of Finance analyses and reconciles information provided by the custodian to that of the investment manager.

The Pensions Investment Sub-Committee receives quarterly performance reports in which manager performance is reviewed. Any issues arising out of these reviews are raised at the Sub-Committee meeting. The Fund's independent investment adviser monitors the market and the activities of investment managers and informs officers if there are any concerns such as key changes of staff.

Financial Performance

The Council prepares accounts as at 31st March each year, which comply with the CIPFA Code of Practice on local authority accounting 2018/19 and the provisions of Chapter 6, Section 5 "Accounting and Reporting by Pension Funds". The Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2013 for the purpose of providing pension benefits for its employees. In addition to the provision of retirement pensions, the benefits include lump sum retirement grants and widows' pensions.

Day-to-day income and expenditure into and out of the Fund are recorded in the Pension Fund Revenue Account, which showed an overall surplus of £12.1m in 2018/19. The Fund's investment assets appear in the Council's Annual Statement of Accounts and the total value of the Fund's net assets increased in 2018/19 from £967.0m as at 1st April 2018 to £1,039.0m as at 31st March 2019. The Pension Fund Accounts and Net Assets Statement, together with supporting notes, are attached (pages 39 to 59).

Results of participation in National Fraud Initiative (NFI) exercises (data matches, overpayments identified, actions taken, etc)

As part of the National Fraud Initiative 2018 data matching exercise, the London Borough of Bromley pension data was matched to other data such as the DWP deceased register and payroll data. No evidence of fraud was identified but there were 13 cases of overpayments in respect of pensioners who were deceased. The total amount involved was £17,340 of which £4,256 has been recovered to date. The data matching exercise is run every two years. However, management has agreed to join the flexible data matching scheme offered by the National Fraud Team which matches pension data to the latest DWP deceased register. This was recently matched and the results referred to the Pension Manager for investigation.

In 2018/19, an annual internal audit was completed and the report concluded controls were in place and working well in the areas of:

- There are regular reports to the Pensions Investment Sub-Committee
- Pensions payments and capital are correctly calculated
- Deductions are correctly calculated
- Payments are not made to deceased pensioners abroad
- Reconciliations are conducted on a quarterly basis
- Risks for the pension fund are included on the risk register, RAG rated and assigned to risk owners and controls are in place to mitigate identified risks

However,

- Policies and Procedure notes should be made and stored in a shared drive for the Authority's Pension Team
- Altair task management system should be updated once action has been taken
- Reconciliations should be signed as verified by a second officer

As a result, a substantial assurance opinion was given.

Analysis of pension overpayments, recoveries and amounts written off

During 2018/19 there were:-

- 72 overpayments to pensioners (65 in 2017/18)
- Total Sum £22,795 (£25,232 in 2017/18)
- Total Outstanding £2,317 (£5,934 in 2017/18)
- Included in the above are 2 write offs (0 in 2017/18)

In addition to the above there were a further 26 overpayments below £50 (24 in 2017/18) and, in such cases, the Council's policy is not to pursue.

This is the 5th year this information has been required and will enable a longer term analysis to be provided in future years.

Management Performance

Liberata UK Ltd manages the general administration of the Local Government Pension Scheme for the London Borough of Bromley. Performance standards are used to monitor and improve performance. Performance is reported regularly to the Council and is published annually for the information of Scheme members.

Liberata's commitment to Scheme members is:

As administrators of the Bromley Fund, we aim to provide you with good quality service and to communicate effectively. Liberata aim to:

- Respond to e-mails and written enquiries within 10 working days of receipt
  374 pieces of correspondence responded to in the last year, of which 99.4% were within the performance standard (100% in 2017/18)
- Process each stage of a transfer of pension rights (to or from the Fund) within 10 days of receiving the required information
  100% of 128 transfer-in quotations (100% in 2017/18) and 98.92% of 105 transfer-out quotations (98.46% in 2017/18) issued within the performance standard
- Process retirement grants (lump sums) within 10 working days of retirement, provided that Liberata have all the necessary information
  98.9% of 331 retirement grants paid within the performance standard (99.5% in 2017/18)
- Issue a benefit statement annually to all active and deferred members
  Statements issued to all active and deferred members by August
- Advise pensioners in April of the annual increase to their local government pension
  Pensions increase letters issued to all pensioners in April

Five-year analysis of the Fund's membership data

Status	31/03/2019 No.	31/03/2018 No.	31/03/2017 No.	31/03/2016 No.	31/03/2015 No.
Active Members	6,316	6,198	6,076	6,234	5,782
Pensioners - widow/dependent	740	743	727	711	700
- other	4,630	4,442	4,343	4,373	4,248
Deferred Pensioners	5,746	5,537	5,258	5,237	5,066
	17,432	16,920	16,404	16,605	15,796
Undecided Leavers	375	256	228	171	174
Frozen Refunds	874	835	733	657	632
Total Membership	18,681	18,011	17,365	17,433	16,602

Administration costs (including fund management fees)

Actual costs of administering the Fund and its investments are compared to the original budget in the following table:

	2018/19 Budget £000	2018/19 Actual £000	2017/18 Budget £00	2017/18 Actual £000
Audit fee	21	21	21	21
- PSAA refund re 16/17 audit	0	0	0	-3
Bank charges/transaction costs	349	306	253	337
London CIV implementation & service charge	100	90	75	100
Advice & other costs	175	144	50	164
Internal recharges	555	550	471	495
Total administration costs	1,200	1,111	870	1,114
Fund Management fees	3,900	3,807	3,500	3,654
Total	5,100	4,918	4,370	4,768

Unit cost of administration per Fund member

	2018/19	2017/18	2016/17	2015/16	2014/15
	£	£	£	£	£
Total administration costs (gross)	4,918,091	4,768,158	4,196,802	3,500,537	3,179,862
Fund Management fees	3,807,004	3,654,648	2,975,235	2,616,914	2,494,614
Total administration costs (net)	1,111,087	1,113,510	1,221,567	883,623	685,248
Cost per member:					
Net (excluding management fees)	£59.47	£61.82	£70.35	£50.69	£41.28
Gross (including management fees)	£263.22	£264.74	£241.68	£200.80	£191.53

Details of contributions received from each employer in the Fund

A list of contributing employers and details of contributions received is given below. Summary details are provided in the notes to the Pension Fund Accounts (pages 47-48 and 51).

Contributions are required by statute to be paid into the Fund by the 19th day of the following month to that which they relate if paid by cheque or by 22nd if paid by bank transfer. The Pension Regulations allow the Council to charge interest on contributions that are not paid on time, but this power was not exercised in 2018/19.

Employer	Contributions 2018/19 Employee	Employer	TOTAL
	£	£	£
LB Bromley (inc. Community Schools)	3,074,022	11,122,988	14,197,010
Primary Schools / Academies			
Alexandra Infants	19,555	78,149	97,705
Alexandra Juniors	13,866	56,177	70,044
Balgowan Primary	32,409	132,645	165,055
Bickley Primary	7,135	20,687	27,822
Biggin Hill Primary	24,221	96,996	121,217
Blenheim Primary	20,850	84,573	105,422
Burnt Ash Primary	42,624	173,020	215,644
Castlecombe Primary	24,642	100,641	125,282
Chelsfield Primary	5,048	22,999	28,047
Chislehurst CE Primary	12,759	51,844	64,603
Churchfield Primary	28,793	114,276	143,069
Clare House Primary	19,422	83,138	102,560
Crofton Infants	35,569	147,098	182,667
Crofton Juniors	43,904	163,470	207,375
Cudham CE Primary	9,685	39,057	48,742
Darrick Wood Infants	15,258	62,685	77,943
Darrick Wood Junior	16,889	78,868	95,757
Dorset Road	6,905	28,788	35,693
Farnborough	16,415	66,420	82,835
Grays Farm	28,724	114,027	142,751
Green Street Green Primary	32,411	131,265	163,676
Harris Beckenham Green	10,967	45,752	56,719
Harris Crystal Palace	34,474	124,619	159,093
Harris Kent House	27,701	111,709	139,410
Harris Primary Beckenham	10,001	16,817	26,818
Harris Shortlands	12,484	50,126	62,611
Hawes Down Infants School	20,398	90,934	111,332
Hawes Down Junior School	6,805	27,913	34,718
Hayes Primary	28,565	119,851	148,416
Highfield Infants	18,414	71,540	89,955
Highfield Juniors	14,766	59,716	74,482
Hillside Primary	24,358	97,504	121,861
Holy Innocents	14,216	58,083	72,299
James Dixon Primary	29,885	130,960	160,845
Keston Primary	11,899	52,011	63,910
La Fontaine	15,618	31,172	46,790
Langley Park Primary	7,020	14,077	21,097
Leesons Primary	23,764	95,284	119,048
Manor Oak Primary	13,487	54,521	68,008
Marian Vian	30,717	122,348	153,065
Mead Road	4,505	32,900	37,405
Midfield Primary	42,531	171,755	214,285
Mottingham	23,421	95,516	118,937
Oak Lodge	31,022	126,875	157,897
Oaklands	29,165	119,449	148,615
Parish Primary	36,071	130,847	166,918
Perry Hall	16,715	75,038	91,752
Pickhurst Infants	27,172	110,315	137,488
Pickhurst Juniors	36,345	140,894	177,239
Pratts Bottom	4,498	18,417	22,915
Princes Plain Primary	50,394	203,033	253,426
Raglan Primary	31,880	130,821	162,701
Red Hill Primary	35,637	139,080	174,716
Scotts Park Primary	28,749	118,235	146,985
St Anthonys RC Primary	10,402	47,736	58,138

St George's CE Primary	27,350	110,494	137,844
St James RC School	13,663	55,225	68,888
St John's Primary	18,169	74,369	92,538
St Josephs Primary	10,942	43,356	54,298
St Marks CE Primary	24,428	100,049	124,477
St Mary Cray	17,676	71,951	89,627
St Mary'S R.C Primary	21,136	92,324	113,460
St Peter & St Paul Primary	17,078	68,831	85,909
St Philomenas Primary	15,350	65,819	81,169
St Vincent	14,309	58,422	72,731
Stewart Fleming Primary	22,243	94,718	116,961
The Highway Primary	14,512	59,043	73,555
Spring Partnership Trust	18,493	66,448	84,941
Tubbenden Primary	44,975	177,101	222,076
Unicorn	26,812	107,013	133,825
Valley	36,869	142,705	179,573
Warren Road	53,550	232,860	286,410
Wickham Common	20,529	83,504	104,032
Worsley Bridge Juniors	5,883	88,570	94,453
<u>Secondary Schools</u>			
Beaverwood	61,806	257,887	319,693
Bishop Justus	107,744	378,870	486,615
Bullers Wood Girls	65,045	267,826	332,871
Charles Darwin	54,106	242,318	296,424
Coopers	73,420	259,266	332,685
Darrick Wood	71,533	269,033	340,567
Eden Park High	7,681	13,511	21,192
Harris Beckenham	44,188	165,502	209,690
Harris Bromley	36,013	131,293	167,306
Hayes	62,337	240,161	302,499
Kemnal Technology College	129,735	415,373	545,108
Langley Park Boys	64,217	244,127	308,344
Langley Park Girls	60,059	268,395	328,454
Newstead Wood	40,609	168,290	208,899
Ravensbourne	73,842	279,187	353,029
Ravenswood	56,124	225,267	281,392
St. Olaves	41,874	157,478	199,352
The Priory	37,546	144,207	181,753
<u>Special/AP Schools</u>			
Bromley Beacon	32,427	123,361	155,788
Harris Aspire	19,734	18,089	37,822
The Bromley Trust Academy	25,081	103,743	128,824
The Glebe	60,752	236,326	297,078
<u>Other Bodies</u>			
Amey	28,178	91,544	119,722
Birkin Cleaning	1,428	6,518	7,946
Bromley My Time	4,930	525,877	530,807
Clarion Housing	0	130,080	130,080
British Telecom	51,751	126,251	178,001
Certitude	49,224	146,317	195,540
Creative Support	8,558	31,791	40,349
Cushman and Wakefield	18,237	49,657	67,894
Greenwich Leisure Limited	126,207	422,114	548,321
Lewis and Graves Partnership	1,367	5,939	7,305
Liberata	53,495	255,723	309,218
Mears Care	21,632	79,406	101,039
Ravensbourne College	288,896	687,849	976,745
The Landscape Group	5,525	17,161	22,687
	6,604,423	**24,984,196**	**31,588,619**

INVESTMENT POLICY AND PERFORMANCE REPORT

Investment Principles

In accordance with the requirements of regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations"), as amended, the Council has produced an Investment Strategy Statement (ISS). The ISS was originally approved by the Pensions Investment Sub-Committee on 22nd February 2017 and subsequent amendments (to reflect the revised asset allocation strategy) were approved on 19th September 2017. This is published on the Council's website (see pages 71 to 75).

Investment Managers

Investment of the Fund is governed by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which define the categories of investments that may be used. In practice, investment in all the principal classes of assets is permitted. Most of the Pensions Investment Sub-Committee's work relates to the monitoring of investment performance, which can have a critical impact on the value of the Fund's assets.

The Council currently employs five investment managers:
- Baillie Gifford & Company (initially appointed in December 1999 and still running a fixed income mandate from December 2012 and a global equities mandate from December 2013);
- Blackrock (appointed from December 2013 to manage a global equities mandate);
- Fidelity Pensions Management (originally appointed in April 1998, with a fixed income mandate since December 2013, and Multi-Asset Income Fund and UK Property Fund mandates from February 2018);
- MFS International (appointed from December 2013 to manage a global equities mandate);
- Schroder Investment Management (appointed from December 2017 to manage a Multi-Asset Income Fund).

It also employs an independent custodian, the Bank of New York Mellon, to hold the Fund's investments and perform related functions such as the collection of investment income and operation of bank accounts in various currencies. The Pensions Investment Sub-Committee is responsible for all of these appointments.

Quarterly meetings of the Sub-Committee are held to review the performance of the investment managers, and each manager submits a report on his activities in the previous quarter. The Fund managers attend meetings as requested to present and discuss reports on performance. The Director of Finance presents a separate report on investment performance to each meeting, based on data prepared by BNY Mellon and PIRC, and including comments from the Fund's external advisers, MJ Hudson Allenbridge.

The investment managers have to operate within the investment powers set out in the regulations and in accordance with their benchmarks. These determine the broad allocation of investments over different asset classes and the extent to which they can diverge from that allocation. Details are included in the Fund's Investment Strategy Statement (pages 71 - 75). The Pensions Investment Sub-Committee is responsible for determining and reviewing the asset allocation strategy of the Fund and this is reviewed on a regular basis. The asset allocation strategy agreed in 2006 (two balanced portfolios managed by Fidelity and Baillie Gifford with benchmarks based on a broad 80:20 ratio of equities to bonds) remained in place until the comprehensive strategy review that took place during 2011/12 (see below), following relatively poor performance in 2011/12.

The review concluded that, in view of ongoing world market problems, a change of direction was required. Consequently, the Sub-Committee agreed to maintain the high level 80%/20% split between growth seeking assets (representing the long-term return generating part of the Fund's assets) and protection assets (aimed at providing returns to match the future growth of the Fund's liabilities). The growth element would, however, comprise a 10% investment in Diversified Growth Funds (DGF - a completely new mandate) and a 70% allocation to global equities. The latter involved the elimination of previous arbitrary regional weightings, which now provides new managers with greater flexibility to take advantage of investment opportunities in the world's stock markets, thus, in theory at least, improving long-term returns. A 20% protection element would remain in place for investment in corporate bonds and gilts.

Following a review, the asset allocation strategy was revised in April 2017, to provide income generating investments to help meet the Fund's cash-flow requirements at the same time as aiming to reduce overall risk. The strategy removed the allocation to Diversified Growth Funds, reduced the allocation to Global Equities and Fixed Income, and introduced allocation to Property (pooled funds) and Multi-Asset Income (MAI).

Following OJEU tender exercises, mandates were awarded for MAI to Schroders (60%) and Fidelity (40%), and for Property to Fidelity. The Fidelity MAI and initial drawdown of the property fund were completed in February 2018, and the Schroders MAI investment completed in May 2018. A further drawdown of the Fidelity property was completed in December 2018.

Fees paid to the investment managers are charged to the Fund. In 2018/19, these were calculated on the following bases:

Baillie Gifford (global equities) - Base fee (quarterly) 0.65% of first £30m of Fund, 0.50% of next £30m and 0.35% of remainder
Baillie Gifford (fixed income) - Base fee (quarterly) 0.30% of total Fund value
Fidelity (fixed income) - Base fee (quarterly) 0.35% of first £10m of Fund value, 0.30% of next £10m, 0.21% of next £30m and 0.18% of remainder. From 1st January 2018 a reduction of 20% has been applied
Fidelity (MAI) - Base fee (quarterly) 0.40% of first £20m of Fund value, 0.30% of next £30m, 0.25% of next £100m and 0.20% of remainder
Fidelity (Property) - Base fee (quarterly) 0.75%
MFS (global equities) - Base fee (quarterly) 0.60% of first £25m of Fund value, 0.45% of next £25m and 0.40% of remainder
Schroders (MAI) – 0.35% of Fund value.
Blackrock Global Equities – 0.30% of Fund value.

Review of Investment Performance

BNY Mellon provide an independent performance measurement service for the Fund, and PIRC provide an LGPS universe comparator service.

Performance data for 2018/19

Fund Value

The total market value of the Fund has fluctuated considerably in the last few years. Since 2002, however, increases in the good years (most notably 2005/06, 2009/10, 2012/13, 2014/15, 2016/17, 2017/18 and 2018/19) have far exceeded decreases in the bad years (2002/03 and 2008/09). As a result, the total value of Fund investments has increased from £180.3m as at 31st March 2003 to £1,039.2m as at 31st March 2019. In 2018/19, the value rose by 7.1% from £970.7m to £1,039.2m.

MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002

Date	Baillie Gifford					Fidelity					Blackrock	MFS	Standard Life	Schroders	CAAM	
	Balanced Mandate	DGF	Fixed Income	Global Equities	Total	Balanced Mandate	Fixed Income	MAI	Property	Total	Global Equities	Global Equities	DGF	MAI	LDI Investment	**GRAND TOTAL**
	£m	£m	£m	£m	£m	£m	£m			£m	£m	£m	£m	£m	£m	£m
31/03/2002	113.3				113.3	112.9				112.9						226.2
31/03/2003	90.2				90.2	90.1				90.1						180.3
31/03/2004	113.1				113.1	112.9				112.9						226.0
31/03/2005	128.5				128.5	126.7				126.7						255.2
31/03/2006	172.2				172.2	164.1				164.1						336.3
31/03/2007	156.0				156.0	150.1				150.1					43.5	349.6
31/03/2008	162.0				162.0	151.3				151.3					44.0	357.3
31/03/2009	154.4				154.4	143.0				143.0						297.4
31/03/2010	235.4				235.4	210.9				210.9						446.3
31/03/2011	262.6				262.6	227.0				227.0						489.6
31/03/2012	269.7				269.7	229.6				229.6						499.3
31/03/2013#	315.3	26.5			341.8	215.4				215.4			26.1			583.3
31/03/2014@	15.1	26.8	45.2	207.8	294.9		58.4			58.4	122.1	123.1	27.0			625.5
31/03/2015		45.5	51.6	248.2	345.3		66.6			66.6	150.5	150.8	29.7			742.9
31/03/2016		44.8	51.8	247.9	344.5		67.4			67.4	145.5	159.2	28.3			744.9
31/03/2017		49.3	56.8	335.3	441.4		74.3			74.3	193.2	206.4	28.5			943.8
31/03/2018$&			58.0	380.0	438.0		75.6	79.2	15.9	170.7	155.2	206.8				970.7
30/06/2018£			57.1	408.4	465.5		75.8	79.7	16.1	171.6	44.0	217.8		119.0		1,017.9
30/09/2018^			56.8	421.8	478.6		75.2	79.8	35.2	190.2	26.6	230.6		119.5		1,045.5
31/12/2018*			56.8	369.6	426.4		75.8	77.6	49.0	202.4	10.4	209.9		114.6		963.7
31/03/2019			59.2	416.5	475.7		78.7	78.8	48.6	206.1	11.4	230.2		115.8		1,039.2

£50m Fidelity equities sold in Dec 2012 to fund Standard Life and Baillie Gifford DGF allocations.

@ Assets sold by Fidelity (£170m) and Baillie Gifford (£70m) in Dec 2013 to fund MFS and Blackrock global equities.

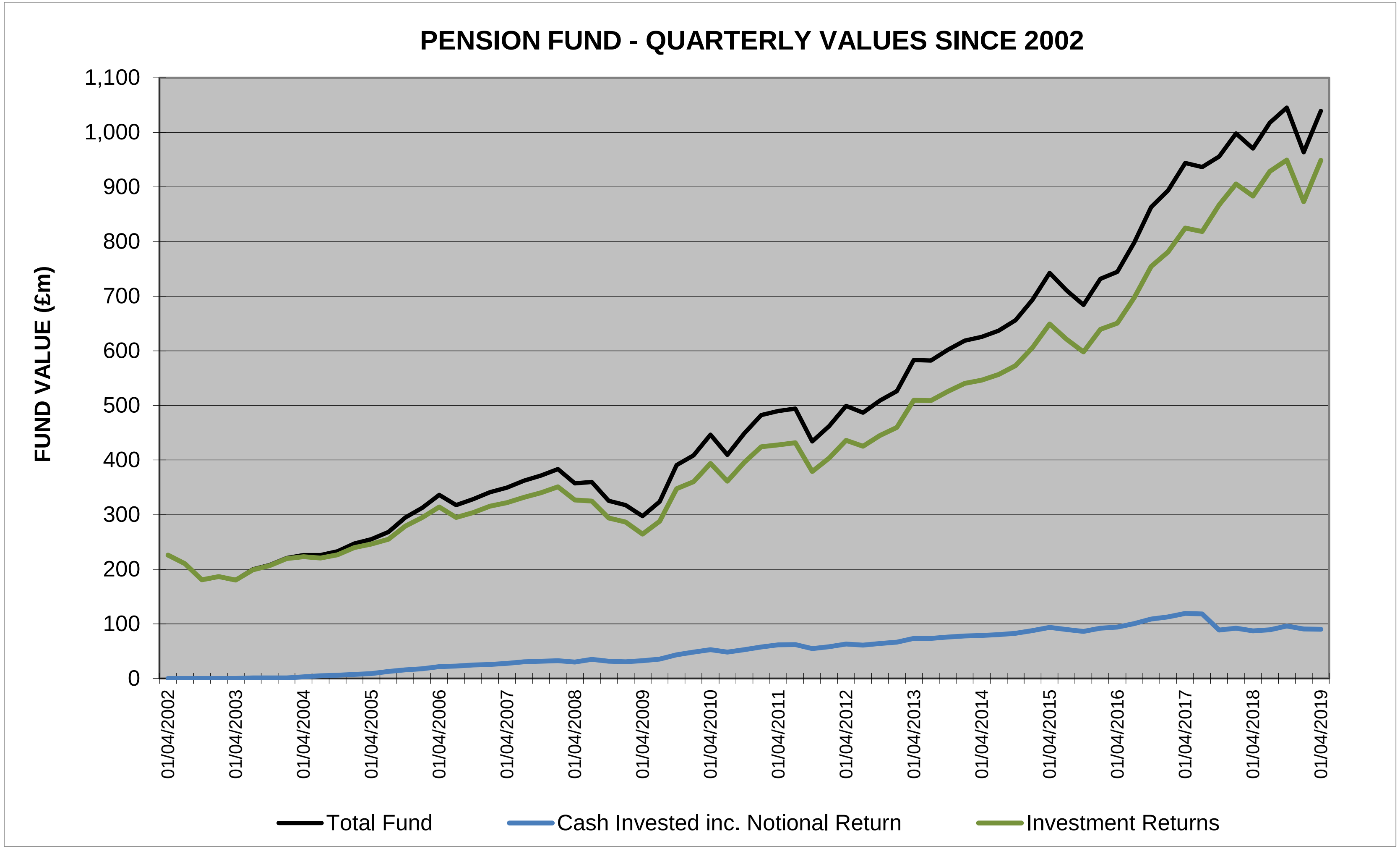
$ £32m Blackrock global equities sold in July 2017 to pay group transfer value re Bromley College.

& Assets sold by Baillie Gifford (£51m), Standard Life (£29m) and Blackrock (£19m) in Feb 2018 to fund Fidelity MAI and Property funds.

£ Assets sold by Blackrock (£120m) in May 2018 to fund Schroder MAI fund.

^ Assets sold by Blackrock (£20m) in August 2018 to fund Fidelity Property fund.

* Assets sold by Blackrock (£13.7m) in December 2018 to fund Fidelity Property fund.


PENSION FUND - QUARTERLY VALUES SINCE 2002
FUND VALUE (£m)
1,100
1,000
900
800
700
600
500
400
300
200
100
0
01/04/2002
01/04/2003
01/04/2004
01/04/2005
01/04/2006
01/04/2007
01/04/2008
01/04/2009
01/04/2010
01/04/2011
01/04/2012
01/04/2013
01/04/2014
01/04/2015
01/04/2016
01/04/2017
01/04/2018
01/04/2019
Total Fund
Cash Invested inc. Notional Return
Investment Returns

Investment Performance

The Fund's medium and long-term returns have remained very strong overall, with returns of 8.0% for 2018/19 and 6.7% for 2017/18 against the benchmark of 8.3% and 3.1% respectively, ranking 11th and 3rd in the LGPS Universe of 64 funds maintained by PIRC.

For 2016/17, the total return was 26.8% against the benchmark of 24.6% (ranking 1st). In 2015/16, the total return was 0.1% against the benchmark return of 0.5% (ranking in the 39th percentile (the lowest rank being 100%). In 2014/15, the fund returned 18.5% compared to the benchmark return of 16.4% (overall ranking in the 7th percentile).

For comparison, the rankings in earlier years were 29% in 2013/14, 4% in 2012/13, 74% in 2011/12, 22% in 2010/11, 2% in 2009/10 (the second best in the whole local authority universe), 33% in 2008/09, 5% in 2007/08, 100% in 2006/07 (equal worst in the whole local authority universe), 5% in 2005/06, 75% in 2004/05, 52% in 2003/04, 43% in 2002/03 and 12% in 2001/02.

From December 2013 until the initial implementation of the revised Asset Allocation Strategy in February 2018, the Fund employed a total of five managers, reducing to four and then returning to five, all of which are measured against specific benchmarks and are given specific performance objectives, as follows:

- Global equities – Baillie Gifford, Blackrock and MFS are all required to outperform the MSCI All Countries World Index.
- Multi-Asset Income – Fidelity are required to generate a total return in excess of LIBOR +4% p.a and Schroders LIBOR +5%.
- Fixed income – Baillie Gifford are required to outperform 88% Sterling Aggregate Benchmark (50% FTSE UK Conventional Gilts Actuaries All stocks index and 50% Bank of America Merrill Lynch Sterling Non-Gilt Index), 6% JP Morgan GBI-EM Global Diversified Index un-hedged in Sterling and 6% Bloomberg Barclays Global Aggregate Credit GBP Hedged Index; Fidelity are required to outperform 50% Sterling Gilts/50% Sterling non-Gilts.
- Property – Fidelity are required to outperform the IPD UK PFI - All Balanced Property Fund Index

The Bank of New York Mellon measures their results against these benchmarks and, at total Fund level, PIRC maintains the local authority universe for comparator information. The following tables show total Fund performance and the performance returns of the individual managers in periods ended 31st March 2019.

PENSION FUND MANAGER PERFORMANCE TO MARCH 2019

Portfolio	1 Year %	3 Years %	5 Years %	Since Inception %
Baillie Gifford Global Equity	9.70	18.99	14.85	8.62
Benchmark	11.06	14.97	12.43	7.65
Excess Return	-1.36	4.02	2.42	0.97
Baillie Gifford Fixed Income	1.79	4.42	5.40	5.48
Benchmark	3.47	4.29	5.57	5.46
Excess Return	-1.68	0.13	-0.17	0.02
Blackrock Global Equity	9.25	15.79	12.95	12.59
Benchmark	11.06	14.97	12.44	12.25
Excess Return	-1.81	0.83	0.52	0.34
Fidelity Fixed Income	4.01	5.49	6.35	6.58
Benchmark	3.82	4.21	5.60	5.78
Excess Return	0.20	1.28	0.75	0.81
Fidelity MAI	3.47			2.05
Benchmark	4.49			4.46
Excess Return	-1.02			-2.41
Fidelity Property	1.12			1.60
Benchmark	2.76			4.35
Excess Return	-1.64			-2.75
MFS Global Equity	11.39	13.04	13.20	12.94
Benchmark	10.46	14.35	11.83	11.56
Excess Return	0.94	-1.31	1.37	1.38
Schroder MAI				0.20
Benchmark				4.15
Excess Return				-3.95
Total Fund	7.99	13.46	11.62	8.86
Benchmark	8.27	11.63	10.25	
Excess Return	-0.28	1.83	1.37	

Medium and long-term performance data

The Fund's medium and long-term returns have remained very strong overall, with the Fund ranking 11th, 1st, 2nd, 1st, 1st and 1st over 1, 3, 5, 10, 20 and 30 years respectively to 31st March 2019*, and underlines the fact that the Fund's performance has been consistently strong over a long period. Whole Fund returns and rankings for individual years are shown in the following table:

Year	Whole Fund Return	Benchmark Return	Local Authority Average*	Whole Fund Ranking*
	%	%	%	
Financial year figures				
2018/19	***8.0***	***8.3***	***6.6***	***11***
2017/18	6.7	3.1	4.5	3
2016/17	26.8	24.6	21.4	1
2015/16	0.1	0.5	0.2	39
2014/15	18.5	16.4	13.2	7
2013/14	7.6	6.2	6.4	29
2012/13	16.8	14.0	13.8	4

3 year ave to 31/3/19	***13.5***	***11.6***	***10.5***	***1***
2015/16	10.6	8.9	8.3	1
2014/15	14.6	13.4	11.2	1
2013/14	8.4	7.5	6.4	6
2012/13	14.2	12.1	11.1	5
2011/12	2.2	2.0	2.6	74
2010/11	9.0	8.0	8.2	22
5 year ave to 31/3/19	***11.6***	***10.3***	***8.8***	***2***
2013/14	11.5	9.8	8.8	2
2012/13	13.6	12.0	10.7	1
2011/12	8.8	7.6	7.1	6
2010/11	10.7	9.2	8.8	11
2009/10	48.7	41.0	35.2	2
2008/09	-18.6	-19.1	-19.9	33
2007/08	1.8	-0.6	-2.8	5
2006/07	2.4	5.2	7.0	100
2005/06	27.9	24.9	24.9	5
10 year ave to 31/3/19	***13.7***	***n/a***	***10.7***	***1***
20 year ave to 31/3/19	***7.9***	***n/a***	***6.4***	***1***
30 year ave to 31/3/19	***9.2***	***n/a***	***8.4***	***1***

*The most recent LA averages and rankings as at 31/03/19 are based on the PIRC LA universe containing 64 of the 89 funds.

Custodial arrangements

The Fund uses the Bank of New York (BNY) Mellon as custodian of the cash and securities deposited for safe custody, including stocks, shares, bonds, notes, coupons, certificates of deposit or commercial paper, whether in certificated, uncertificated, registered or bearer form. BNY also effect settlements and other transfers and arranges for the collection of dividends and other receipts.

FUND ADMINISTRATION REPORT

Pension Fund Governance Policy and Compliance Statement

In accordance with regulation 73A of the Local Government Pension Scheme Regulations 1997, the Council has produced a Pension Fund Governance Policy Statement. This is attached at pages 33 to 34. In addition, the Local Government Pension Scheme Regulations 2013 require administering authorities to report the extent of compliance against a set of best practice principles published by the government. The Governance Compliance Statement was reported to the General Purposes and Licensing Committee in July 2008 and is attached at pages 35 to 38.

Fund Administration

Liberata UK Ltd manage the general administration of the Local Government Pension Scheme for the London Borough of Bromley. Details of their performance against standards are shown in the Management and Financial Report above.

Details of administration costs, including investment management fees, adviser fees and fees paid to Liberata are shown on pages 9 and 10 and in the supporting notes to the Pension Fund accounts (page 51).

Liberata UK Ltd

As administrators of the Fund, Liberata aim to provide Members with good quality service and to communicate effectively. They undertake the administration of the LGPS Regulations and associated legislation for over 15,000 Fund members, including LB Bromley staff, non-teaching staff employed by LB Bromley, Clarion Housing Group (formerly Affinity Sutton), Bromley MyTime, Liberata UK, Landscape Group, Certitude, Lewis and Graves, Birkin Cleaning Services, Amey, Cushman and Wakefield, Ravensbourne College, British Telecom, Creative Support, GLL, Mears Care, academies and elected Members of the Council.

Administrator functions include:

- Provision of retirement benefits, life cover and dependants' benefits for current and former staff and their dependants;
- Maintenance of member pension records via interface from the Council payroll;
- Implementation of changes in the regulations affecting benefit (or potential benefit) entitlements and keeping members informed of their options;
- Provision of illustrations for transfer of members' previous pension benefits into the Fund and, where appropriate, affecting the transfer;
- Provision, on request, of illustrations of the benefits of paying additional contributions;
- Provision of details of preserved entitlements for early leavers and transfers out and payment as necessary;
- Provision of forecasts of redundancy and early retirement benefits and payment as necessary;
- Calculation and recovery of employer costs associated with the capital impact on the Fund of early payment of benefits, including one-off payments;
- Operation of special provisions of the LGPS relating to elected Members who have opted to join the Fund;
- Provision of data to the Council's actuary for the annual IAS19 exercise and for triennial full valuations of the Fund;
- Submission of statutory returns to government bodies as required;

- Maintenance of Pensions IT system, with updated versions and revisions to tables as advised by the actuary or the Government's Actuary Department;
- Advice and assistance on pension issues where members' employment is being transferred to a contractor under TUPE. Arranging terms for admission agreements to the Fund for new employers.

Key activities in 2018/19 included:

- Data cleansing for the forthcoming valuation;
- Reconciliation of all transfer in/out payments and retirement grants and death grants for 2018/19;
- Pension Regulator data accuracy and record keeping project.

Enquiries and Complaints

In order to protect Members' interests, the Council is required by the LGPS Regulations to set up a two-stage appeal procedure. Full details can be obtained from the Liberata Pensions Team (contact details shown below). In addition to the internal dispute process, Members also have access to a number of external advisers or regulators who are there to assist with pension matters.

Contacts for further information

Liberata UK Ltd, PO Box 1598, Croydon, CR0 0ZW	Tel: 020 8603 3429 E-mail: pensions@bromley.gov.uk Website: www.liberata.com
London Borough of Bromley, Director of Finance, Civic Centre, Stockwell Close, Bromley, BR1 3UH	Tel: 020 8464 3333 Website: www.bromley.gov.uk

Pension Tracing Service (for ex-members no longer in touch with former employers)

The Pension Service, The Pension Service 9, Mail Handling Site A, Wolverhampton, WV98 1LU	Tel: 0345 600 2537

The former Pensions Advisory Service (TPAS) has now merged with
The Pensions Ombudsman (TPO)
to provide a service to assist members with any difficulties that they cannot resolve with their pension schemes, and to investigate and determine any complaint or dispute involving maladministration of the Scheme, or matters of fact or law.

The Pensions Ombudsman 10 South Colonnade Canary Wharf London E14 4PU	Tel: 0800 917 4487 Website www.pensions-ombudsman.org.uk

Self-Service Pensions

Members of the Fund can access their own pension records online, through the Altair Member Self Service (MSS). This service allows Members to view their own records and carry out their own pension benefits calculations, including deferred benefits, pension predictions, lump sum commutation options and redundancy estimates. Members also have the option of updating their Expression of Wish records (by downloading and submitting a signed form) and personal details such as change of address or name. An activation key to access the Altair Member Self Service function can be requested by accessing https://bromleypensionsonline.bromley.gov.uk and a key and details of how to use MSS will be sent direct to the member.

The Fund's Internal Dispute Resolution Procedure.

Members are initially encouraged to contact Liberata UK if they are not sure which benefits they are entitled to or if they have a problem with their benefits. Many problems are resolved informally in this way before they escalate.

If, however, Members are not satisfied with anything relating to their membership of the Fund, their pension benefits or decisions taken that affect them (or their dependants), they have the right to ask for a review under the formal complaint procedure. This procedure is called the Internal Dispute Resolution Procedure (IDRP).

The IDRP has two stages:

- Stage 1: the complaint should be made formally, in writing, within 6 months of the date of notification of the decision against which the member wishes to complain. A person nominated by the employer will review the decision and inform the complainant in writing within 3 months of the date on which the complaint was logged.
- Stage 2: the member can ask for a 2nd look at the complaint (by a person not involved in the 1st stage decision) if he/she is not satisfied with the 1st stage decision or if the 1st stage decision has not been made within 3 months of the date on which it was logged.

If the complainant is still unhappy with the decision after the 2nd stage, he/she can take the case to the Pensions Ombudsman, provided this is within 3 years of the original decision or problem.

There was 1 formal complaint raised through the IDRP in 2018/19.

Membership of Bodies

The Fund is a member of the following bodies:

- Local Government Pensions Committee – provides technical advice, guides, communications and training on the Local Government Pension Scheme;
- London CIV – established for the purposes of a London Pensions Common Investment Vehicle

ACTUARIAL REPORT

The regulations require an actuarial valuation of the Fund's assets and liabilities every three years and the Pensions Investment Sub-Committee is responsible for considering the actuary's report. In the report on the most recent valuation as at 31st March 2016, the Fund's actuary, Mercer Ltd, determined the level of employers' contributions for the three years 2017/18 to 2019/20. Employers' contributions have to provide both for the ongoing cost of pensions in respect of employees' future service and for the eventual elimination of the shortfall in respect of past service. Contribution rates for the years 2014/15 to 2016/17 were set by the 2013 valuation. The next full valuation of the Fund (as at 31st March 2019) will be carried out during 2019/20.

In the 2016 valuation, the actuary found that the value of the Fund's assets represented 91% of the value of its liabilities, up from 82% in 2013. The actuarially assessed positions at 31st March 2013 and 2016 are summarised in the table below:

Valuation	**31st March 2013**	**31st March 2016**	**change**
	£m	£m	%
Liabilities	712	818	+14.9
Assets	584	748	+28.1
Shortfall	128	70	-45.3
Funding level	82%	91%	+9.0

The key actuarial assumptions as at 31st March 2013 and 2016 are shown below:

Financial Assumptions	**2013**	**2016**
Future investment returns	**% p.a.**	**% p.a.**
Discount Rate	4.95	4.2
Pay increases – long term	4.1	3.7
Pay increases – short term (3 years)	1.0	n/a
General inflation	2.6	2.2
Pension increases	2.6	2.2

In the 2013 Valuation, the primary employer contribution rate in respect of future service with effect from 1st April 2014 to 31st March 2017 was set at 15.3% for all Fund employers. The 2016 Valuation increased this to a weighted average of 17.0% for the three years 1st April 2017 to 31st March 2020, and for the Council, the rate is 16.9%. In addition to the primary contributions in respect of Fund members, employers are also required to make contributions to eliminate the Fund deficit, the secondary contribution rate. For the Council, this was fixed in the 2013 valuation at £5.9m per annum in 2014/15, 2015/16 and 2016/17 with the aim of recovering the deficit over a period of 15 years. For the 2016 valuation, this reduced to £2.1m per annum for 2017/18 to 2019/20, with a deficit recovery period of 12 years.

The 2016 valuation report also contained contribution rates for the other employers in the Fund, including Ravensbourne College, Clarion Housing (formerly Affinity Sutton), Liberata UK, Bromley MyTime, Certitude, Birkin Cleaning Services, Amey, Churchill Cleaning, Cushman & Wakefield and The Landscape Group as well as for schools. Separate contribution rates were also set for those schools that had adopted academy status. A deficit recovery period of no more than 12 years was set for all these employers, in line with the period set for the Council. The Contribution Schedule set by the actuary is shown on pages 29 to 32.

The Fund income from employer contributions by the Council has increased steadily over the years, principally because there has been a funding shortfall in the Fund since the early nineties. Since then, a programme of annual increases in employer contributions has been implemented with the aim of eliminating the shortfall over an extended period. For a variety of reasons, however, the shortfall has persisted and, in common with all defined benefit schemes, both public and private, there has been a sharp deterioration since the turn of the century as the result of adverse market conditions and improved longevity. The Fund's current strategy is to achieve a funding level of 100% by 2028, but this will be reassessed in the next full valuation (as at 31st March 2019), the results of which will be known towards the end of 2019/20.

The latest Fund valuation report (as at 31st March 2016) can be found at: Pension Fund Actuarial Valuation Report. No interim valuations were carried out between that date and the previous full valuation as at 31st March 2013.

The actuary's Summary Funding Statement and Rates and Adjustments certificate are attached at pages 25 to 26 and 27 to 32 respectively.

LONDON BOROUGH OF BROMLEY PENSION FUND
ACTUARIAL VALUATION 31st MARCH 2016 – KEY RESULTS OF THE FUNDING ASSESSMENT
(Section 3 of the Actuarial Valuation as at 31st March 2016)

SOLVENCY FUNDING POSITION

The table below compares the assets and liabilities of the Fund at 31st March 2016. Figures are also shown for the last valuation as at 31st March 2013 for comparison.

	£m	
	31st March 2016	**31st March 2013**
Total assets	748	584
Liabilities:		
Active Members	258	237
Deferred Pensioners	167	131
Pensioners	393	344
Total Liabilities	818	712
Past Service Surplus / (Shortfall)	(70)	(128)
Funding Level	91%	82%

The liability value at 31st March 2016 shown in the table above is known as the Fund's solvency funding target. The solvency funding target is calculated using assumptions that the Administering Authority has determined are appropriate having consulted with the actuary, and are also set out in the Administering Authority's Funding Strategy Statement (FSS).

The table shows that at 31st March 2016 there was a shortfall of £70m against the Fund's solvency funding target. An alternative way of expressing the position is that the Fund's assets were sufficient to cover 91% of its liabilities – this percentage is known as the solvency funding level of the Fund.

At the previous valuation at 31st March 2013 the shortfall was £128m, equivalent to a solvency funding level of 82%. The key reasons for the changes between the two valuations are considered in Section 4 of the full valuation report. Further details of the way in which the solvency funding target has been calculated are set out in Appendix A of the full valuation report.

PRIMARY CONTRIBUTION RATE

The valuation looks at the normal employer contribution rate required to cover the cost of the benefits (including death benefits and expenses) that will be built up over the year after the valuation date (the "Primary Contribution Rate"). A summary of the assumptions used is provided in Appendix A of the full valuation report.

The table below gives a breakdown of the Primary Contribution Rate at 31st March 2016 and also shows the corresponding rate at 31st March 2013 for comparison. In calculating the average Primary Contribution Rate we have not made any allowance for future members to opt for the 50:50 scheme.

Active members pay contributions to the Fund as a condition of membership in line with the rates required under the governing Regulations (see Appendix D of the full report).

	% of pensionable pay	
	31st March 2016	**31st March 2013**
Normal contribution rate for retirement and death benefits	22.8	21.2
Allowance for administrative expenses	0.7	0.7
Total normal contribution rate	23.5	21.9
Average member contribution rate	6.5	6.6
Common Contribution rate	17.0	15.3

** In line with updated CIPFA guidance, the 2016 Primary Contribution Rate is the weighted average of the individual employer Primary Contribution Rates as derived based on their individual circumstances (e.g. whether or not they are closed to new entrants).*

CORRECTING THE SHORTFALL – SECONDARY CONTRIBUTION RATE

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period adopted is approximately 11 years, and the total initial recovery payment (the “Secondary rate”) is approximately £5.9m per annum in £ terms**.**

LONDON BOROUGH OF BROMLEY PENSION FUND
ACTUARIAL VALUATION 31st MARCH 2016
RATES AND ADJUSTMENTS CERTIFICATE ISSUED IN ACCORDANCE WITH REGULATION 62
(Appendix G of the Funding Report of the Actuarial Valuation as at 31st March 2016)

PRIMARY CONTRIBUTION RATE

I hereby certify that, in my opinion, the primary rate of the employers' contribution for the whole Fund for each of the three years beginning 1st April 2017 is 17.0% of pensionable pay.

The primary rate of contribution for each employer for the three year period beginning 1st April 2017 is set out in the attached schedule**.**

SECONDARY CONTRIBUTION RATE

I hereby certify that, in my opinion, the secondary rate of the employer's contribution for the whole Fund for each of the three years beginning 1st April 2017 is as follows:

2017/18 £2.6 million plus 3.3% of pensionable pay
2018/19 £2.6 million plus 3.3% of pensionable pay
2019/20 £2.6 million plus 3.3% of pensionable pay

The secondary rate of contribution for each employer for each of the three years beginning 1st April 2017 is set out in the attached schedule.

CONTRIBUTION AMOUNTS PAYABLE

The total contribution payable for each employer is the total of the primary and secondary rates as detailed in the attached schedule. Contributions will be paid monthly in arrears with each payment normally being due by the 19th of the following month (or the 22nd if paid electronically) unless otherwise noted in the schedule**.**

FURTHER ADJUSTMENTS

A further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of three years covered by this certificate. This further individual adjustment will be calculated in accordance with methods agreed from time to time between the Fund's Actuary and the Administering Authority.

The contributions set out in the attached schedule represent the minimum contribution which may be paid by each employer in total over the 3 years covered by the certificate. Additional contributions or a different pattern of contributions may be paid if requested by the employer concerned at the sole discretion of the Administering Authority as agreed with the Actuary. The total contributions payable by each employer will be subject to a minimum of zero.

The individual employer contributions may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or parties including where the third party or parties participate in the Fund.

In cases where an element of an existing Scheme employer's deficit is transferred to a new employer on its inception, the Scheme employer's deficit recovery contributions, as shown on the schedule to this Certificate in Appendix H, may be reallocated between the Scheme employer and the new employer to reflect this, on advice of the Actuary and as agreed with the Administering Authority so that the total payments remain the same overall.

The Administering Authority and employer with advice from the Fund's Actuary can agree that contributions payable under this certificate can be sourced under an alternative financing arrangement which provides the Fund with equivalent cash contributions.

REGULATION 6 2(8)

No allowance for non-ill health early retirements has been made in determining the results of the valuation, on the basis that the costs arising will be met by additional contributions. Allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.

Ian Kirk
Fellow of the Institute and Faculty of Actuaries
31st March 2017

Clive Lewis
Fellow of the Institute and Faculty of Actuaries

Schedule to the Rates and Adjustment Certificate dated 31st March 2017

Employer (Number)	Notes	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
			2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Major Scheme Employer								
London Borough of Bromley (Council) (1)		16.9%	£2.1m	£2.1m	£2.1m	16.9% plus £2.1m	16.9% plus £2.1m	16.9% plus £2.1m
London Borough of Bromley (Schools) (1)		16.9%	6.4%	6.4%	6.4%	23.3%	23.3%	23.3%
Other Scheme Employers (non Academies)								
Ravensbourne College (27)		12.1%	4.9%	4.9%	4.9%	17.0%	17.0%	17.0%
St Olaves (31)		18.2%	5.1%	5.1%	5.1%	23.3%	23.3%	23.3%
Academies / Free Schools								
Alexandra Infants (645)		18.1%	5.2%	5.2%	5.2%	23.3%	23.3%	23.3%
Alexandra Junior (635)		18.0%	5.3%	5.3%	5.3%	23.3%	23.3%	23.3%
Balgowan Primary School (616)		18.2%	5.1%	5.1%	5.1%	23.3%	23.3%	23.3%
Biggin Hill Primary (617)		15.5%	7.8%	7.8%	7.8%	23.3%	23.3%	23.3%
Bishop Justus Academy (604)		18.2%	5.1%	5.1%	5.1%	23.3%	23.3%	23.3%
Bromley Beacon Academy (676)		13.7%	9.6%	9.6%	9.6%	23.3%	23.3%	23.3%
Bromley Trust Academy (656)		17.7%	5.6%	5.6%	5.6%	23.3%	23.3%	23.3%
Bullers Wood School (606)		17.1%	7.8%	7.8%	7.8%	24.9%	24.9%	24.9%
Burnt Ash Primary (679)		14.8%	8.5%	8.5%	8.5%	23.3%	23.3%	23.3%
Castlecombe Primary (647)		17.8%	5.5%	5.5%	5.5%	23.3%	23.3%	23.3%
Charles Darwin Academy (607)		19.5%	7.9%	7.9%	7.9%	27.4%	27.4%	27.4%
Chelsfield Primary School (680)	1	21.3%	4.2%	4.2%	4.2%	25.5%	25.5%	25.5%
Chislehurst CE Primary (662)		18.2%	5.1%	5.1%	5.1%	23.3%	23.3%	23.3%
Chislehurst School for Girls (603)		18.7%	7.0%	7.0%	7.0%	25.7%	25.7%	25.7%
Clare House Primary School (684)	1	17.9%	5.4%	5.4%	5.4%	23.3%	23.3%	23.3%
Coopers Technology Academy (605)		16.1%	7.2%	7.2%	7.2%	23.3%	23.3%	23.3%
Crofton Infants School (632)		16.6%	6.7%	6.7%	6.7%	23.3%	23.3%	23.3%
Crofton Junior School (624)		17.9%	5.4%	5.4%	5.4%	23.3%	23.3%	23.3%
Cudham CE Primary (668)		19.0%	4.3%	4.3%	4.3%	23.3%	23.3%	23.3%
Darrick Wood Academy (602)		17.2%	6.1%	6.1%	6.1%	23.3%	23.3%	23.3%
Darrick Wood Infants School (618)		17.7%	5.6%	5.6%	5.6%	23.3%	23.3%	23.3%
Darrick Wood Junior School (683)	1	20.4%	6.5%	6.5%	6.5%	26.9%	26.9%	26.9%

Employer (Number)	Notes	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
			2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Academies / Free Schools								
Dorset Road Infant School (685)	1	18.0%	5.3%	5.3%	5.3%	23.3%	23.3%	23.3%
Farnborough Primary (643)		17.7%	5.6%	5.6%	5.6%	23.3%	23.3%	23.3%
Grays Farm Primary (639)		15.4%	7.9%	7.9%	7.9%	23.3%	23.3%	23.3%
Green Street Green Primary (619)		17.4%	5.9%	5.9%	5.9%	23.3%	23.3%	23.3%
Harris Academy Beckenham (627)		13.2%	10.1%	10.1%	10.1%	23.3%	23.3%	23.3%
Harris Academy Bromley (626)		15.4%	7.9%	7.9%	7.9%	23.3%	23.3%	23.3%
Harris Academy Orpington (630)		16.9%	6.8%	6.8%	6.8%	23.7%	23.7%	23.7%
Harris Aspire (641)		11.3%	-5.7%	-5.7%	-5.7%	5.6%	5.6%	5.6%
Harris Crystal Palace (637)		18.1%	5.2%	5.2%	5.2%	23.3%	23.3%	23.3%
Harris Kent House (636)		16.5%	6.8%	6.8%	6.8%	23.3%	23.3%	23.3%
Harris Primary Academy Beckenham (677)		9.9%	Nil	Nil	Nil	9.9%	9.9%	9.9%
Harris Primary Academy Orpington (631)		15.1%	8.2%	8.2%	8.2%	23.3%	23.3%	23.3%
Harris Shortlands (658)		18.8%	4.5%	4.5%	4.5%	23.3%	23.3%	23.3%
Hawes Down Infants (666)		19.3%	7.6%	7.6%	7.6%	26.9%	26.9%	26.9%
Hawes Down Junior (667)		18.4%	4.9%	4.9%	4.9%	23.3%	23.3%	23.3%
Hayes Primary School (614)		16.6%	6.7%	6.7%	6.7%	23.3%	23.3%	23.3%
Hayes Secondary School (608)		18.9%	4.4%	4.4%	4.4%	23.3%	23.3%	23.3%
Highfield Infants (638)		17.9%	5.4%	5.4%	5.4%	23.3%	23.3%	23.3%
Highfield Junior (640)		16.3%	7.0%	7.0%	7.0%	23.3%	23.3%	23.3%
Holy Innocents RC Primary (665)		16.1%	7.2%	7.2%	7.2%	23.3%	23.3%	23.3%
James Dixon Primary School (689)	1	16.4%	6.9%	6.9%	6.9%	23.3%	23.3%	23.3%
Kemnal Academy (601)		14.9%	8.4%	8.4%	8.4%	23.3%	23.3%	23.3%
Keston Church of England Primary School (652)		20.8%	4.4%	4.4%	4.4%	25.2%	25.2%	25.2%
La Fontaine Academy (655)		11.9%	-0.1%	-0.1%	-0.1%	11.8%	11.8%	11.8%
Langley Park Boys Academy (609)		18.2%	5.6%	5.6%	5.6%	23.8%	23.8%	23.8%
Langley Park Girls School (613)		18.4%	11.1%	11.1%	11.1%	29.5%	29.5%	29.5%
Langley Park Primary School (688)	1	11.7%	Nil	Nil	Nil	11.7%	11.7%	11.7%
Leesons Primary (657)		16.4%	6.9%	6.9%	6.9%	23.3%	23.3%	23.3%
Manor Oak Primary (644)		16.2%	7.1%	7.1%	7.1%	23.3%	23.3%	23.3%
Marian Vian Primary (672)		19.0%	4.3%	4.3%	4.3%	23.3%	23.3%	23.3%
Mead Road Infants (674)		17.6%	5.7%	5.7%	5.7%	23.3%	23.3%	23.3%
Midfield Primary (664)		14.6%	8.7%	8.7%	8.7%	23.3%	23.3%	23.3%
Mottingham Primary (675)		17.7%	5.6%	5.6%	5.6%	23.3%	23.3%	23.3%
Newstead Wood School (610)		17.6%	7.0%	7.0%	7.0%	24.6%	24.6%	24.6%
Oak Lodge Primary (669)		19.6%	4.0%	4.0%	4.0%	23.6%	23.6%	23.6%
Oaklands Primary (673)		17.5%	5.8%	5.8%	5.8%	23.3%	23.3%	23.3%
Parish Academy (633)		18.5%	4.8%	4.8%	4.8%	23.3%	23.3%	23.3%

Employer (Number)	Notes	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
			2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Academies / Free Schools								
Perry Hall Primary (642)		19.4%	6.3%	6.3%	6.3%	25.7%	25.7%	25.7%
Pickhurst Infants School (620)		16.2%	7.1%	7.1%	7.1%	23.3%	23.3%	23.3%
Pickhurst Junior Academy (621)		17.9%	5.4%	5.4%	5.4%	23.3%	23.3%	23.3%
Pratts Bottom Primary School (681)	1	19.0%	4.3%	4.3%	4.3%	23.3%	23.3%	23.3%
Raglan Primary (634)		17.0%	6.3%	6.3%	6.3%	23.3%	23.3%	23.3%
Ravensbourne Academy (612)		16.2%	7.1%	7.1%	7.1%	23.3%	23.3%	23.3%
Ravenswood School (611)		17.4%	8.1%	8.1%	8.1%	25.5%	25.5%	25.5%
Red Hill Primary School (686)	1	17.2%	6.1%	6.1%	6.1%	23.3%	23.3%	23.3%
Scotts Park Primary (650)		15.3%	8.0%	8.0%	8.0%	23.3%	23.3%	23.3%
St George's Bickley C of E Primary School (687)	1	17.1%	6.2%	6.2%	6.2%	23.3%	23.3%	23.3%
St James' RC School (629)		19.2%	4.1%	4.1%	4.1%	23.3%	23.3%	23.3%
St John's CE Primary (646)		17.7%	5.6%	5.6%	5.6%	23.3%	23.3%	23.3%
St Joseph's RC Primary (648)		17.0%	6.3%	6.3%	6.3%	23.3%	23.3%	23.3%
St Mark's CE Primary (663)		16.9%	6.4%	6.4%	6.4%	23.3%	23.3%	23.3%
St Mary Cray Primary (659)		16.4%	6.9%	6.9%	6.9%	23.3%	23.3%	23.3%
St Mary's RC Primary (653)		20.5%	5.4%	5.4%	5.4%	25.9%	25.9%	25.9%
St Peter & St Paul RC Primary (651)		14.7%	8.6%	8.6%	8.6%	23.3%	23.3%	23.3%
St Philomena's RC Primary (649)		20.0%	4.1%	4.1%	4.1%	24.1%	24.1%	24.1%
St Vincent's RC Primary (660)		20.0%	3.7%	3.7%	3.7%	23.7%	23.7%	23.7%
Stewart Fleming Academy (622)		16.1%	7.2%	7.2%	7.2%	23.3%	23.3%	23.3%
The Highway Primary School (682)	1	18.1%	5.2%	5.2%	5.2%	23.3%	23.3%	23.3%
Trinity C of E Primary School (661)		16.5%	6.8%	6.8%	6.8%	23.3%	23.3%	23.3%
Tubbenden Primary School (628)		18.3%	5.0%	5.0%	5.0%	23.3%	23.3%	23.3%
Unicorn Primary (671)		17.7%	5.6%	5.6%	5.6%	23.3%	23.3%	23.3%
Valley Primary School (623)		17.9%	5.4%	5.4%	5.4%	23.3%	23.3%	23.3%
Warren Road School (615)		19.1%	6.4%	6.4%	6.4%	25.5%	25.5%	25.5%
Wickham Common Primary (670)		16.9%	6.4%	6.4%	6.4%	23.3%	23.3%	23.3%
Worsley Bridge Primary (678)		15.9%	7.4%	7.4%	7.4%	23.3%	23.3%	23.3%
Admitted Bodies								
Affinity Sutton (6)		0.0%	£64.3k	£66.9k	£69.6k	£64.3k	£66.9k	£69.6k
Amey (40)		21.2%	Nil	Nil	Nil	21.2%	21.2%	21.2%
Birkin Cleaning Services (36)		25.8%	Nil	Nil	Nil	25.8%	25.8%	25.8%
Bromley My Time (33)	2	38.0%	£478.3k	£478.3k	£478.3k	38.0% plus £478.3k	38.0% plus £478.3k	38.0% plus £478.3k
Certitude (39)		20.6%	-3.3%	-3.3%	-3.3%	17.3%	17.3%	17.3%
Churchill Cleaning (Beckenham) (41)		26.2%	Nil	Nil	Nil	26.2%	26.2%	26.2%

Employer (Number)	Notes	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
			2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Churchill Cleaning (Bromley) (37)		24.2%	Nil	Nil	Nil	24.2%	24.2%	24.2%
Cushman and Wakefield (42)	1	20.6%	Nil	Nil	Nil	20.6%	20.6%	20.6%
Liberata (35)		20.6%	-0.2%	-0.2%	-0.2%	20.4%	20.4%	20.4%
The Landscape Group (38)		19.7%	Nil	Nil	Nil	19.7%	19.7%	19.7%

Note:

1. These employers were admitted to the Fund after 31 March 2016.

2. The Primary and Secondary rates for this employer shown are provisional only and will be subject to review by the Administering Authority once the employer has concluded a review of its pension commitments.

LONDON BOROUGH OF BROMLEY PENSION FUND
GOVERNANCE POLICY STATEMENT

1. This statement has been published in accordance with regulation 55 of the Local Government Pension Scheme Regulations 2013.

2. It was published after consultation with the other employers in the Fund, namely Bromley & Orpington College, Ravensbourne College, Clarion Housing (formerly Affinity Sutton), Bromley Mytime and Bromley & Lewisham MIND. The Council also consulted its employees through their departmental representatives and trade unions.

3. Before publishing the statement, the Council took into account guidance issued by the CIPFA Pensions Panel under the title "Local Government Pension Scheme: Pension Fund Decision Making – Guidance Notes (2006)".

4. Under Schedule 1, paragraph H1 of The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (SI 2000 No. 2853), functions relating to local government pensions are not to be the responsibility of an authority's Executive.

5. The Council has made the following arrangements for delegation of its functions relating to pensions:

   (a) Overall responsibility for administration of the Local Government Pension Scheme has been delegated to the General Purposes and Licensing Committee.

   (b) Responsibility for the following functions has been delegated to the Pensions Investment Sub-Committee, which is a sub-committee of the General Purposes and Licensing Committee:

      (i) Monitoring the financial position of the Pension Fund, including consideration of the triennial actuarial valuations.

      (ii) Investment of the Pension Fund, including the appointment of investment managers.

      (iii) Management of the Council's additional voluntary contributions (AVC) scheme.

   (c) Responsibility for day-to-day administration has been delegated to the Director of Finance. He has issued operational guidelines for internal use by staff, including staff employed by Liberata Pensions, for reference in determining the day-to-day issues that have been delegated to him.

6. The General Purposes and Licensing Committee normally meets six times a year. Its membership comprises 15 elected councillors, with its political make-up determined according to proportionality rules.

7. The Pensions Investment Sub-Committee normally meets five times a year. Its primary function is to review the investment performance of the Fund's external investment managers. Its membership comprises seven elected councillors, with its political make-up determined in accordance with proportionality rules.

8. Neither the General Purposes and Licensing Committee nor the Pensions Investment Sub-Committee includes any representatives of the other Fund employers. The Council does not believe that it would be practicable for these employers to be represented on either committee as this would result in an inappropriate balance of committee membership given that a large proportion of the Fund's members are the financial responsibility of the Council.

9. In addition to both the General Purposes and Licensing Committee and the Pensions Investment Sub-Committee, a Local Pension Board (hereinafter referred to as 'the Board') has been established to meet the requirements of The Local Government Pension Scheme Regulations 2013 (as amended). The role of the Local Pension Board is to "*assist*" administering authorities to secure compliance with the LGPS regulations and other legal and regulatory requirements, and generally to ensure the efficient and effective governance and administration of the LGPS.

   The Board is not a Local Authority committee, but has been established by Council. It may only operate within its Terms of Reference. A full copy of the Terms of Reference is available on request and a summary of the key points can be found below:

   - The Board must comprise of an equal number of Employer and Member Representatives, with no fewer than two of each;
   - Member Representatives are formally appointed by the General Purposes and Licensing Committee. Employer Representatives are formally appointed by full Council on the recommendation of the General Purposes and Licensing Committee;
   - The Board must meet officially on an annual basis, further ad hoc meetings may be convened as and when required;
   - The Board's role is to oversee and it is not a decision making body with regard to the management of the Pension Fund;
   - No independent Chairman will be appointed to the Board. Instead, Employer and Member representatives will rotate the chairing of meetings on an annual basis.

   In the event of a vote, Board members have one vote per member. However, it is anticipated that the Board will reach a consensus where possible.

GOVERNANCE COMPLIANCE STATEMENT

The objective of the Governance Compliance Statement is to make the administration and stewardship of the scheme more transparent and accountable to our stakeholders.

Principle A – Structure

a)	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Fully Compliant
b)	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.	Partly compliant
c)	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Partly compliant
d)	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.	Partly compliant

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

Neither the General Purposes and Licensing Committee nor the Pensions Investment Sub-Committee includes any representatives of the other Fund employers. The Council does not believe that it would be practicable for these employers to be represented on either committee, as this would result in an inappropriate balance of committee membership given that a large proportion of the Fund’s members are the financial responsibility of the Council. This matter will be kept under review. There are two employer representatives and two member representatives on the Local Pension Board.

Principle B – Representation

a)	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :- i) employing authorities (including non-scheme employers, e.g., admitted bodies); ii) scheme members (including deferred and pensioner scheme members); iii) independent professional observers, and iv) expert advisors (on an ad-hoc basis).	Partly compliant

b)	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.	Fully compliant

Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations) The Local Pension Board membership comprises two employer representatives and two member representatives.

Please use this space if you wish to add anything to explain or expand on the ratings given above:- The two employer representatives and two member representatives on the Local Pension Board receive all papers for, and can attend Sub-Committee meetings. Equal access is given to training and they also have a full opportunity to contribute to the decision making process but without voting rights.

Principle C – Selection and role of lay members

a)	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	Fully compliant

Principle D – Voting

a)	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.	Fully compliant

Please use this space if you wish to add anything to explain or expand on the ratings given above:- Before publishing the statement, the Council took into account guidance issued by the CIPFA Pensions Panel under the title "Local Government Pension Scheme: Pension Fund Decision Making – Guidance Notes (2006)".

Principle E – Training, Facility time, Expenses

a)	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.	Fully compliant

b)	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.	Fully compliant

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

The policy is to ensure that there is regular and comprehensive access to training. In-house training sessions for Councillors were held in January 2016, January 2017 and November 2018. Further ongoing training will be arranged.

Principle F – Meetings (frequency/quorum)

a)	That an administering authority's main committee or committees meet at least quarterly.	Fully compliant
b)	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.	Not applicable
c)	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	Partly compliant

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

As stated the two employer representatives and two member representatives on the Local Pensions Board receive all papers for, and can attend all Pensions Investment Sub-Committee meetings.

Please use this space if you wish to add anything to explain or expand on the ratings given above:-

The General Purposes and Licensing Committee meets six times per year plus any special meetings.
The Pensions Investment Sub Committee meets four times per annum plus any special meetings.

Principle G – Access

a)	That, subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that fall to be considered at meetings of the main committee.	Fully compliant

Please use this space if you wish to add anything to explain or expand on the ratings given above:- Equal access is given.

Principle H – Scope

a)	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Fully compliant

Please use this space if you wish to add anything to explain or expand on the ratings given above:- Wider scheme issues are also part of the Council's governance arrangements.

Principle I – Publicity

a)	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.	Fully compliant

FUND ACCOUNT AND NET ASSETS STATEMENT

Regulation 34(1)(f) requires an administering authority to prepare a Pension Fund account and net assets statement with supporting notes and disclosures prepared in accordance with proper practice. These statements must be included in this annual report and must be drawn up in accordance with the Code of Practice on Local Authority Accounting issued by CIPFA.

The accounts have to be accompanied by a statement of responsibilities signed by the Director of Finance and by the independent auditor's report. These can be found on pages 41 and 42. The Fund Account and Net Assets Statement are on pages 45 and 46, supporting notes are on pages 47 to 58 and details of the Pension Fund Revenue Account are on page 59.

During 2018/19, the total net assets of the Fund rose from £967.0m to £1039.0m. The Pension Fund Revenue Account showed an overall surplus of £12.1m in 2018/19 (excluding changes in market value), and total Fund membership numbers increased in the year from 16,920 to 17,432.

APPROVAL OF THE PENSION FUND STATEMENT OF ACCOUNTS

I hereby confirm that the Pension Fund Statement of Accounts for the year ending 31st March 2019, as signed by the Director of Finance on the 28th November 2019, has been approved by the General Purposes and Licensing Committee of the London Borough of Bromley at its meeting on 28th November 2019.

P. A. Tunnicliffe

Councillor Pauline Tunnicliffe
Chairman of the General Purposes and Licensing Committee
28th November 2019

STATEMENT OF RESPONSIBILITIES

The Authority's Responsibilities

The Authority 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. In this Authority, that officer is the Director of Finance;

* to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

* to approve the Statement of Accounts.

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts, the Director of Finance 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.

The Director of Finance has also:

* kept proper accounting records which were up to date;

* taken reasonable steps for the prevention and detection of fraud and other irregularities.

Director of Finance

I certify that the Pension Fund accounts set out on pages 45 - 58 of the Pension Fund Annual Report give a true and fair view of the financial position of the Authority as at 31st March 2019 and its income and expenditure for the year ended 31st March 2019.

P Turner

Peter Turner
Director of Finance

Dated 28/11/19

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF BROMLEY

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the "2018/19 Statement of Accounts", other than the financial statements and our auditor's report thereon. The Director of Finance is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Director of Finance

As explained more fully in the Statement of Responsibilities set out on page 41, the Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Finance is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of London Borough of Bromley, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the London Borough of Bromley and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Suresh Patel for and on behalf of Ernst & Young LLP

Suresh Patel (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
London
Date 29 November 2019

The maintenance and integrity of the London Borough of Bromley's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PENSION FUND ACCOUNT

2017/18 £000	2017/18 £000		Note	2018/19 £000	2018/19 £000
		Dealings with members and employers			
		Contributions and similar payments			
6,284		Contributions - from members	**6**	6,604	
22,954		- from employers	**6**	24,984	
3,568		Transfers in from other pension funds (individual)		2,655	
	32,806				34,243
		Benefits			
(26,332)		Pensions		(27,531)	
(5,025)		Lump sum benefits - retirement		(6,255)	
(776)		- death		(335)	
	(32,133)				(34,121)
		Payments to and on account of leavers			
(171)		Refunds of contributions		(152)	
(1,196)		Transfers out (group)		(1,280)	
(2,646)		Transfers out (individual)		(2,336)	
	(4,013)				(3,768)
	(3,340)	**Net (withdrawal) / addition from dealings with Fund members**			(3,646)
	(4,768)	**Management expenses**	**7**		(4,918)
	(8,108)	**Net (withdrawal) / addition including fund management expenses**			(8,564)
		Returns on investments			
8,805		Investment income	**9**	20,627	
52,898		Profit and losses on the disposal of investments and changes in the value of investments	**10**	59,947	
	61,703	Net return on investments			80,574
	53,595	**Net increase/(decrease) in the net assets available for benefits during the year**			72,010
	913,385	Opening net assets of the scheme			966,980
	966,980	**Closing net assets of the scheme**			**1,038,990**

NET ASSETS STATEMENT

31st March 2018 (restated)			Note	31st March 2019	
£000	£000			£000	£000
	150	London Collective Investment Vehicle (CIV)	**10**		150
		Investment assets	**10**		
28,567		Equities - UK (quoted)		35,945	
546,112		- overseas (quoted)		600,529	
		Pooled investments			
155,148		- UK unitised insurance policies		11,444	
212,858		- UK open ended investment companies		332,434	
		Pooled property investments			
15,925		- UK open ended investment companies		48,573	
11,634		Cash deposits held by investment managers		9,652	
2,016		Investment income due		2,279	
238		Other investment balances - sales		97	
(911)		- purchases		-	
	971,587	Total investment assets			1,040,953
	971,737	Total net investments	**10**		1,041,103
-		Long-term debtors	**12**	70	
		Current assets and liabilities			
1,075		Current assets - debtors	**11**	2,661	
	1,075				2,731
(3,928)		Short term borrowing		(2,738)	
(1,904)		Current liabilities - creditors	**11**	(2,106)	
	(5,832)				(4,844)
	966,980	**Net assets of the fund available to fund benefits at the end of the reporting period**			**1,038,990**

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The Actuarial present value of promised retirement benefits is disclosed in Note 14.

The balance as at 31st March 2018 has been restated to separate the investment in the London Collective Investment Vehicle (CIV) from investment assets

1 *Description of Fund*

The following description of the Fund is a summary only. For more detail, reference should be made to the London Borough of Bromley Pension Fund Annual Report 2018/19 and the underlying statutory powers underpinning the scheme, which are listed below.

(a) General
The London Borough of Bromley Pension Fund is part of the LGPS and is administered by the London Borough of Bromley. It is a contributory defined benefit pension scheme to provide pensions and other benefits for pensionable employees of the Council and of other organisations with scheduled or admitted body status within the Fund. Teachers are not included as they are members of the Teachers' Pension Scheme, administered by the Department for Education. Former NHS public health health staff who transferred to Bromley in April 2013 are also not included as they remain members of the NHS Pension Fund, administered by the Department for Health.

The Fund is governed by the Public Services Pensions Act 2013 and is administered in accordance with with the following legislation:

- The LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The LGPS (Management and Investment of Funds) Regulations 2016.
- The LGPS Regulations 2013 (as amended).

The Fund is overseen by the London Borough of Bromley Pensions Investment Sub-Committee.

(b) Membership
Membership of the Fund is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal pension arrangements outside the scheme.

Organisations participating in the Fund include:
- Administering Authority: The London Borough of Bromley
- Scheduled Bodies: Academies, Colleges and Foundation Schools whose staff are automatically entitled to be members of the Fund
- Admitted Bodies: Other organisations that participate in the Fund under admission agreements with the Fund. These may include voluntary, charitable and similar bodies or private contractors carrying out local authority functions after outsourcing to the private sector.

The following table shows the total membership of the Fund as at 31st March 2019 and 2018.

	2019	**2018**
Number of employers	113	110
Number of employees in scheme		
London Borough of Bromley	1,747	1,648
Other employers	4,569	4,550
	6,316	6,198
Number of pensioners		
London Borough of Bromley	4,511	4,456
Other employers	859	729
	5,370	5,185
Deferred pensioners		
London Borough of Bromley	3,748	3,831
Other employers	1,998	1,706
	5,746	5,537
Total number of members in pension scheme	**17,432**	**16,920**

1 *Description of Fund continued*

(c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active scheme members in accordance with the LGPS Regulations 2013 and, in 2018/19, ranged from 2.8% to 12.0% of pensionable pay. Contributions are also made by employers and these are set based on triennial actuarial valuations.

A secondary contribution rate (previously known as deficit amount or past service adjustment) may also be charged. This rate is either paid as a monetary value or as an additional percentage of pensionable pay. In 2018/19, total employer rates ranged from 5.6% to 38.0% of pensionable pay.

(d) Benefits

Pension benefits accrued prior to 1st April 2014 are based on final pensionable pay and length of pensionable service and are calculated as follows:

Service pre 1st April 2008:

- Pension: each year worked is worth 1/80 x final pensionable salary.
- Lump sum : automatic lump sum of 3/80 for each year worked x final pensionable salary. A proportion of the accrued pension may be exchanged for a one-off tax free cash payment (£1 pension equates to a £12 lump sum).

Service post 31st March 2008:

- Pension: each year worked is worth 1/60 x final pensionable salary.
- Lump sum : no automatic lump sum, but a proportion of the accrued pension may be exchanged for a one-off tax free cash payment (£1 pension equates to a £12 lump sum).

With effect from 1st April 2014, the LGPS became a career average scheme and pension benefits accrued after 31st March 2014 are calculated as follows:

- Pension: for each year of scheme membership, a pension equal to 1/49 of pensionable pay for that year will be added to an employee's pension account. Annual additions are then made to ensure the accrued pension keeps pace with inflation.
- Lump sum : no automatic lump sum, but a proportion of the accrued pension may be exchanged for a one-off tax free cash payment (£1 pension equates to a £12 lump sum).

As well as a change to the way in which benefits are calculated, the scheme normal retirement age for benefits accrued after 31st March 2014 changed to State Pension Age or 65, whichever is later. There is a range of additional benefits for members of the scheme including, but not limited to, early retirement, ill health retirement and death benefits.

2 *Basis of Preparation*

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its position as at 31st March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector, as well as guidance on Investment Valuations issued by the Pensions Research Accountants Group (PRAG).

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 14.

The accounts have been prepared on a going concern basis.

3 *Summary of Significant Accounting Policies*

(a) Contribution income

Normal contributions, both from members and employers, are accounted for on an accruals basis at the percentage rate recommended by the scheme actuary in the payroll period to which they relate.

3 *Summary of Significant Accounting Policies continued*

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid is classified as a current financial asset. Employer deficit contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of an agreement, on a receipts basis.

(b) Transfers to and from other schemes
Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.
Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

(c) Investment Income

(i) Interest income
Interest income is recognised in the Fund account as it accrues. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

(ii) Dividend income
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amounts not received by the end of the reporting period are disclosed in the net assets statement as "current assets".

(iii) Distributions from pooled funds
Distributions from distributing share class 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 a current financial asset. For accumulating share classes, the change in market value also includes income, net of withholding tax, which is re-invested in the fund.

(iv) Movement in the net market value of investments
The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments.

(d) Benefits payable
Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised. Other benefits are accounted for on an accruals basis on the date of retirement, death or leaving the Fund, as appropriate.

(e) Taxation
The Fund is a registered public service scheme under 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 as follows:

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

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

3 *Summary of Significant Accounting Policies continued*

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 8 and grossed up to increase the change in value of investments. 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.

(g) Investment management expenses

All investment management expenses are accounted for on an accruals basis and investment manager fees are agreed in the respective mandates governing their appointments. Broadly, these are based on a percentage of the total market value of investments under management and therefore increase or decrease as the total value of investments changes.

(h) Financial assets

Financial assets are included in the net assets statement 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 IFRS13 (see Note 18).

(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, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

(j) Cash and cash equivalents

Cash comprises cash investments placed by the Fund managers and cash held internally by the Fund. 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 liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to it. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

(l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed every three years by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As is 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 (see Note 14). A summary of the results of the last full actuarial valuation is shown in Note 13.

(m) Additional voluntary contributions (AVCs)

The Council provides an AVC scheme for its members, the assets of which are invested separately from those of the Pension Fund. AVCs are managed independently of the fund by specialist providers (Aviva and Equitable Life) and each contributor receives an annual statement showing the amount held in their account and the movements in the year. In accordance with the LGPS (Management and Investment of Funds) Regulations 2016, AVCs are not included in the Pension Fund accounts, but are disclosed in Note 15.

(n) Contingent Assets and Liabilities

A contingent asset or liability arises where an event has taken place giving rise to a possible asset or liability whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

4 *Critical Judgements in Applying Accounting Policies, Assumptions on the Future and Other Major Sources of Estimation Uncertainty*

The Pension Fund liability is calculated every three years by the scheme actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 13. The assumptions were determined after taking into account historical experience, current trends and other factors. This estimate is subject to significant variations based on changes to the underlying assumptions. Consequently, actual results may be materially different from estimates.

The actuarial present value of promised retirement benefits is included in Note 14. Estimation of the net liability to pay pensions and the judgements used are carried out by the scheme actuary. The significant judgements relate to the discount rate used, salary increase projections, inflation and demographic assumptions. Additionally the actuary has included the impact of the McCloud judgement in June 2019. This is estimated to increase liabilities by approximately 1% which amounts to £12m as at 31st March 2019.

5 *Events after the Balance Sheet Date*

There has been one adjusting event that provides additional information about conditions that existed at the end of the reporting period. There has been additional evidence regarding the McCloud case judgement, including a legal ruling by the Supreme Court on 27th June 2019 which rejected the Government's appeal. The impact on the present value of future retirement benefit is included within Note 14.

6 *Contributions receivable*

	2017/18	2018/19
Employer Contributions	**£000**	**£000**
L.B. Bromley part of Fund		
L.B. Bromley - normal	7,880	7,968
- augmentations	453	1,055
- deficit funding	2,100	2,100
Scheduled bodies - Foundation Schools	147	157
	10,580	11,280
Other		
Scheduled bodies - normal - academies	10,283	11,061
- normal - colleges	634	688
Admitted bodies - normal	988	1,477
- deficit funding	469	478
	22,954	24,984
Member Contributions		
L.B. Bromley part of Fund		
L.B. Bromley	3,061	3,074
Scheduled bodies - Foundation Schools	40	42
	3,101	3,116
Other		
Scheduled bodies - academies	2,612	2,810
- colleges	265	289
Admitted bodies	306	389
	6,284	6,604

Details of the scheduled and admission bodies are included in Note 1 (b).

7 *Management Expenses*

	2017/18	2018/19
	£000	**£000**
Administrative costs	500	530
London CIV implementation & service chg	100	90
External audit costs	21	21
PSAA refund re 2016/17 audit	-3	0
Investment management expenses	3,991	4,113
Oversight and governance costs	159	164
	4,768	4,918

8 *Investment Management Expenses*

	2017/18	2018/19
	£000	£000
Management fees	3,654	3,807
Custody fees	125	162
Transaction costs	212	144
	3,991	4,113

9 *Investment Income*

	2017/18	2018/19
	£000	£000
Income from equities	8,842	10,386
Pooled property investments	0	1,866
Pooled investments	0	8,424
Interest on cash deposits	-37	-49
	8,805	20,627

10 *Investments*

Following a review of the Fund's investment strategy in 2017, to help manage the projected cashflow negative position of the Fund, contracts were awarded for two income distributing Multi-Asset Income Funds (20% of the Fund) and a Property Fund (5% of the Fund) in December 2017, funded by the disinvestment of the two Diversified Growth Funds, and a reduction in the allocations to Global Equities and Fixed Income. The managers as at 31st March 2019 were as follows:

Global equities: Baillie Gifford, Blackrock and MFS.
Fixed income: Baillie Gifford and Fidelity.
Multi-Asset Income: Fidelity and Schroders.
Pooled Property: Fidelity.

In addition, the Fund has £150k of unlisted shares in the London LGPS CIV Ltd (London CIV), which was set up to manage/pool the investments of LGPS funds across London.

The bid value of the Fund as at 31st March 2018 and 2019 was divided between the Fund managers as follows:

	31st March 2018		31st March 2019	
	£000	%	£000	%
Baillie Gifford - global equities	380,801	39.19%	418,276	40.18%
- fixed income	58,039	5.97%	59,158	5.68%
Fidelity - fixed income	75,635	7.78%	78,671	7.56%
- multi-asset income	79,192	8.15%	78,784	7.57%
- pooled property	15,925	1.64%	48,573	4.67%
MFS - global equities	206,847	21.29%	230,226	22.11%
Blackrock - global	155,148	15.97%	11,444	1.10%
Schroders - multi-asset income	0	0.00%	115,821	11.12%
London CIV	150	0.02%	150	0.01%
	971,737	100.00%	1,041,103	100.00%

The carrying amounts of financial assets held by Fund managers are held as fair value through profit and loss, with the exception of the London CIV investment which is held at cost.
There is no impact from the adoption of IFRS 9 Financial Instruments.

Pooled investments shown in the Net Assets Statement include the following:

	31st March 2018	31st March 2019
	£000	£000
Multi-Asset Income Fund (2)	79,192	194,605
Property Fund (1)	15,925	48,573
Global Equity Fund (1)	155,148	11,444
Sterling Bond Funds (2)	133,666	137,829
	383,931	392,451

10 *Investments continued*

The table below analyses movements in market values between the start and end of the year.

	Value at 31st March 2018	Purchases	Sales	Change in value	Value at 31st March 2019
	£000	£000	£000	£000	£000
Equities	574,679	104,582	(91,630)	48,843	636,474
Pooled investments	383,931	155,240	(153,573)	6,853	392,451
	958,610	259,822	(245,203)	55,696	1,028,925
Cash deposits	11,634			4,251	9,652
Amounts receivable for sales	238				97
Investment income due	2,016				2,279
Amounts payable for purchases	(911)				-
Net investment assets	971,587			59,947	1,040,953

The change in market value (MV) of investments during the year comprises all increases and decreases in the value of investments held at any time during the year, including gains and losses realised on sales of investments and unrealised changes in market value. All gains and losses recognised arose from financial instruments valued at fair value through profit and loss.

Transaction costs, comprising costs charged directly to the scheme such as fees, commissions, stamp stamp duty and other fees, are included in the cost of purchases and sale proceeds. Transaction costs incurred during the year totalled £144k (£212k in 2017/18). Indirect costs are also incurred through the bid-offer spread on investments within pooled investment vehicles, but amounts are not separately provided to the scheme.

The Code requires the Council to disclose any single investments exceeding either 5% of the net assets available for benefits or 5% of any class or type of security. Details are shown below.

	31st March 2018		**31st March 2019**	
	£000	% of total	£000	% of total
Baillie Gifford				
- Sterling Aggregate Plus Bond Fund	49,780	5.12	52,085	5.01
Blackrock - Ascent Life Global Equities Fund	155,148	15.97	11,444	1.10
Fidelity				
- Institutional Aggregate Bond Fund	75,627	7.78	78,671	7.57
- Diversified Income Fund	79,192	8.15	78,784	7.58
- UK Real Estate Fund	15,925	1.64	48,573	4.68
Schroders - Global Multi Asset Income	-	-	115,821	11.15

11 *Current assets and liabilities*

Current assets and liabilities are held respectively on the Balance Sheet as loans and receivables and financial liabilities at amortised cost.

	2017/18	**2018/19**
Short term debtors	£000	£000
Contributions due from employers and employees	1,072	1,323
Dividend income due	0	1,334
Other	3	4
	1,075	2,661
Current liabilities		
Fund management fees	734	736
Transfers out (group)	1,165	1,280
Other	5	90
	1,904	2,106

12 *Long term debtors*

Long term debtors	2017/18 £000	2018/19 £000
Reimbursement of lifetime tax allowances	0	70
	0	70

13 *Funding Arrangements*

The Fund is valued triennially in accordance with the provisions of the Local Government Pension Scheme Regulations 2013. The Fund's actuary, Mercer Ltd, carried out a full valuation of the Fund as at 31st March 2013, when its solvency level was calculated at 82%.

The 2013 actuarial valuation set the level of employer contributions required to attain 100% solvency within 15 years. It set employer rates for the years ending 31st March 2015, 2016 and 2017 at an average of 15.3% (excluding past deficit adjustment) and specified total annual lump sum past-deficit contributions of £6.0m.

The most recent full valuation of the Fund (as at 31st March 2016) was carried out by the actuary during 2016/17. This calculated a new solvency funding level of 91% and set a common employer contribution rate of 20.3% and total annual lump sum past-deficit contributions of £2.6m from 1st April 2017 until 31st March 2020 with the aim of recovering that deficit over 12 years.

A significant number of schools adopted academy status between 2014/15 and 2017/18. Calculations of deficit shares and contribution rates for academies are carried out individually by the Council's actuary and are set at either the same rate as the Council or at a rate sufficient to ensure that the deficit share is recovered within 12 years.

The following assumptions were employed in the 2013 and 2016 valuations.

	2013	2016
Economic assumptions	% p.a.	% p.a.
Increases in earnings - long term	4.1	3.7
- short term (3 years)	1.0	n/a
General Inflation	2.6	2.2
Increases in pensions	2.6	2.2
Investment return - Overall discount rate	4.95	4.2
Mortality assumptions	Years	Years
Life expectancy - male aged 65 now	22.9	23.2
- at 65 for male aged 45 now	25.1	25.8
- female aged 65 now	25.3	25.9
- at 65 for female aged 45 now	28.2	28.2

Commutation assumption - It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take a 3/80ths cash sum (the standard for pre April 2008 service).

14 *Actuarial Present Value of Promised Retirement Benefits*

The net liability of the London Borough of Bromley part of the Fund in relation to the actuarial promised retirement benefits and the net assets available to fund these benefits (both based on IAS 19 information available as at 31st March) is shown in detail in Note 45 to the main financial statements. The figures shown in the Net Assets Statement are in respect of the Whole Fund. The Fund is also required to disclose the actuarial present value of future benefits for the Fund as a whole. This was assessed by the Council's actuary under IAS 26 as £1,201m as at 31st March 2019 (£1,111m as at 31st March 2018). The Government Actuary's Department (GAD) has estimated that the impact of the McCloud judgement for the LGPS as a whole could be to increase active member liabilities by 3.2% (around 1% of overall liabilities) based on a given set of actuarial assumptions. Based on the calculation carried out by the Fund actuary the estimated increase in promised retirement benefits arising from the McCloud judgement is £12m increasing the total present value of promised retirement benefits to £1,213m. The demographic assumptions used in the IAS 26 report were the same as those used for the 2016 full valuation (see Note 13) and the following financial assumptions were used:

	2018 % p.a.	2019 % p.a.
Increases in earnings	3.6	3.7
Increases in pensions	2.2	2.3
Inflation	2.1	2.2
Investment return - Overall discount rate	2.6	2.4

15 *Additional Voluntary Contributions*

Contributing members have the right to make AVCs to enhance their pensions. In accordance with the LGPS (Management and Investment of Funds) Regulations 2016, AVCs are not included in the Pension Fund accounts. A summary of contributions made by members in 2017/18 and 2018/19 and the total value of AVC Funds as at 31st March 2018 and 2019 is shown below.

	2017/18	2018/19
AVC contributions	£000	£000
- to Aviva	47	18
- to Equitable Life *	-	-
Total contributions	**47**	**18**

* the total contribution to Equitable Life was zero in 2017/18, and zero in 2018/19.

	2017/18	2018/19
Market Value	£000	£000
- Aviva	899	881
- Equitable Life	66	46
Total Market Value	**965**	**927**

16 *Related Parties*

Two members of the Pensions Investment Sub-Committee during the year were in receipt of a pension, and one is a deferred pensioner.
A special responsibility allowance of £1,970 was paid to the Chairman of the Sub-Committee in both 2017/18 and 2018/19. No other payments were made for meeting attendance.

The Council incurred costs of £662k (£593k in 2017/18) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses.

Two key management personnel of the Fund (the Director of Corporate Services and the Director of Finance) are active members of the Fund. Their remuneration is set our below.

	2017/18	2018/19
	£000	£000
Short-term benefits	9	12
Post-employment benefits	1	2
	10	**14**

17 *Nature and extent of risks arising from financial instruments*

The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 requires disclosure of the nature and extent of risks arising from financial instruments. This requirement extends to the specific risks related to Pension Fund investments. Detailed disclosures concerning these risks are included in this note on the next two pages.

Risk and Risk Management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, 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 risk, price risk, currency risk and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure that there is sufficient liquidity to meet its forecast cash-flows. The Authority manages these investment risks as part of its overall Pension Fund risk management programme.

17 Nature and extent of risks arising from financial instruments continued

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sector and individual securities. The Fund has an asset allocation rebalancing policy that ensures that diversification is maintained in the event that particular asset class values increase or decrease to an extent that rebalancing is required to retain diversification. These ranges are reviewed quarterly by the Director of Finance. Further details of current policy are included in the Fund's Statement of Investment Principles. To mitigate market risk, the Authority and the Fund's investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Other price risk

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

The Fund is exposed to share price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment management agreements for non-pooled investments provide tolerances for investment manager deviation from market asset class returns expressed as the tracking error from benchmark returns. Fund officers review these metrics with Fund managers at each quarter.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Authority to ensure it is within limits specified in the Fund's investment strategy.

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 the base currency of the Fund, i.e. £Sterling.

Many securities denominated in foreign currencies also gain significant proportions of their income and profits from jurisdictions outside of the market on which those securities are quoted. Over the long-term, currency rates reflect value in a particular territory and, to the extent that a particular security is exposed to currency risk in a particular territory, investment managers make decisions about this in their analysis of what securities to buy, sell or hold.

The Fund manages this risk by setting investment benchmarks and comparing overall outcomes against those benchmarks. These outcomes are reported to the Director of Finance and the Pensions Investment Sub-Committee every quarter.

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

17 *Nature and extent of risks arising from financial instruments continued*

Credit Risk continued

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum percentage of the deposits placed with any one bank or building society. In addition, the Council may invest in AAA-rated money market funds to provide diversification.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund had temporary borrowing of £2.7m under its treasury management arrangements at 31st March 2019 (£3.9m as at 31st March 2018). Although the Pension Fund Revenue Account balance was cash negative for the year, the new income income distributing funds (see note 9) are intended to rectify this position going forward, and, as a result, it was not considered viable to separate out Pension Fund cash from Council cash.

The Council reviews exposure to different classes of credit ratings for fixed-interest securities and these results are reviewed quarterly by the Director of Finance.

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Authority therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings that are invested by the Authority, although, as is stated above, the level of cash held was not sufficient to warrant separate investment. The levels of cash held are reviewed by the Authority as part of the periodic cash-flow forecasting and form part of the Fund's investment strategy. The Fund's investment strategy ensures that around 95% of the Fund is invested in assets that can be sold at short notice to avoid any liquidity risk.

The Fund has illiquid assets through the Fidelity Property Fund, which had a value of £48.6m as at 31st March 2019, representing 4.67% of investment assets (£15.9m (1.64%) as at 31st March 2018).

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Changes in interest rates principally affect investments held in cash or fixed interest securities. Changes in interest rates, currencies and credit risk are all inter-related and affected by many influences including sovereign interest rates and factors affecting each individual investment. Investment managers manage these risks through the choice of their investments, by having benchmark outputs to attain and reporting variances from benchmark returns. The Council reviews outcomes versus the assigned benchmark and the exposure to different classes of credit ratings and these results are reviewed quarterly by the Director of Finance.

Summary

The following table sets out the potential sums at risk, most of which are remote possibilities, under the various types of risk:

17 *Nature and extent of risks arising from financial instruments continued*

	Market Risk £000	Other Price £000	Currency Risk £000	Liquidity Risk £000	Interest Rate Risk £000	Credit Risk £000
UK Equities (quoted)	35,945	35,945	-	-	-	35,945
Overseas Equities (quoted)	600,529	600,529	600,529	-	-	600,529
Pooled Investments						
- Multi-Asset Income Funds *	194,605	194,605	194,605	194,605	194,605	194,605
- Global Equity Fund	11,444	11,444	11,444	-	-	11,444
- Sterling Bond Funds	137,829	-	-	-	137,829	137,829
- Property Funds	48,573	48,573		48,573		48,573
Cash and cash equivalents	-	9,749	-	-	9,749	9,749
	1,028,925	900,845	806,578	243,178	342,183	1,038,674

* The Multi-Asset Income Fund invests in a wide range of assets, including equities, bonds and alternative investments, as determined by the Fund managers. As a result, there is exposure to all types of risk up to the value of the investments held.

18 *Determination of the fair value of assets*

All investment assets are held at fair value. The determination of the fair value can be complex depending on the investment and the complexity of measurement can be represented by the fair value hierarchy. The fair value hierarchy ranks fair values at levels between 1 and 3.

Valuations considered to be Level 1 are based on quoted prices, and the valuation of the Fund's equities fall into this category.

Level 2 valuations are based on observable inputs relating to the assets, such as the quoted price of similar assets or market data relating to the assets held. The valuation of the Fund's pooled investments fall into this category.

Level 3 valuations are based on non-observable inputs. These types of valuation are common to the valuation of private equity and other alternative investments. The investment in the London CIV falls into this category.

19 *Contingent Assets*

The Council is party to a joint venture (JV) arrangement, More Homes Bromley LLP. As part of the overall arrangement the Council has resolved that, on receipt of the property stock at the conclusion of the agreement, the properties will subsequently be ‘gifted’ to the Pension Fund with a view to reducing current pension contributions. The assets to be 'gifted' at the end of the arrangement will not exceed the value of the Council's Pension Fund deficit at that time. The eventual consideration may differ from the actuarial assumptions used due to the long term nature of the arrangement and the application of different professional standards. Whilst there is a constructive obligation to transfer the whole or part of the property stock this is subject to a number of caveats and there is not sufficient certainty for it to be recognised by the Pension Fund as an asset at this stage.

20 *Contingent Liabilities*

Defined benefit pension schemes that were Contracted-out Salary Related (COSR) schemes before contracting-out ended on 6th April 2016 need to provide a Guaranteed Minimum Pension (GMP) to members for contracted-out service between 6th April 1978 and 5th April 1997.

Guaranteed Minimum Pension (GMP) relates to the period where Members of a pension scheme were 'contracted out' of additional state pension arrangements (eg. SERPS or S2P). If the contracted out benefits are less than the pensioner would have received if the contracting out had not applied, the pension scheme would be required to increase the pension paid to reach the GMP.

Scheme actuaries are assessing the impact on the LGPS and other schemes but estimates of the financial impact for individual Funds are not yet available.

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

		Final Outturn 2017/18 £'000		Estimate 2018/19 £'000		Final Outturn 2018/19 £'000
INCOME						
Employee Contributions		6,284		6,400		6,604
Employer Contributions						
- Normal		20,385		22,600		22,406
- Past-deficit		2,569		2,600		2,578
Transfer Values Receivable		3,568		3,500		2,655
Investment Income						
- Re-invested		8,805		8,800		10,337
- Distributed to Fund *		0		8,600		10,290
Total Income		41,611		52,500		54,870
EXPENDITURE						
Pensions		26,332		26,800		27,531
Lump Sums		5,801		6,000		6,590
Transfer Values Paid		3,842		2,500		3,616
Administration						
- Manager fees		3,654		3,900		3,807
- Other (incl. pooling costs)		1,114		1,200		1,111
Refund of Contributions		171		300		152
Total Expenditure		40,914		40,700		42,807
Surplus/Deficit (-)		697		11,800		12,063
MEMBERSHIP		**31/03/2018**				**31/03/2019**
Employees		6,198				6,316
Pensioners		5,185				5,370
Deferred Pensioners		5,537				5,746
		16,920				17,432
*** Distributed to Fund**				**4th Quarter**		**2018/19 total**
Fidelity MAI				823		3,554
Fidelity Property				531		1,866
Schroders MAI				1,446		4,870
				2,800		10,290

LONDON BOROUGH OF BROMLEY PENSION FUND
FUNDING STRATEGY STATEMENT (FSS)

This Funding Strategy Statement has been prepared by London Borough of Bromley (the Administering Authority) to set out the funding strategy for the London Borough of Bromley Pension Fund (the "Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1. EXECUTIVE SUMMARY

Ensuring that the London Borough of Bromley Pension Fund (the "Fund") has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (London Borough of Bromley). The Funding Strategy adopted by the London Borough of Bromley Pension Fund will therefore be critical in achieving this.

The purpose of this Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward.

The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the London Borough of Bromley Pension Fund.

THE FUND'S OBJECTIVE

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions already in payment to continue to be paid, and to reflect the commitments that will arise from members' accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund's investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected.

SOLVENCY AND LONG TERM COST EFFICIENCY

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities (i.e. benefit payments) can be reasonably met as they arise.

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

As the solvency level of the Fund is 91% at the valuation date (i.e. the assets of the Fund are less than the liabilities), a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will either be expressed as £s amounts (flat or increasing year on year) or as a percentage of pay, as deemed appropriate by the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Full details are set out in this FSS.

The target recovery period for the Fund as a whole is 12 years at this valuation which is 3 years shorter than the corresponding recovery period from the previous valuation.

ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the “Primary” contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the “Secondary” rate) are set out in Appendix A to this FSS.

The discount rate in excess of CPI inflation (the “real discount rate”) has been derived by considering the expected return on the Fund’s assets based on the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate discount rate, consideration has been given to the level of expected asset returns <u>in excess</u> of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities is 2.0% per annum and for determining the future service (“Primary”) contribution rates is 2.65% per annum.

The demographic assumptions are based on the Fund Actuary’s bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving each employer’s asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund’s practice and policies in a number of key areas:

- **Covenant assessment and monitoring**
  An employer’s financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

Following the valuation, the Fund may continue to monitor employers' covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer. More details are provided in Appendix D to this statement.

- **Admitting employers to the Fund**
  Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is set out in Appendix C. Examples of new employers include:

  - Fund Employers
  - Designated bodies - those that are permitted to join if they pass a resolution
  - Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.

  Certain employers will be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

- **Termination policy for employers exiting the Fund**
  When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's assets and liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate. In the event that assets are greater than pension liabilities the Fund is required to pay any surplus to the exiting employer within 3 months of the exit event.

2. INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- Following consultation with such persons as it considers appropriate to the London Borough of Bromley Pension Fund (the "Fund"), the Administering Authority will prepare and publish their funding strategy;

- In preparing the FSS, the Administering Authority must have regard to:
    - the guidance issued by CIPFA for this purpose; and
    - the Investment Strategy Statement (ISS) for the Fund published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full Fund benefits in relation to the member only and pay 50% of the normal member contribution.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution).

PRIMARY RATE

The "Primary rate" for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

SECONDARY RATE

The "Secondary rate" is an adjustment to the Primary rate to arrive at the total rate of contribution each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

3. PURPOSE OF FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

4. AIMS AND PURPOSE OF THE FUND

The aims of the fund are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes;
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

The purpose of the fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

5. RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and in particular the Pensions Investment Sub-Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

Key parties to the FSS:

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a Fund employer
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc.

- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

6. SOLVENCY FUNDING TARGET

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer's total contribution rate would ultimately revert to its Primary rate of contribution.

SOLVENCY AND LONG TERM EFFICIENCY

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the LGPS so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

- As a general rule, a maximum recovery period of 12 years will be adopted.
- By number, academies form the largest group of employers in the Fund. The target total contribution rate for each academy will be equal to the total contribution rate being paid by the LEA schools within the London Borough of Bromley. Recovery periods are adjusted on an individual basis to achieve this, subject to a maximum recovery period of 12 years being applied. Where the maximum recovery period does apply, higher contributions will be payable by those individual academies.
- For other employers, as a general rule the deficit recovery period will remain the same for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon.
- Individual employer contributions will be expressed and certified as two separate elements:
    - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
    - the **Secondary rate**: a schedule of lump sum monetary amounts or contribution rates expressed as a percentage of pensionable payroll over 2017/20 in respect of an employer's surplus or deficit
- For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2020 based on the results of the 2019 actuarial valuation.
- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer. In the event that assets are greater than pension liabilities the Fund is required to pay any surplus to the exiting employer within 3 months of the exit event. The termination policy is set out in Appendix C.
- In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

Unless allowance is built into the Employers contribution rate, Employers are required to meet all costs of early retirement strain by immediate capital payments into the Fund.

7. LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

The results of the 2016 valuation show the liabilities to be 91% covered by the current assets, with the funding deficit of 9% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in a real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 64%.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current strategy is:

	Benchmark %
Global Equities	60
Multi-Asset Income Funds	20
Fixed Income	15
Property Funds	5
Total	100%

8. IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term.

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

DEMOGRAPHIC

The demographic risks are as follows:-

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations
- The level of take-up of the 50:50 option at a higher or lower level than built into the actuarial assumptions.

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Whilst regulatory procedures are in place to ensure that ill-health retirements are properly controlled, employing bodies also need to recognise that unforeseen costs for them will arise in the event that the number of ill-health retirements were to exceed the assumptions made. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the Fund's cashflow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to Fund,
- Changes to national pension requirements and/or HMRC Rules

Membership of the LGPS is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their representatives on the Local Pension Board) to make their views known to the Fund and to participate in the decision-making process.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- Changes in the Pensions Investment Sub-Committee membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.

9. MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Fund membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

INTRODUCTION

This Statement has been prepared by the London Borough of Bromley (the Administering Authority) to set out the Investment Strategy for the London Borough of Bromley Pension Fund (the Fund), in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the guidance paper issued by the Department for Communities and Local Government, having consulted with such persons as it considers appropriate.

The Regulations provide that an administering authority must prepare, maintain and publish a written statement of the principles governing its decisions about investments. The Regulations specify six issues that must be addressed in the statement. The following sections of this statement address these issues in turn.

This statement will be kept under review and revised from time to time, but at least every three years.

(a) Investing fund money in a wide variety of investments

The Fund's main long-term objective is to ensure that it has sufficient assets to meet its pension liabilities as they fall due. In order to achieve this, the Fund invests its assets with the aim of maximising investment returns whilst maintaining an acceptable risk level.

The Fund's asset allocation strategy of 60% Global Equities, 20% Multi-Asset Income Funds, 15% Fixed Income and 5% Property Funds aims to ensure that the Fund's assets are broadly diversified in terms of geographic, foreign exchange, sector or asset class exposure to help reduce overall portfolio risk and volatility, whilst aiming to deliver or exceed the target returns on its investments.

Within these classes, there are three investment managers with a mandate to invest in Global Equities (although this will reduce to two when the revised strategy is fully implemented), two for Fixed Income, two for Multi-Asset Income and one Property Fund who are all authorised to invest in all assets permitted under the Regulations subject to the provisions of their benchmarks and certain minor restrictions. Details of the Investment Guidelines and Restrictions are included below.

(b) The suitability of particular investments and types of investments

The funding strategy adopted for the 2016 valuation is based on an assumption of real investment return of 2.0% per annum above CPI inflation for past service benefits and 2.65% above inflation for future service benefits. In order to maintain as stable as possible a level of employer contributions, the investment returns of the Fund are targeted to match this level.

The trustees of the Fund, the Pensions Investment Sub-Committee, recognise the changing nature of the cash flow and liquidity requirements of the Fund as it matures, with increasing cash outflows from the payment of benefits exceeding cash inflows from employer and employee contributions leading to a cash-negative position which requires investment income to meet its liabilities.

The asset allocation strategy and investment manager selection will be kept under review to ensure that it is able to meet the future cash flow and liquidity requirements of the Fund whilst aiming to meet or exceed the target return and maintain an appropriate balance of risk and volatility.

(c) The approach to risk, including the ways in which risks are to be assessed and managed

At the last full valuation of the Fund (as at 31st March 2016), the Scheme Actuary valued the fund's assets at 91% of the fund's liabilities (82% in the previous valuation as at 31st March 2013), and determined employers' contribution rates with a view to achieving 100% solvency over a 12-year period, taking into account the investment strategy as set out in this statement.

The Pensions Investment Sub-Committee has set targets to out-perform various benchmarks and it believes that the risks associated with a high allocation to growth assets, in particular equities, are justified by the need to improve its funding level and maintain employer contribution rates at a relatively stable level.

By maintaining a diverse portfolio through multiple asset classes and fund managers, the investment strategy is designed to mitigate investment risks such as:

- Concentration/credit – The risk of underperformance or default from a significant allocation to any single investment or type of investment.

- Illiquidity – The risk that the Fund has insufficient liquid assets to meet its cash flow requirements.

- Currency risk – The risk that the currencies of the Fund's assets underperform relative to Sterling.

- Interest rate risk – The risk that the values or future cash flows from investments fluctuate as a result of changes in market interest rates

- Manager underperformance – The failure by the investment managers to achieve their benchmark rate of investment return.

Other key risks that could have an adverse impact on the achievement of the fund's funding strategy and target funding levels are analysed in the fund's Funding Strategy Statement, where they are analysed over financial, demographic, regulatory and governance risks.

(d) The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund formally became a member of the London Collective Investment Vehicle (CIV) in October 2016 as part of the Government's pooling agenda. The London CIV has been operational for some time and is in the process of opening further sub-funds covering a variety of asset types.

Following the outcome of the revised asset allocation strategy agreed in April 2017 and subsequent implementation process, options will be considered for transferring investments into the CIV. Assets may be retained outside of the London CIV pool, for example if it is not deemed cost effective in terms of management fees and transition costs, or if the CIV does not have a suitable sub-fund which meets the requirements of the Funds asset allocation and investment strategy.

(e) How social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;

The authority has been advised that its primary responsibility is to secure the best returns for the fund in the interests of its council taxpayers and its members. The Council has decided to take no action at this time in developing an ethical investment policy, having also considered:

- the difficulties involved in identifying companies meeting any ethical investment criteria;
- the possibility of judicial review in the case of any company included in error;
- the difficulty and cost of monitoring any policy;
- the unpredictable impact on investment performance;
- the complications that would arise in relation to performance measurement;
- the requirement this would imply for segregated mandates for all investment managers, potentially leading to increased management and custody costs, and
- the lack of support for such a policy from other employers in the fund.

The authority therefore does not impose any obligation on the investment managers to take account of such considerations in making investments. However, the managers seek to encourage best corporate practice in companies' management of the social, environmental and ethical impact of their activities. They seek to achieve this by engaging in dialogue with companies in which they invest in order to encourage them to improve policies and practices. In their investments they seek to favour those companies that pursue best practices provided it does not act to the detriment of the return or risk of the portfolio. They also take account of any social, environmental or ethical factors that they consider to be relevant to investment risk.

(f) The exercise of the rights (including voting rights) attaching to the investments

The investment managers have been authorised to exercise voting rights on behalf of the Fund unless specifically instructed to vote in a particular way on any individual resolution. In exercising those rights, they will have regard to the Combined Code issued by the Hampel Committee on Corporate Governance. They have been instructed to report back to the Council's Pensions Investment Sub-Committee every quarter on any material divergence from the recommendations of the Combined Code by companies in which the Council is invested and on action taken by them in response to the divergence. They have also been instructed to report to the Sub-Committee at least every six months on their corporate governance activities generally, including their dialogue with companies' management to encourage sound social, environmental and ethical practices in their activities.

The Sub-Committee will issue instructions on individual matters only in exceptional circumstances, when asked for instructions by a manager or when a specific resolution is brought to their attention. With regard to other rights such as the taking up of rights issues, this is left for the investment managers to decide in the light of their assessment of market conditions at the time.

INVESTMENT GUIDELINES AND RESTRICTIONS

General

Investment is permitted in all classes of assets, subject to the limits imposed by the Regulations on the proportion of the fund which may be invested in certain investments and certain other restrictions imposed by the authority. In addition, the investment managers do not use certain investments as a matter of policy.

All references to percentages in this appendix are to percentages of the total value of all existing investments in the fund before making the investment which is subject to the limit. The limits only apply at the time the investment is made.

Limits imposed by the Regulations

- All investments of fund money 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(d): 5%

Other restrictions imposed by the authority

- Cash held at custodian's bank is not to exceed £2.5m for each individual fund manager, with any excess placed on the money market with the main clearing banks or placed in institutional cash funds approved by the authority
- No sub-underwriting
- Certain limits on use of futures and options are recorded in the relevant investment management agreements and fund prospectuses
- All contributions to any single partnership: 2%
- All contributions to partnerships: 5%
- All deposits with any local authority or precepting body which is an exempt person (within the meaning of the Financial Services and Markets Act 2000) in respect of accepting deposits as a result of an order made under section 38(1) of that Act, and all loans: 10%
- All deposits with any single bank, institution or person (other than the National Savings Bank): 10%
- All investments in unlisted securities of companies: 10%
- Any single holding in unlisted securities: 2% (limit imposed by the authority)
- Any other single holding, apart from investments in OEICs and unit trusts: 10% (there is no limit on investment in single OEICs or unit trusts)
- Any single insurance contract: 25%
- All securities transferred under stocklending arrangements: 25%

Asset Allocation

The current investment strategy comprises the following strategic asset allocations:

	%
Global Equities	60
Multi-Asset Income	20
Fixed Income	15
Property	5
Grand Total	**100**

The strategic asset allocations are regularly compared to the actuals and adjusted where required following appropriate advice from the Fund's Independent Investment Advisor.

The Fund Managers have been set the following targets/benchmarks which their performance is measured against:

- Global equities – Baillie Gifford, Blackrock and MFS are all required to outperform the MSCI All Countries World Index.
- Multi-Asset Income – Fidelity are required to generate a total return in excess of LIBOR +4% p.a. and Schroders LIBOR +5%.
- Fixed income – Baillie Gifford are required to outperform 88% Sterling Aggregate Benchmark (50% FTSE UK Conventional Gilts Actuaries All stocks index and 50% Bank of America Merrill Lynch Sterling Non-Gilt Index), 6% JP Morgan GBI-EM Global Diversified Index un-hedged in Sterling and 6% Bloomberg Barclays Global Aggregate Credit GBP Hedged Index; Fidelity are required to outperform 50% Sterling Gilts/50% Sterling non-Gilts.
- Property – Fidelity are required to outperform the IPD UK PFI All Balanced Property Fund Index.

LONDON BOROUGH OF BROMLEY PENSION FUND
COMMUNICATIONS POLICY STATEMENT

Regulation 61 of the Local Government Pension Scheme Regulations 2013 requires administering authorities to prepare, maintain and publish a Communications Policy Statement. This statement sets out the Council's policy concerning communications with members, members' representatives, prospective members and employing authorities.

Prospective Members		**Responsibility**
Employees' Guide to the Local Government Pension Scheme	**Council employees** All new prospective Scheme members are provided with a booklet before an appointment.	Booklet - Liberata. Distribution - Head of HR and Schools.
	Employees of scheduled bodies other than the Council All new prospective Scheme members are provided with a booklet before or on appointment.	Booklet – Liberata. Distribution - Scheduled body.
	Employees of admitted bodies All new prospective Scheme members are provided with a booklet on meeting the body's admission requirements.	Booklet - Liberata. Distribution - Admitted body.
Annual newsletter	All prospective members are issued with the Scheme's annual newsletter, which carries information on joining the Scheme.	Production & distribution – Liberata in partnership with LBB.
Staff Intranet	The staff intranet contains outline information about the Scheme and details of where further information may be obtained.	Head of Human Resources in conjunction with Director of Finance.
National Website	The address of the LGPS website maintained by the Employer's Organisation for Local Government is published in the Scheme booklet, the annual newsletter and various other documents.	www.lgps.org.uk
Members		
Employees' Guide to the LGPS	A booklet is issued on or before appointment. A further copy is available on request.	
Annual Newsletter	An annual newsletter is issued to all active and prospective members covering relevant pension topics within the LGPS. It will also include any material changes or developments in the Scheme.	Production & distribution – Liberata in partnership with LBB.
Annual Benefit Statement	A statement of accrued and prospective benefits as at 31st March each year is sent to the home address of all active members. An explanation of the statement and a note of any material changes or developments in the Scheme accompany this.	Production & distribution - Liberata.

	A statement of the current value of accrued benefits is sent annually to the home address of deferred members where the current address is known. An explanation of the statement and a note of any material changes or developments in the Scheme accompany this.	Production & distribution - Liberata.
Pay Advice to pensioners	A monthly pay advice is sent to Scheme pensioners if a material difference of £10.00.	Production & distribution - Liberata.
Annual pensions increase advice	A statement setting out increases to pensions is sent to pensioners annually in March/April. This is accompanied by a note of any relevant changes to the Scheme and a reminder to the pensioner to inform the Council of any changes in details.	Production & distribution - Liberata.
Staff Intranet	The staff intranet contains outline information about the Scheme and details of where further information may be obtained.	Head of Human Resources in conjunction with Director of Finance.
National website	The address of the LGPS website maintained by the Employer's Organisation for Local Government is published in the Scheme booklet, the annual newsletter and various other documents.	www.lgps.org.uk
Representatives of members		
Scheme booklet, annual newsletter and other literature	Available on request to Liberata.	
Consultative documents	Consultative documents issued by ODPM are distributed to the trades unions, departmental representatives and staff side secretary where relevant.	Head of Human Resources
Employing Authorities		
Procedure Manual	A manual setting out administrative procedures is issued to employing authorities.	Production & maintenance - Liberata.
Report of Actuarial Valuation	A report on the triennial valuation of the pension fund is distributed to employing authorities shortly after completion.	Director of Finance
Consultative documents	Consultative documents issued by ODPM are distributed to employing authorities where relevant.	Director of Finance

ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, alternative methods are adopted, which make advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 2.0% per annum above CPI inflation, i.e. a total discount rate of 4.2% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

Inflation (Consumer Prices Index)

Retirement pensions increase annually by the change in the CPI.

The CPI inflation assumption is determined, firstly, by taking the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, then by making the following adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an adjustment to allow for the Consumer Price Index being different to the Retail Price Index

The overall adjustment to "market implied" RPI at the valuation date to arrive at the CPI assumption is a reduction of 1.0% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. some Guaranteed Minimum Pensions where the LGPS is not currently required to provide full indexation).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity. The mortality tables used are set out below, with a loading reflecting LGPS experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity ‘improvement’ year on year in the future in line with the CMI projections subject to a long-term improvement trend of 1.75% per annum for males and 1.5% per annum for females.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the proportions married/civil partnership assumption has been modified from the last valuation. No allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 1.0% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary Rate” (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation and a slightly higher expected return from the investment strategy has been assumed. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real discount rate of 2.65% per annum above the long term average assumption for consumer price inflation of 2.2% per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2016 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.2% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	4.2% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.85% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation are set out below:

Current Status	Retirement Type	2016 study
Annuitant	Normal Health	94% S2PMA_CMI_2015[1.75%] / 87% S2PFA_CMI_2015[1.5%]
	Dependant	117% S2PMA_CMI_2015[1.75%] / 98% S2DFA_CMI_2015[1.5%]
	Ill Health	94% S2PMA_CMI_2015[1.75%] + 3 yrs / 87% S2PFA_CMI_2015[1.5%] + 3 yrs
Active	Normal Health	94% S2PMA_CMI_2015[1.75%] / 87% S2PFA_CMI_2015[1.5%]
	Ill Health	94% S2PMA_CMI_2015[1.75%] + 4 yrs / 87% S2PFA_CMI_2015[1.5%] + 4 yrs
Deferred	All	94% S2PMA_CMI_2015[1.75%] / 87% S2PFA_CMI_2015[1.5%]

Other demographic assumptions are set out in the Actuary's formal report.

APPENDIX B

EMPLOYER DEFICIT RECOVERY PLANS

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will either be expressed as £s amounts (flat or increasing year on year) or as a percentage of pay, as deemed appropriate by the Administering Authority, and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement.

The determination of the recovery periods is summarised in the table below:

Category	***Default Deficit Recovery Period***	***Derivation***
Fund Employers	12 years	Determined by reducing the period from the preceding valuation by at least 3 years. For academies, determined in order to match total contribution rate for LEA schools, subject to recovery period being no more than 12 years.
Open Admitted Bodies	12 years	Determined by reducing the period from the preceding valuation by at least 3 years.
Closed Employers	Lower of 12 years and the future working lifetime of the membership	Determined initially by reducing the period from the previous valuation by at least 3 years.
Employers with a limited participation in the Fund	Determined on a case by case basis	Length of expected period of participation in the Fund

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed.

Other factors affecting the Employer Deficit Recovery Plans

As part of the process of agreeing funding plans with individual employers, the Administering Authority may consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities.

ADMISSION AND TERMINATION POLICY

This document details the London Borough of Bromley Pension Fund's (LBBPF) policy on the methodology for assessment of ongoing contribution requirements and termination payments in the event of the cessation of an employer's participation in the Fund. This document also covers LBBPF's policy on admissions into the Fund and sets out the considerations for current and former admission bodies. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS).

Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.

Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

A list of all current employing bodies participating in the LBBPF is kept as a live document and will be updated by the Administering Authority as bodies are admitted to, or leave the LBBPF.

Please see the glossary for an explanation of the terms used throughout this Appendix.

ENTRY TO THE FUND

Prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. If the risk assessment and/or bond amount is not to the satisfaction of the Administering Authority (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the minimum risk methodology and assumptions.

Some aspects that the Administering Authority may consider when deciding whether to apply a minimum risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- If the admitted body has an expected limited lifespan of participation in the Fund;
- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

ADMITTED BODIES PROVIDING A SERVICE

Generally Admitted Bodies providing a service will have a suitable bond or guarantor that will stand behind the liabilities. Accordingly, in general, the minimum risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a “risk assessment report” provided by the actuary to the LBBPF. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the LBBPF it must also be satisfied (along with the Administering Authority) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Administering Authority, the level of the bond amount will be subject to review on a regular basis.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund’s general policy as set out in the FSS.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

In the event of termination of the Admitted Body, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer.

An exception to the above policy applies if the guarantor is not a participating employer within the LBBPF, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the LBBPF the Administering Authority may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the minimum risk methodology and assumptions

PRE-FUNDING FOR TERMINATION

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a minimum risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum risk basis.

For any employing bodies funding on such a minimum risk strategy, a notional investment strategy will be assumed as a match to the liabilities. In particular the employing body’s notional asset share of the Fund will be credited with an investment return in line with the minimum risk funding assumptions adopted rather than the actual investment return generated by the actual asset portfolio of the entire Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

EXITING THE FUND

Termination of an employer’s participation

When an employing body terminates for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund with a different Administering Authority.

In the event that unfunded liabilities arise that cannot be recovered from the employing body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

The LBBPF's policy is that a termination assessment will be made based on a minimum risk funding basis, unless the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated).

If, instead, the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities, the LBBPF's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the LBBPF otherwise. The guarantor or successor body will then, following any termination payment made, subsume the assets and liabilities of the employing body within the Fund. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) This may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body, including any funding deficit on closure. In these circumstances no termination payment will be required from the outgoing employing body itself, as the deficit would be recovered via the successor body's own deficit recovery plan.

It is possible under certain circumstances that an employer can apply to transfer all assets and current and former members' benefits to another LGPS Fund in England and Wales. In these cases no termination assessment is required as there will no longer be any orphan liabilities in the LBBPF. Therefore, a separate assessment of the assets to be transferred will be required.

Future Terminations

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

The Fund's standard policy is to recover termination deficits (including interest and expenses) as a one off payment. However, at the discretion of the Administering Authority, the deficit can be recovered over an agreed period. This period will depend on the Administering Authority's view on the covenant of the outgoing employer.

Minimum Risk Termination basis

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2016) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Least risk assumptions	***31 March 2016***
Discount Rate	2.2% p.a.
CPI price inflation	2.2% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

All demographic assumptions will be the same as those adopted for the 2016 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

APPENDIX D

COVENANT ASSESSMENT AND MONITORING POLICY

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

RISK CRITERIA

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

ASSESSING EMPLOYER COVENANT

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

- Parental Guarantee and/or Indemnifying Bond
- Transfer to a more prudent actuarial basis (e.g. the termination basis)
- Shortened recovery periods and increased cash contributions
- Managed exit strategies
- Contingent assets and/or other security such as escrow accounts.

GLOSSARY

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies: A specific type of employer under the Local Government Pension Scheme (the "LGPS") who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

CPI: acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Covenant: the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

Deficit: the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit recovery period: the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Discount Rate: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employer's Future Service Contribution Rate: the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Employing bodies: any organisation that participates in the LGPS, including admission bodies and Fund employers.

Equities: shares in a company which are bought and sold on a stock exchange.

Fund / Scheme Employers: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers.

Funding or solvency Level: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement: this is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

Government Actuary's Department (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / guarantor: a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Letting employer: an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

Liabilities: the actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

Maturity: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members: The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum risk basis: an approach where the discount rate used to assess the liabilities is determined based on returns in line with assumed CPI inflation only. This is usually adopted when an employer is exiting the Fund.

Orphan liabilities: liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions: when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Profile: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate: a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Real Return or Real Discount Rate: a rate of return or discount rate net of (CPI) inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

Scheduled bodies: types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Valuation funding basis: the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.