London Borough of Bromley

The Pension Fund

Statement of Accounts

2018/19

THE LONDON BOROUGH
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LONDON BOROUGH OF BROMLEY
THE PENSION FUND
STATEMENT OF ACCOUNTS
2018/19

Contents

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.

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			Note	2018/19	
£000	£000			£000	£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*

	2017/18	2018/19
Long term debtors	£000	£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	2019
	% p.a.	% 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.

<u>Risk and Risk Management</u>

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.