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DATE: 31 August 2010

To: Members of the
PENSIONS INVESTMENT SUB-COMMITTEE

Councillor Nicholas Bennett J.P. (Chairman)
Councillor Paul Lynch (Vice-Chairman)
Councillors Eric Bosshard, Julian Grainger, Russell Jackson, Russell Mellor and Stephen Wells

A meeting of the Pensions Investment Sub-Committee will be held at Bromley Civic Centre on **WEDNESDAY 8 SEPTEMBER 2010 AT 7.30 PM**

MARK BOWEN
Director of Legal, Democratic and Customer Services.

Copies of the documents referred to below can be obtained from
www.bromley.gov.uk/meetings

A G E N D A

1 **APOLOGIES FOR ABSENCE AND NOTIFICATION OF ALTERNATE MEMBERS**

2 **DECLARATIONS OF INTEREST**

3 **CONFIRMATION OF MINUTES OF THE INVESTMENT SUB-COMMITTEE MEETING HELD ON 4TH MAY 2010, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION** (Pages 5 - 10)

4 **MATTERS OUTSTANDING FROM PREVIOUS MEETINGS**

- **Trial Asset Allocation Service (Minute 29 – 02.02.10 and Minute 38 – 04.05.10)**

  Covered in Part 2 report at item 13

- **Inclusion of Property in the Bromley Pension Fund (Minute 36 – 04.05.10)**

  Covered in Part 2 report at item 15

5 **QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING**

To hear questions received in writing by the Legal, Democratic and Customer Services Department by 5pm on Thursday 2nd September 2010 and to respond.

6 **PENSION FUND PERFORMANCE** (Pages 11 - 22)

7 **WM ANNUAL REPORT**

A printed copy of the WM Annual Report is circulated to Sub-Committee Members with this agenda. A representative of the WM Company will attend the meeting to speak on this item.

8 **PENSION FUND – 2009/10 AUDIT PLAN** (Pages 23 - 42)

9 **PENSION FUND ANNUAL REPORT 2009/10** (Pages 43 - 94)

10 **NEW INVESTMENT REGULATIONS AND MYNERS PRINCIPLES** (Pages 95 - 106)

11 **LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND FREEDOM OF INFORMATION ACT 2000**

The Chairman to move that the Press and public be excluded during consideration of the items of business referred to below as it is likely in view of the nature of the business to be transacted or the nature of the proceedings that if members of the Press and public were present there would be disclosure to them of exempt information.

	Items of Business	Schedule 12A Description
12	**CONFIRMATION OF EXEMPT MINUTES OF THE INVESTMENT SUB-COMMITTEE MEETING ON 4TH MAY 2010** (Pages 107 - 110)	
13	**AEGON PILOT OUTTURN** An update will be provided at the meeting.	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
14	**PENSION FUND - INVESTMENT REPORT** Printed copies of reports from both Fund Managers i.e. Fidelity and Baillie Gifford are circulated to Sub-Committee Members with this agenda. Representatives of Fidelity will attend the meeting to speak on this item.	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
15	**INVESTMENT IN PROPERTY** (Pages 111 - 130)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

INVESTMENT SUB-COMMITTEE

Minutes of the meeting held on 4th May 2010

Present

Councillor Brian Toms (Chairman)
Councillors Eric Bosshard, Julian Grainger,
Russell Mellor and Ernest Noad

31 APOLOGIES FOR ABSENCE AND NOTIFICATION OF ALTERNATE MEMBERS

Apologies for absence were received from Councillors Reg Adams and Peter Morgan.

32 DECLARATIONS OF INTEREST

Councillors Eric Bosshard, Russell Mellor and Ernest Noad declared a personal interest as members of the Local Government Pension Scheme.

Councillor Noad declared a personal interest regarding item 8 (in relation to the Trial Asset Allocation Service and did not participate in the discussion thereon).

33 MINUTES: 2ND FEBRUARY 2010, EXCLUDING EXEMPT INFORMATION

The Chairman referred to Minute 26 (Pension Fund Performance) and sought information in relation to the request which had been made by the Sub-Committee that the report to this meeting (Minute 36 refers) was to have provided, in graph form, details on the absolute performance of the fund in terms of purchasing power in comparison with either the retail price index or index-linked guilt indices, and shown whether or not the fund's growth had occurred entirely as a result of the Council's injection of investments since 2002. In response, the Director of Resources commented that he had sought further clarification from Members of the Sub-Committee as to exactly what the graphs were required to show, but no response had been received. As an interim measure, pending further clarification, the amounts of Pension Fund Revenue Account which had been paid over to fund managers since 1st April 2001 had been included in the table in paragraph 5.2 of the Director's report at Minute 36 below.

RESOLVED that the Minutes of the meeting held on 2nd February 2010, excluding those containing exempt information, be confirmed.

34 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

A further report updating Members in relation to the Trial Asset Allocation Service (Minute 29 – 2.2.10) was to be considered in the confidential part of the Sub-Committee's meeting.

35 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

No questions had been received.

36 PENSION FUND PERFORMANCE
Report DR10046

The Sub-Committee considered a report received from the Director of Resources detailing the investment performance of Bromley's Pension Fund for the whole of the financial year 2009/10. Information was also provided on general financial and membership trends of the Pension Fund and in relation to early retirements during the year.

The total market value of Bromley's Fund had fluctuated considerably in the last few years. However, since 2002/03, in spite of some periods of volatility, most notably the turmoil in the financial markets in the latter half of 2008/09, there had been a steady improvement in the total value which, as a result of an increase of almost 50% over 2009/10, stood at £446.4m at the year end on 31st March 2010. The latest fund value at the end of last week had shown a slight decrease to £444m.

Over 2009/10 Bromley's Fund had achieved an overall ranking of 3% in the December 2009 quarter (the lowest rank being 100% in the local authority universe) which had followed rankings of 1% in September 2009 and 11% in June 2009. The rankings for the March 2010 quarter were not yet available and would be reported to the next meeting but it appeared that the Bromley Fund's performance in 2009/10 would be one of the best in the local authority universe. At total fund level, a summary of the fund performance returns in 2009/10 was shown in comparison with the local authority averages, the details of which for the March 2010 quarter were not yet known and would be reported to the Sub-Committee's next meeting. The performance of the fund managers, Baillie Gifford and Fidelity, were indicated and showed a return from Baillie Gifford of 51.3% against their benchmark of 42.3% and a return from Fidelity of 45.9% against their benchmark of 39.8%.

Members expressed satisfaction at the latest figures but were mindful that these had to be considered within the context of the unusual financial circumstances which had prevailed in recent times. The Director of Resources indicated that the Sub-Committee would be provided with a performance comparison with other local authority funds at a future meeting.

Members were also reminded that the next full actuarial valuation of the fund based on the figures at 31st March 2010 was to take place shortly with information provided to the actuary next month prior to the anticipated submission of a report thereon to the Sub-Committee's meeting in November 2010 and which would also set out the Council's contribution for the three years from 2011/12. Members felt that the actuarial valuation should include a review of the funding level and highlight assumptions in relation to the broad movement of assets and liabilities.

Some Members expressed concern that, unlike most other Council pension funds, the Bromley fund currently lacked any exposure to property. This was seen as a potential disadvantage, particularly as property funds were recovering and in relation to the loss of rent yields. Questions were raised as to why the Glades Shopping Centre had not been included in the Pension Fund. In supporting the decision which had excluded the Glades from the Pension Fund, the Director of Resources pointed out that the Council received 15% of the rents from the Glades which equated to £2.9m a year but that, at present, there was a high level of vacant retail units. Furthermore, as the freeholder, the Council would be required to make a large contribution to the refurbishment of the Glades. The Director also drew attention to implications for the pension fund in relation to financing maintenance where physical property was included in the Portfolio. The Chairman also expressed doubt as to whether the size of the Bromley Pension Fund would enable there to be sufficient property to be able to spread the risk and indicated that it was harder to diversify in property than in either equities or bonds. Another Member was also concerned that, in times of an economic downturn, the volatility of the property market could prove to be a large liability.

The Sub-Committee recognised that detailed consideration was required in order to determine the long term strategy of whether or not to include property in the Bromley Pension Fund and, to this end, the Director of Resources undertook to bring forward a report to a future meeting which would include the current activities of the fund managers around property together with advice from the Council's actuary.

RESOLVED that

(1) the report of the Director of Resources and present position be noted;

(2) the report on the latest actuarial valuation of the fund to be submitted to the Sub-Committee's meeting in November 2010 should include a review of the funding level and the broad movement of assets and liabilities; and

(3) the Director of Resources be requested to submit a report to a future meeting setting out the issues for discussion on whether or not property should be included in the Bromley Pension Fund, including details of current activity around property by the fund managers and advice from the Council's actuary.

37 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND THE FREEDOM OF INFORMATION ACT 2000

RESOLVED that the Press and public be excluded during consideration of the items of business referred to in the following Minutes as it is likely in view of the nature of the business to be transacted or the nature of the proceedings that if members of the Press and public were present there would be disclosure to them of exempt information.

The following summaries refer to matters involving exempt information

38 EXEMPT MINUTES – 2ND FEBRUARY 2010

The exempt Minutes of the meeting held on 2nd February 2010 were confirmed.

Further to Minute 29 (2.2.10), the Sub-Committee was updated by the Director of Resources regarding Bromley's trial Asset Allocation Service operated by AEGON Asset Management. In the light of the proposal reported, officers were requested to obtain further documentation and data relating to the trial for consideration at the Sub-Committee's next meeting.

39 PENSION FUND – INVESTMENT REPORT

The Sub-Committee noted the reports on Investment Performance. Representatives from Baillie Gifford attended the meeting and answered various questions from Members.

40 LAST MEETING

This was the last meeting of the Sub-Committee in the current Council term. The Chairman, Councillor Toms, was not standing at the forthcoming Borough Elections. Members of the Sub-Committee, supported by the Director of Resources, paid tribute to the expertise, informed knowledge and intellect, together with the leadership, that Councillor Toms had displayed in chairing the Sub-Committee for the past seven years in which decisions had been taken which had contributed to the total value of the fund having more than doubled over that period. Reference was also made that this would be the last meeting attended by Richard Millar (Democratic Services) prior to his imminent retirement from the Council's employment and the Chairman recorded his thanks and those of the Sub-Committee for the excellent work he had done over the years.

The meeting started at 6.30 pm and ended at 8.25 pm.

Chairman

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Report No. DR10074

London Borough of Bromley

Agenda Item No. 6

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**8th September 2010**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE**
Contact Officer:	Martin Reeves, Group Accountant (Technical) Tel: 020 8313 4291 E-mail: martin.reeves@bromley.gov.uk
Chief Officer:	Director of Resources
Ward:	All

1. Reason for report

This report includes details of the final investment performance of Bromley's Pension Fund for the financial year 2009/10 and data for the first quarter of 2010/11. It also contains information on general financial and membership trends of the Pension Fund and summarised information about early retirements.

A representative of the WM Company will attend this meeting to make a presentation on the results for 2009/10, when the fund as a whole was ranked in the 2nd percentile in the local authority universe (the lowest rank being 100%). This means Bromley's fund performance in the year was the second best of the 87 local authority funds that form the local authority universe. The WM report for periods ending 31st March 2010, which provides a comprehensive analysis of performance, was circulated with the main agenda.

RECOMMENDATION

The Sub-Committee is asked to consider the report and offer comments.

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2007, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total administration costs estimated at £2.5m (includes fund manager/actuary fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £31.6m expenditure (pensions, lump sums, etc); £40.3m income (contributions, investment income, etc); £409.5m total fund value at 30th June 2010)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.6 FTE

2. If from existing staff resources, number of staff hours: c 21 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2007

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,212 current employees; 4,457 pensioners; 3,780 deferred pensioners

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Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 As the table and graph in paragraph 5.2 show, the total market value of Bromley's Fund has fluctuated considerably in the last few years. In 2002/03, the value fell by some 20% to £180m, but since then, in spite of some periods of volatility (most recently in the first and third quarters of 2008), a steady improvement was seen and the total value had increased to £357m as at 31st March 2008. In 2008/09, however, turmoil in financial markets caused the fund value to fall to £298.1m as at 31st March 2009, a fall of 16.5% in that year. During 2009/10, it increased steadily and ended the year at £446.4m as at 31st March 2010, a gain of almost 50% in the year. In the June 2010 quarter, some of the ground gained in 2009/10 was lost and the fund value had reduced to £409.5m as at 30th June 2010. At the time of writing this report, the fund value had recovered somewhat and stood at £422m (valuation as at 23rd August 2010).

3.2 The report to the last meeting included details of the quarterly and cumulative performance of our two fund managers in 2009/10. These showed that Baillie Gifford were 6.3% above their benchmark for the year, while Fidelity were 4.4% above benchmark. With regard to the local authority universe, Bromley's Fund achieved an overall ranking of 1% in the March quarter (the lowest rank being 100%). This, together with rankings of 3% in the December quarter, 1% in September and 11% in June, resulted in an overall ranking of 2% for the year, which was a very good result after a reasonable year in 2008/09 and another good year in 2007/08. This means that Bromley's Fund returns in 2009/10 were the second highest of all 87 local authority funds that make up the universe. For comparison, the rankings in recent years were 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. However, what is particularly important given the long-term nature of pension fund liabilities is how performance converts to medium and long-term returns. These have been extremely good, with Bromley's Fund ranked in the 2nd percentile over the last 3 years, in the 1st percentile over 5 years and in the 5th percentile over 10 years. For information, Appendix 3 provides a comparison of the strength of Bromley's return in 2009/10 with that of the other London Councils in the local authority universe. The rankings for the June 2010 quarter are not yet available and will be reported to the next meeting.

Performance data for 2009/10

3.3 Before 1st April 2006, the Fund's performance was measured against the local authority average and both Baillie Gifford and Fidelity were set the target of outperforming against that average by 0.5% over rolling three-year periods. When the Fund was restructured in 2006, however, both managers were set performance targets relative to the strategic benchmarks agreed from 1st April 2006. Baillie Gifford are now required to outperform the benchmark by 1.0% - 1.5% over three-year periods, while Fidelity's target is 1.9% outperformance over three-year periods. Since then, the WM Company has measured their results against these benchmarks instead of against its local authority indices and averages. At total fund level, however, it continues to use the local authority indices and averages and other comparisons with local authority averages may be highlighted from time to time to demonstrate, for example, whether the benchmark itself is producing good results. A summary of performance in 2009/10 is shown in the following table and a representative from the WM Company will be at the meeting to present their report for periods ended 31st March 2010.

	Benchmark %	Returns %	Ranking
Baillie Gifford	42.3	51.3	2
Fidelity	39.8	45.9	3
Overall Fund	41.0	48.7	2
Local authority average		35.2	

3.4 **Baillie Gifford and Fidelity**'s results for the financial year 2009/10 were reported in detail to the last meeting and will be discussed further by the WM Company representative attending this meeting. Members noted that both managers had contributed to very good performance returns during 2009/10. Baillie Gifford had achieved an overall return of +51.3% (6.3% above their benchmark for the year) and Fidelity had returned +45.9% (4.4% above benchmark). Overall Fund performance was 9.9% above the local authority average for the year and an overall ranking in the 2nd percentile was achieved. Details of the Fund's medium and long-term performance are set out in paragraphs 3.8 to 3.9.

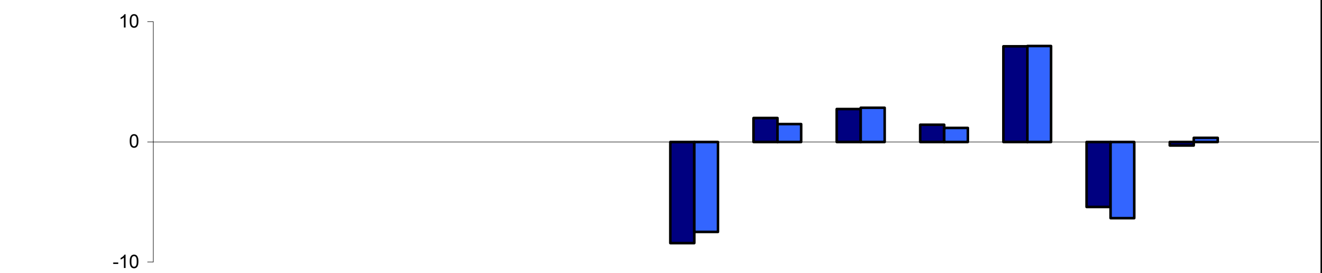
Performance data for 2010/11

3.5 A summary of the two fund managers' performance in the June quarter is shown in the following table and more details are provided in Appendix 1.

Quarter	**Baillie Gifford**		**Fidelity**	
	Benchmark %	Returns %	Benchmark %	Returns %
June 10	-8.4	-7.6	-8.4	-9.0

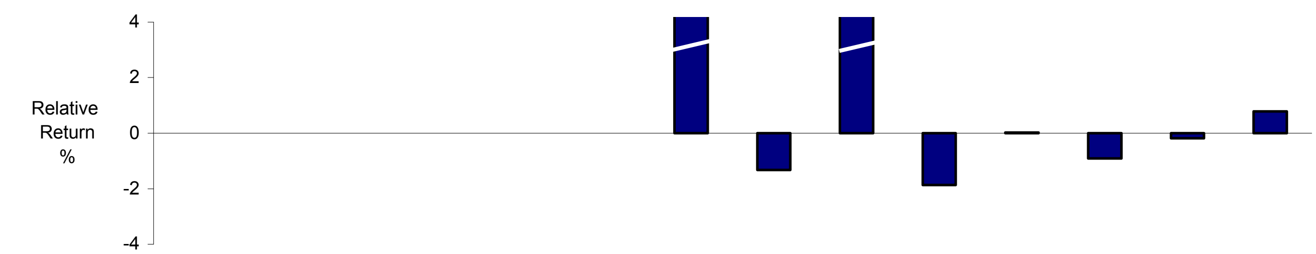
3.6 **Baillie Gifford** returned -7.6% (0.8% above their benchmark) in the June quarter. The WM Company attributed their relative outperformance to asset allocation (-0.4%) and stock selection (+1.2%). The main detracting asset allocation sector was UK bonds, while the main positive stock selection impacts were seen in UK equities and European equities. These are represented in the following graphs.

Asset Allocation



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund
Fund Start	16.6	20.0	20.7	10.9	17.4	12.6	1.7	100.0
Fund End	16.6	19.1	19.7	10.5	17.7	13.9	2.5	100.0
BM Start	25.0	18.0	18.0	9.5	9.5	18.0	2.0	100.0
BM End	24.1	17.6	16.8	9.4	9.7	20.3	2.2	100.0
Impact	0.3	-	-0.2	-	0.2	-0.7	-	-0.4

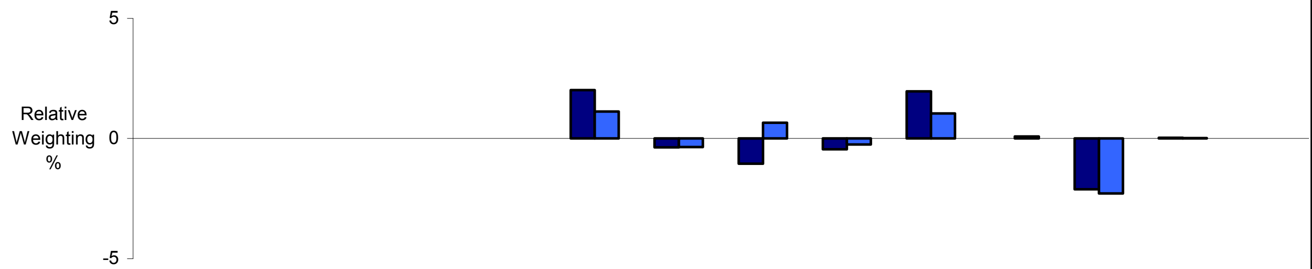
Stock Selection



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund
Fund	-6.6	-11.5	-10.8	-11.2	-6.5	2.3	-0.0	-7.6
Benchmark	-11.8	-10.3	-14.4	-9.6	-6.5	3.2	0.2	-8.4
Impact	0.9	-0.3	0.9	-0.2	-	-0.1	-	1.2

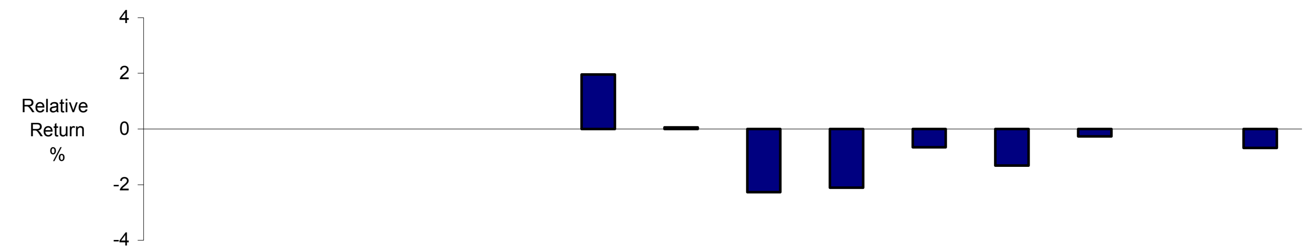
3.7 **Fidelity** returned -9.0% (0.7% below their benchmark) in the June quarter and the WM Company attributed their relative under-performance to asset allocation (-0.2%) and stock selection (-0.4%). The main detracting asset allocation sector was UK bonds, while the main detracting stock selection impacts were seen in North American and European equities. These are represented in the following graphs.

Asset Allocation



	Global Equit	UK Equities	N. America	Europe ex UK	Pacific	Japan	UK Bonds	Cash/ Alts	Total Fund
Fund Start	12.0	34.6	11.4	12.0	7.0	5.0	17.9	0.0	100.0
Fund End	10.8	33.3	12.9	11.5	6.1	5.1	20.3	0.0	100.0
BM Start	10.0	35.0	12.5	12.5	5.0	5.0	20.0		100.0
BM End	9.7	33.7	12.3	11.7	5.0	5.0	22.6		100.0
Impact	-	-	-0.1	-	-	-	-0.2	-	-0.2

Stock Selection



	Global Equit	UK Equities	N. America	Europe ex UK	Pacific	Japan	UK Bonds	Cash/ Alts	Total Fund
Fund	-9.5	-11.8	-12.2	-15.9	-8.2	-9.1	3.1	n/a	-9.0
Benchmark	-11.3	-11.8	-10.2	-14.1	-7.6	-7.9	3.3		-8.4
Impact	0.2	-	-0.3	-0.2	-	-0.1	-0.1		-0.4

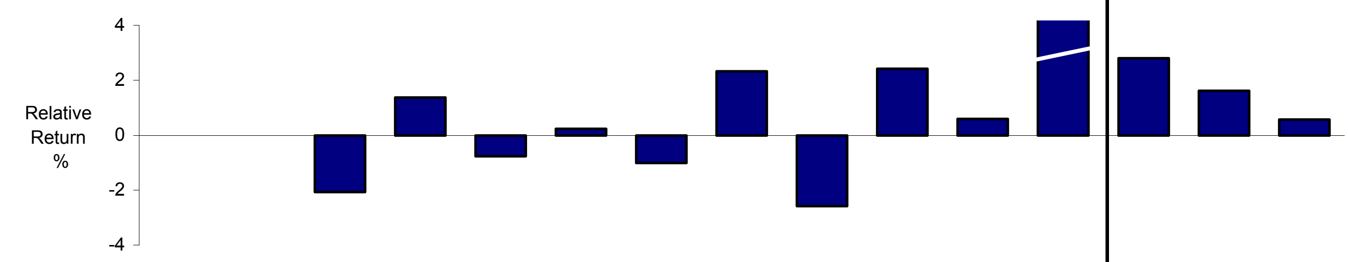
Medium and long-term performance data

3.8 The table below sets out comparative returns over 3, 5 and 10 years for both Baillie Gifford and Fidelity for periods ended 31st March 2010. Baillie Gifford's 5-year and 10-year returns (10.2% and 6.9% respectively) are better than those of Fidelity (10.1% and 5.0% respectively), although Fidelity's 3-year return (7.6%) is better than that of Baillie Gifford (7.2%). These returns are analysed in the WM Company performance report. Of particular note is the relative strength of Bromley's performance in the last 3 years as the investment strategy driven by the revised benchmark adopted in 2006 has bedded in.

	Baillie Gifford			Fidelity			
	Return	BM	+/-	Return	BM	+/-	LA Ave
	%	%	%	%	%	%	%
Periods to 31/3/10							
3 years (1/4/07-31/3/10) - annualised	7.2	4.6	2.5	7.6	3.0	4.4	1.7
5 years (1/4/05-31/3/10) - annualised	10.2	8.5	1.6	10.1	7.6	2.3	7.1
10 years (1/4/00-31/3/10) - annualised	6.9	5.8	1.1	5.0	4.1	0.8	3.8

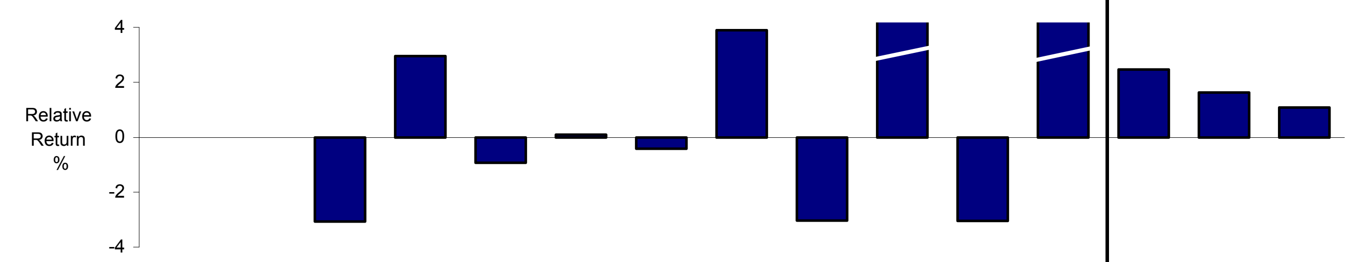
3.9 The following graphs look in more detail at performance relative to benchmark in the medium and long term for the whole fund and for Baillie Gifford and Fidelity individually.

Total Fund Returns



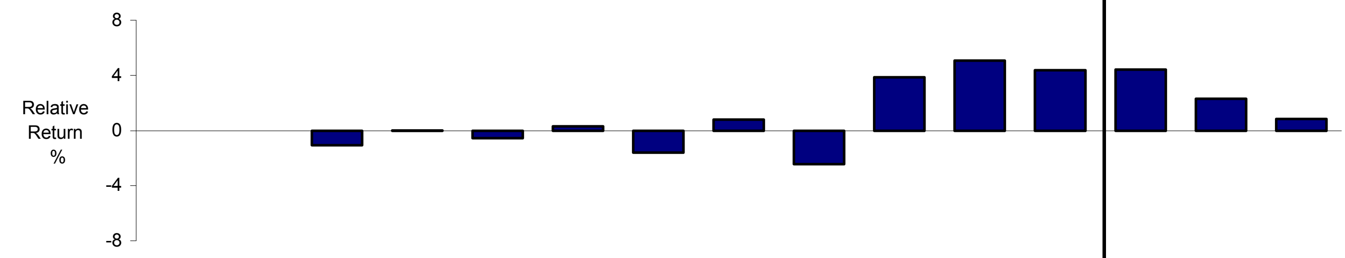
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	3yrs % pa	5yrs % pa	10yrs % pa
Fund	-8.2	1.0	-20.0	23.7	10.6	27.9	2.4	1.8	-18.6	48.7	7.2	10.0	5.0
Benchmark	-6.3	-0.4	-19.4	23.4	11.7	24.9	5.2	-0.6	-19.1	41.0	4.3	8.3	4.4
Relative	-2.1	1.4	-0.8	0.2	-1.0	2.3	-2.6	2.4	0.6	5.5	2.8	1.6	0.6

Fund Returns - Baillie Gifford



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	3yrs % pa	5yrs % pa	10yrs % pa
Fund	-9.1	2.5	-20.2	23.6	11.2	29.8	1.9	3.2	-21.1	51.3	7.2	10.2	6.9
Benchmark	-6.3	-0.5	-19.5	23.4	11.7	24.9	5.1	-1.1	-18.7	42.3	4.6	8.5	5.8
Relative	-3.1	2.9	-0.9	0.1	-0.4	3.9	-3.0	4.4	-3.0	6.3	2.5	1.6	1.1

Fund Returns - Fidelity



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	3yrs % pa	5yrs % pa	10yrs % pa
Fund	-7.3	-0.5	-19.9	23.8	9.9	25.9	3.2	0.6	-15.1	45.9	7.6	10.1	5.0
Benchmark	-6.3	-0.5	-19.5	23.4	11.7	24.9	5.8	-3.1	-19.2	39.8	3.0	7.6	4.1
Relative	-1.1	0.0	-0.5	0.3	-1.6	0.8	-2.4	3.8	5.1	4.4	4.4	2.3	0.8

Early Retirements

3.10 A summary of early retirements by employees in Bromley's Pension Fund in the current year and in previous years is shown in the table below. With regard to retirements on ill-health grounds, this allows a comparison to be made between their actual cost and the cost assumed by the actuary in the triennial valuation. If the actual cost significantly exceeds the assumed cost, the actuary will be required to consider whether the employer's contribution rate should be reviewed in advance of the next full valuation. The actuary does not make any allowance for other early retirements, however, because it is the Council's policy to fund these in full by additional voluntary contributions. The average cost of ill-health retirements over the three years 2004 to 2007 was close to the actuary's annual estimate of £375,000 per annum (in the 2004 actuarial valuation) and this will have had very little impact on the actuarial valuation as at 31st March 2007. The cost of other retirements in the same 3-year period averaged around £284,000 per annum. In the latest actuarial valuation (as at 31st March 2007), the actuary assumed a figure of £800,000 per annum for ill-health retirements for the three years from 2008/09. The total of ill-health retirements in 2008/09 was well below the estimate, while other retirements were slightly below average. In 2009/10, there were only 5 ill-health retirements with a total long-term cost of only £45,000, but the total of other retirements (£1,033,000) was considerably higher than in recent years.

Long-term cost of early retirements	Ill-Health		Other	
	No	£000	No	£000
Qtr 1 – June 10 - LBB	-	-	4	55
- Other	-	-	1	17
- Total	-	-	5	72
Actuary's assumption – 2008 to 2010		800		N/a
- 2004 to 2007		375		N/a
Previous years - 2009/10	5	45	21	1,033
- 2008/09	6	385	4	256
- 2007/08	11	465	11	260
- 2006/07	8	296	9	277
- 2005/06	12	371	5	342
- 2004/05	16	533	13	232

4. POLICY IMPLICATIONS

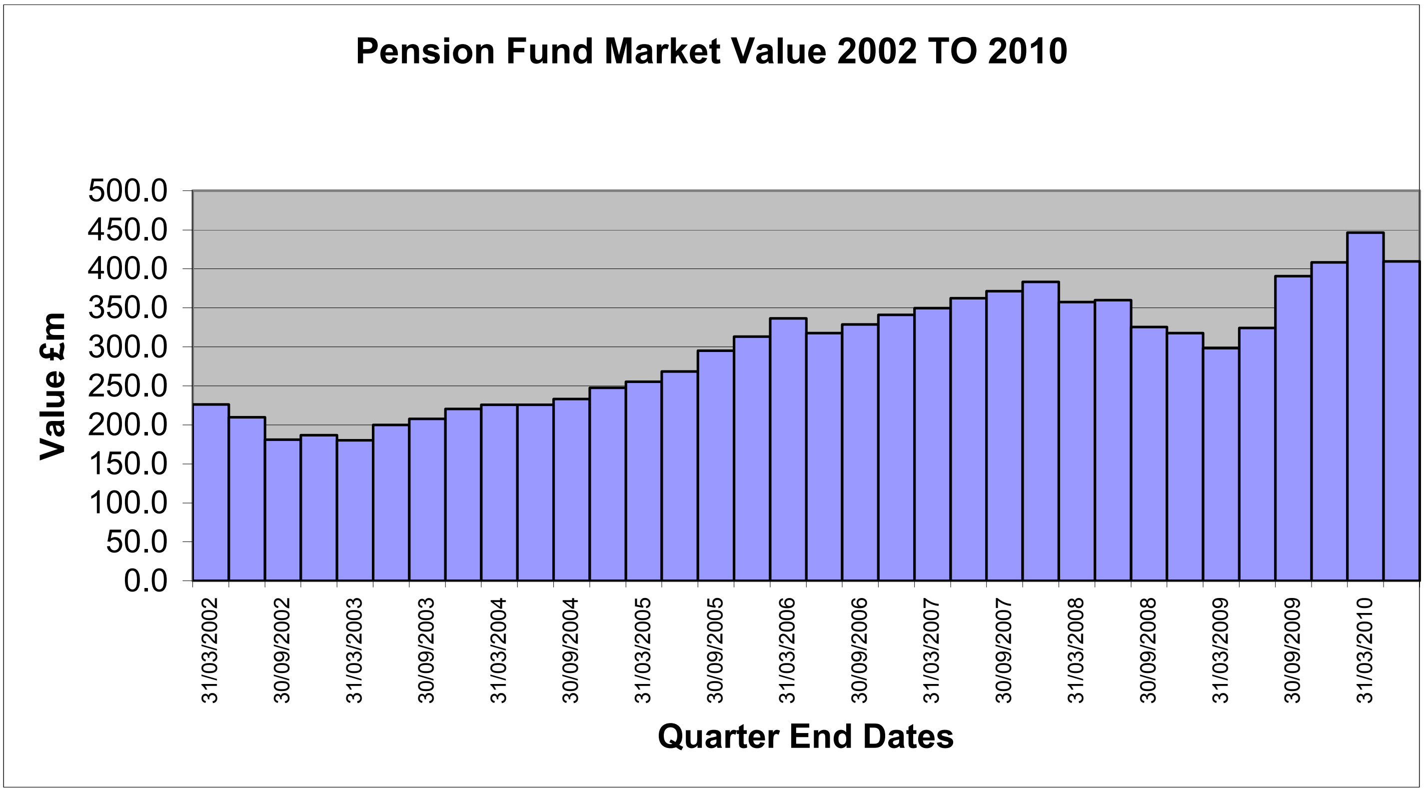
4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2007, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

5.1 Details of the final outturn for the 2009/10 Pension Fund Revenue Account are provided in Appendix 2 together with the actual position for the first quarter of 2010/11 and data on fund membership. The final outturn for 2009/10 showed a surplus of £9.4m. With regard to fund membership, there was an overall increase of 516 members during the course of the year.

5.2 Changes in the Fund's Market Value are shown in the following table and in the graph below. Members will note that, in recent years, the total fund value has fluctuated significantly, having reduced by 16.6% (£59m) in 2008/09 before rising to £446.4m in 2009/10 (an increase of 50% in the year). In the June quarter, it lost some ground, having fallen to £409.5m as at 30th June 2010 and the valuation at the time of writing this report (23rd August) had bounced back to £422m.

Market Value as at	**Fidelity**	**Baillie Gifford**	**CAAM**	**Total**	Revenue Surplus Distributed to Managers
	£m	**£m**	**£m**	**£m**	£m
31st March 2002	112.9	113.3	-	226.2	0.5
31st March 2003	90.1	90.2	-	180.3	-
31st March 2004	112.9	113.1	-	226.0	3.0
31st March 2005	126.6	128.5	-	255.1	5.0
31st March 2006	164.1	172.2	-	336.3	9.1
31st March 2007	150.1	156.0	43.5	349.6	4.5
31st March 2008	151.3	162.0	44.0	357.3	2.0
31st March 2009	143.5	154.6	-	298.1	4.0
31st March 2010	210.9	235.5	-	446.4	3.0
30th June 2010	191.9	217.6	-	409.5	-



Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	Analysis of portfolio returns (provided by WM Company). Monthly and quarterly portfolio reports of Fidelity and Baillie Gifford.

Returns for quarter ended 30 June 2010

Baillie Gifford	Benchmark Weighting	Benchmark Returns	Portfolio Weighting	Portfolio Returns
	%	%	%	%
UK equities	25	-11.8	16.6	-6.6
Overseas equities				
North America	18	-10.3	19.1	-11.5
Europe	18	-14.4	19.7	-10.8
Far East	9.5	-9.6	10.5	-11.2
Other Int’l	9.5	-6.5	17.7	-6.5
UK bonds	18	3.2	13.9	2.3
Cash/other	2	0.2	2.5	-0.0
Total assets	100	-8.4	100.0	-7.6

Fidelity	Benchmark Weighting	Benchmark Returns	Portfolio Weighting	Portfolio Returns
	%	%	%	%
UK equities	35.0	-11.8	33.3	-11.8
Overseas equities				
USA	12.5	-10.3	12.9	-12.2
Europe	12.5	-14.1	11.5	-15.9
Japan	5.0	-7.9	5.1	-9.1
S E Asia	5.0	-7.7	6.1	-8.2
Global	10.0	-11.3	10.8	-9.5
UK bonds	20.0	3.3	20.3	3.1
Cash/other	-	0.1	0.0	n/a
Total assets	100.0	-8.4	100.0	-9.0

Fidelity’s UK equity holding above (33.9% of portfolio) includes 0.9% non-UK equities, in accordance with the agreement by the Sub-Committee at its meeting on 3 May 2005 that their UK equity manager could invest up to 20% of his portfolio in non-UK equities.

From 1st April 2008, both fund managers have operated under the same benchmark for UK equities (FTSE All Share index). Previously, Baillie Gifford had been using FTSE 100.

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2009/10 £'000's	Estimate 2010/11 £'000's	Actual to 30/6/10 £'000's
INCOME			
Employee Contributions	6,153	6,300	1,430
Employer Contributions	23,028	23,000	5,270
Transfer Values Receivable	4,457	4,000	1,450
Investment Income	7,141	7,000	2,980
Total Income	40,779	40,300	11,130
EXPENDITURE			
Pensions	18,350	19,000	4,720
Lump Sums	5,858	6,000	2,370
Transfer Values Paid	4,223	4,000	1,410
Administration	2,948	2,500	270
Refund of Contributions	12	100	10
Total Expenditure	31,391	31,600	8,780
Surplus/Deficit (-)	9,388	8,700	2,350

MEMBERSHIP	**31/03/2010**	**30/06/2010**
Employees	5,360	5,212
Pensioners	4,413	4,457
Deferred Pensioners	3,607	3,780
	13,380	13,449

PENSION FUND PERFORMANCE 2009/10
WM COMPANY - LOCAL AUTHORITY ANNUAL LEAGUE TABLES
(nb. London Boroughs only)

	Total Assets	
Borough	**Return 2009/10** %	**Ranking in Local Authority Universe**
Bromley	**48.7**	**2**
Waltham Forest	43.1	6
Harrow	41.7	10
Richmond	41.0	11
Wandsworth	41.0	11
Camden	40.1	18
Greenwich	38.6	26
Havering	38.6	26
Ealing	38.5	28
Croydon	38.2	30
Hillingdon	37.9	33
Merton	37.8	34
Bexley	37.1	38
City of London	36.5	41
Hounslow	35.9	45
Lewisham	35.8	48
Kingston-upon-Thames	35.4	52
Haringey	34.9	56
Islington	34.7	58
Hammersmith & Fulham	33.1	65
Sutton	33.0	68
Hackney	32.9	69
Barking & Dagenham	32.4	76
Tower Hamlets	32.1	78
Southwark	30.7	84
Brent	20.0	88
Enfield	28.8	89
Barnet	28.8	89
Newham	28.2	95
Redbridge	24.8	96
NB. Local Authority Average	***35.2***	

Report No. DR10078	**London Borough of Bromley** **PART 1 - PUBLIC**	**Agenda Item No. 8**

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**8th September 2010**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND - 2009/10 AUDIT PLAN**
Contact Officer:	Martin Reeves, Group Accountant (Technical) Tel: 020 8313 4291 E-mail: martin.reeves@bromley.gov.uk
Chief Officer:	Director of Resources
Ward:	All

1. Reason for report

1.1 At its meeting on 23rd March 2010, the Audit Sub-Committee resolved that the 2009/10 Audit Plan of the Pension Fund be noted and referred to the Pension Investment Sub-Committee for consideration. The auditor, PricewaterhouseCoopers LLP (PWC), has now effectively finished the audit of the Council's accounts, including the Pension Fund, and the plan is submitted here for information.

RECOMMENDATIONS

2.1 The Sub-Committee is asked to note the Pension Fund Audit Plan for 2009/10 and agree that the 2010/11 plan should be submitted earlier to enable consideration in advance of the audit.

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2007, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Separate audit fee for Pension Fund £35,000 in 2009/10. Total fund administration costs £2.9m in 2009/10 (includes fund manager/actuary fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £31.4m expenditure in 2009/10 (pensions, lump sums, admin, etc); £40.8m income (contributions, investment income, etc); £446.4m total fund value at 31st March 2010)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.6 fte (current)

2. If from existing staff resources, number of staff hours: c21 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2007 and LGPS (Administration) Regulations 2008

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,360 current employees; 4,413 pensioners; 3,607 deferred pensioners (as at 31st March 2010)

Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 On 23rd March 2010, the Audit Sub-Committee received a report “External Audit Reports” that informed Members of the external audit activity, plans for the 2009/10 audit (including a separate plan for the Pension Fund) and the Annual Audit Letter summarising the 2008/09 audit work carried out by PWC. The Pension Fund Audit Plan is attached as Appendix 1 and was prepared by PWC to inform Members and officers about the responsibilities the external auditors have and how they planned to discharge them in accordance with the Audit Commission’s Code of Practice. The plan was prepared in consultation with officers and included an analysis of key risks, PWC’s audit strategy, reporting and audit timetable and other matters.

3.2 The Audit Sub-Committee was invited to comment on the report and agreed that the Pension Fund Audit Plan be referred to the Pension Investment Sub-Committee for consideration. It was originally intended to submit the plan to the May meeting, but this was not achieved and the plan is now submitted for information, as the auditor has now essentially completed the audit. The 2010/11 Audit Plan will be submitted to Members in advance of the audit to enable proper consideration and opportunity to comment.

3.3 The Council’s accounts have been prepared in accordance with the requirements of both the LGPS Regulations and the CIPFA Statement of Recommended Practice. The accounts have been audited as part of the overall audit of the Council’s Accounts by PricewaterhouseCoopers LLP (PWC) and were approved in draft form by the General Purposes and Licensing Committee on 30th June 2010. At the time of writing, no issues have been raised on the Pension Fund accounts and the auditor anticipates issuing an unqualified audit opinion on the financial statements, including the Pension Fund accounts.

4. POLICY IMPLICATIONS

4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2007, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

5.1 The fee for the separate audit of the Pension Fund Annual Report was £35,000 in 2009/10 (£38,500 in 2008/09), which was charged to the Pension Fund Revenue Account.

Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	LGPS Regulations 2007 & LGPS (Administration) Regulations 2008.

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Government and Public Sector

March 2010

London Borough of Bromley

Pension Fund: 2009/10 Audit Plan

PricewaterhouseCoopers

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Audit Sub-Committee
London Borough of Bromley Pension Fund
Bromley Civic Centre
Stockwell Road
Bromley
BR1 3UH

March 2010

Ladies and Gentlemen,

We are pleased to present to you our 2009/10 Audit Plan for the audit of the London Borough of Bromley Pension Fund, which includes an analysis of key risks, our audit strategy, reporting and audit timetable and other matters. Discussion of our plan with you ensures that we understand your concerns and that we agree on our mutual needs and expectations to provide you with the highest level of service quality.

We would like to thank members and officers of the Council for their help in putting together this Plan.

As well as presenting the Plan to you we propose to share its main elements with the Investment Sub Committee at the Council, to ensure that all of those responsible for the governance of the Pension Fund are aware of our audit work plan. If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact either Janet Dawson or Stuart Brown.

Yours faithfully,

PricewaterhouseCoopers LLP

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In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement.

Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

Introduction

The purpose of this Plan

Our Audit Plan has been prepared to inform those responsible for the governance of London Borough of Bromley Pension Fund (the Fund) about our responsibilities as the external auditors of London Borough of Bromley and how we plan to discharge them.

Bromley Council (the Council) acts as the administering authority for the Fund, and as such is accountable for the stewardship of the funds. The responsibility for this stewardship is discharged by the Members of the Investment Sub Committee.

Our principal objective is to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code).

Code of Audit Practice and Statement of responsibilities of auditors and of audited bodies

Our reports follow the Audit Commission's Statement of Responsibilities for Auditors and of Audited bodies. Although reports may be addressed to officers or members of the Council, they are prepared for the sole use of the audited body. Auditors do not have responsibilities to officers or members in their individual capacities or to third parties who choose to place reliance upon the reports from auditors.

Reporting responsibilities

To discharge our responsibility to report to those responsible for the governance of the Fund we propose to present any detailed reports to the Investment Sub Committee and the Audit Sub Committee, where appropriate. We hope to attend the Investment Sub Committee meeting in May 2010 where we will discuss the areas within this plan. We will also include a summary of the main issues in our plans and reports to the Council, as the administering authority of the Fund.

Planning of our audit

The London Borough of Bromley Pension Fund had a deficit of £82 million (equivalent to 81% funded) at the last triennial valuation (31 March 2007). The actuary's view at that time was that the scheme was likely to meet its liabilities in the normal course of events and in the 2008/09 accounts the Council reported that it estimated that the liability could be repaid within 12 years.

The Council is due to obtain an up to date fund valuation at 31st March 2010.

We have considered the valuation of the Fund and its operations and have assessed the extent to which we believe there are potential Fund and audit risks that need to be addressed by our audit. We consider an audit risk to be the risk that we may reach an inappropriate opinion on the financial statements. We have considered our understanding of how your control procedures mitigate these risks. Based on this assessment we have scoped our core work in each of these areas.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance.

Risk assessment

Current Developments	Audit approach
Valuation of the Fund The Council is due to obtain an up to date fund valuation at 31st March 2010. Due to the recent significant fluctuations in the market value of investments there is an increased risk that the assumptions that underpin the latest valuation are no longer reasonable.	As part of our audit we will review the assumptions used in the actuarial valuation of the Fund and consider the extent to which these are still reasonable, given the unexpected economic downturn since the last triennial valuation. We will compare these assumptions with our database of expected assumptions and the impact on the liability of any change in these assumptions. We will seek representation from those charged with governance on any significant matters of judgement.
Valuation of investments The current volatility of stock markets will impact on the valuation of investments at the end of the year and on the net assets of the fund. It is also possible that there may be significant movements in investment values between the end of year and the reporting date. Given the continuing turbulence in the investment markets an issue may also arise where actuaries use estimates for returns on assets based on trends before the year-end. Officers will need to ensure that out-of-date figures are identified and corrected.	As part of our planning work we will update our understanding of the controls and procedures in place around the monitoring of investment performance, investment decisions and compliance with the Statement of Investment Principles. We will understand the environment in which Officers control and validate the asset values provided by investment managers including those not quoted, not actively traded or where no market exists. We will send investment confirmations to fund managers to obtain an independent valuation of the fund's assets. We will also review the investment valuations at the date our audit opinion is issued and evaluate the impact of any material difference in valuation and consider whether there is a need for disclosure of post balance sheet events (PBSE) in either the accounts or the annual report.

Current Developments	Audit approach
Reliance on controls within asset managers The Council's Pension Fund Investment Managers operate within agreed parameters and their performance is reviewed by the Investment Sub Committee. Due to the significant fluctuations in investment values that the Pension Fund has experienced over the past 18 months, and the impact this has had on a number of financial institutions, it is important that the Council satisfies itself that the controls in place at its fund managers are robust. Recent Management and Investment of Funds Regulations stipulate that Officers must review the investments and the performance of investment managers at least every three months.	We will update our understanding the Council's investment governance arrangements and in particular how it satisfies itself that fund managers comply with the parameters and instructions set by the Council and that the risks associated with some of the more complex or alternative investments are being appropriately managed. We will seek to obtain and review AAF1 or SAS 70 reports for each Fund Manager which provides an independent opinion on the controls operating at the relevant fund managers. Following completion of the above we will assess whether there is need for additional assurance as part of our approach to the accounts.
The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, SI 2009/3093 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, SI 2009/3093, were laid before Parliament on 1 December 2009 and came into force on 1 January 2010. These Regulations have been updated during the year. The existing equivalent regulations, the 1998 Regulations, have been subject to numerous amendments since, and users have asked for them to be updated and (where appropriate) clarified. Three more substantive changes have also been made: 1) New regulation 3(4) will revoke a longstanding provision – regulation 3(4) - which allows an administering authority to use money from its pension fund for any purpose for which it has a statutory right to borrow. Accordingly, new regulation 3(4) now provides that from 1st April 2010 such use will no longer count as an investment for the purposes of these Regulations. 2) Regulation 5 gives administering authorities a limited power to borrow on behalf of the pension fund for up to 90 days. The power cannot be used to invest, but only for cash flow management in specified circumstances which should in practice be exceptional, i.e. to ensure that benefits are paid on time and in transition management situations when the allocation of a pension fund's assets is being changed. 3) Regulation 6 introduces a new requirement for each pension fund to have, by 1 April 2011, a bank account which is separate from any which the	We will discuss the impact of the changes in the regulations with management and review the actions taken to ensure compliance with the new regulations and that the relevant timescales have been met. The Fund does not currently have a separate bank account and the Council will therefore need to put these arrangements in place prior to 1 April 2011.

Current Developments	Audit approach
administering authority has in its capacity as a local authority. This change is being adopted because it will enable pension fund monies to be clearly ring-fenced from other monies of the local authority, and thus reflects a longstanding Audit Commission view on best practice.	

We have also identified the following issues that are impacting on a number of London Borough Pension Funds that we will consider during the audit and perform additional procedures as necessary:

- ***Disclosure and the Annual Report –*** This is the second year that the Council has been required to produce a separate annual report. Since the last Annual Report Department of Communities and Local Government guidance has been produced which provides a general framework within which Funds are to operate and although not prescriptive officers must have regard to it when preparing the Annual Report. Much of the guidance reiterates the requirements of the Regulations although there is significantly more detail. Some aspects of this guidance are well understood, however, others such as the communications strategy are still developing. We will consider whether the Annual Report gives a balanced and objective view of the Pension Fund that is understandable by members of the Fund.

- ***New Look Local Government Pension Scheme (LGPS) and future developments* -** The LGPS was updated from 1 April 2008 to reflect the work patterns and needs of a modern workforce, and to ensure that the New Look LGPS is affordable whilst still providing an excellent level of pension benefits. The media spotlight has been trained on pensions in general and specifically on the decline in the number of private sector schemes still offering defined benefits. Therefore there is continuing speculation over whether the local government pension scheme, in its current form, is sustainable. We will continue to monitor developments in this area and will discuss any developments with officers as they arise.

Our approach to the audit

Code of Audit Practice

Under the Code we are responsible for the audit of the financial statements of the Fund. That involves

- Expressing our opinion on the financial statements of the Fund as they appear in the Statement of Accounts of Bromley Council; and
- Reviewing the accounts that appear in the Annual Report of the Fund, to give a view as to whether they are consistent with the Statement of Accounts.

Accounts

Our audit of the Authority's accounts, including the Pension Fund, is carried out in accordance with our Accounts Code objective. We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and present fairly the financial position of the Fund. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Our audit approach is based on gaining a thorough understanding of the operation of the fund and is risk-driven. It first identifies and then concentrates resources on areas of higher risk.

We will take a substantive approach to our audit, and although we will understand and evaluate the controls you have in place over the Pension Fund we will not seek to place reliance on these controls. Our year end work will focus on gaining assurance over the figures included within the Pension Fund Financial Statements.

We will consider the work performed by internal audit on the Pension Fund to allow us to understand the impact of their findings on our planned approach.

Materiality

Determining materiality is a matter of professional judgement and includes consideration of both the amount and nature of transactions. We apply a method to calculating materiality, based on 1% of turnover (pension contributions and investment income). However, materiality is not simply a quantitative figure. Qualitative aspects also need to be considered in assessing whether something would be significant to a user of the financial statements. The final assessment as to what comprises a material error in the financial statements is a matter of judgement based on relevant auditing standards and guidance.

Our team and independence

Audit Team	Responsibilities
Engagement Partner *Janet Dawson* *0207 213 5244* *janet.r.dawson@uk .pwc.com*	Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, Report to those charged with Governance and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.
Engagement Senior Manger *Stuart Brown* *0207 804 7581* *stuart.brown@uk.pwc.com*	Senior Manager responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, Report to those charged with Governance and Annual Audit Letter.
Audit Manager: Pension Fund *Penny Flint* *0207 804 6055* *penny.l.flint@uk.pwc.com*	Specialist Pensions Manager responsible for managing our audit work on the Pension Fund Accounts and Annual Report. Penny works in PwC's specialist Pensions Audit team and will bring the required skills and experience needed to manage the audit of a complex pension fund.

Audit Team	Responsibilities
Audit Manager: Accounts *Bridie Tooher* *0207 213 2538* *bridie.c.tooher@uk.pwc.com*	Manager responsible for managing our accounts work, including the audit of the statement of accounts, and governance issues. Bridie will coordinate the overlapping work between the main accounts and pension fund audits.

Our team members

It is our intention that wherever possible staff work on the Pension Fund audit each year, developing effective relationships and an in depth understanding of your operations. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We will hold periodic client service meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. There are no matters which we perceive may impact our independence and objectivity of the audit team

Relationships and Investments

Senior officers should not seek or receive personal financial or tax advice from PwC. Members who receive such advice from us (perhaps in connection with employment by a client of the firm) or who as a director for another audit or advisory client of the firm should notify us, so that we can appropriate conflict management arrangements in place.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Communicating with you

Communications Plan and timetable

We plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' for the Pension Fund are the members of Investment Sub Committee.

We have not previously attended an Investment Sub Committee meeting at the Council but we hope to be able to do this during the year to discuss the work that we are planning to undertake in respect of the Pension Fund Accounts and Annual Report.

In 2008/09 the Pension Fund was required to produce a separate Annual Report for the first time. As last year was the first year of producing the Annual Report we audited this during the autumn and issued our opinion in November 2009, this also delayed us issuing our completion certificate until this time. As we have discussed with you we hope to be able to audit the Pension Fund Accounts and Annual Report together during the final audit period which commences on 5 July 2010. This will enable us to issue the opinion on the Pension Fund Accounts and Annual Report with the opinion on the Financial Statements, including the completion of the audit certificate.

The following table sets out the outputs that will be presented to you in respect of the Pension Fund:

Stage of the audit		Timing
Audit planning	**Audit Plan for the Fund to the Audit Sub Committee**	**23 March 2010**
	Audit Plan for the Fund to the Investment Sub Committee	**May 2010**
Final audit	**ISA 260 Report to those charged with Governance**	**September 2010**
Final audit	**Opinion on the Financial Statements of the Fund**	**September 2010**
Final audit	**'Consistent with' opinion on the accounts in the annual report**	**September 2010**
Audit Reports	**Annual Audit Letter to the Council which will incorporate specific comment on the Fund, including matters such as:** • Any expected modifications to the audit report • Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust • Material weaknesses in the accounting and internal control systems of the Fund identified as part of the audit • Our views about the qualitative aspects of your accounting practices and financial reporting • Any other relevant matters of governance interest	**November 2010**

Audit budget and fees

The Audit Commission has provided indicative audit fee levels for pension funds for the 2009/10 financial year, which depends upon their scale and complexity. In your case, the indicative fee for the audit of the Fund is £38,500 (£38,000 in 2008/09).

As our work at the Fund is now regarded by the Audit Commission as a separate audit, we are required to report the fee directly to those charged with governance of the pension fund.

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from your management controls;
- The Pension Fund Annual Report is available to audit within the agreed timescales being available on a timely basis;

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed in advance with you.

Appendix A: Other engagement information

The Audit Commission appoint us as auditors to London Borough of Bromley and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors

There are five further matters which are not currently included within the guidance, but our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or Richard Sexton, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

ISA (UK&I) 560 places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

Freedom of Information Act

In the event that, pursuant to a request which the audited body has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The audited body agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the audited body shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the audited body discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

In the event that, pursuant to a request which London Borough of Bromley has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. London Borough of Bromley agrees to pay due regard to any representations which PwC may make in connection with such disclosure and [insert client's name] shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, London Borough of Bromley discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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Report No.
DR10077

London Borough of Bromley

PART 1 - PUBLIC

Agenda Item No. **9**

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**8th September 2010**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND ANNUAL REPORT 2009/10**
Contact Officer:	Martin Reeves, Group Accountant (Technical) Tel: 020 8313 4291 E-mail: martin.reeves@bromley.gov.uk
Chief Officer:	Director of Resources
Ward:	All

1. Reason for report

1.1 This report introduces the annual report and accounts of the Bromley Pension Fund for the year ended 31st March 2010, which the Council is required to publish under the Local Government Pension Scheme (Administration) Regulations 2008. The annual report was submitted in draft form to the external auditor, PricewaterhouseCoopers LLP (PWC), on 2nd July and, following the external audit of the Pension Fund accounts, a final draft was submitted for audit on 13th August. The Council is required to publish the Annual Report by 1st December.

RECOMMENDATIONS

2.1 The Sub-Committee is asked to note the Pension Fund Annual Report 2009/10 and, on completion of the external audit by PWC, agree that arrangements be made to ensure publication by the statutory deadline of 1st December 2010.

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2007, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits. Annual report required to be published under LGPS (Administration) Regulations 2008.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Separate audit fee for Pension Fund £35,000 in 2009/10. Total fund administration costs £2.9m in 2009/10 (includes fund manager/actuary fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £31.4m expenditure in 2009/10 (pensions, lump sums, admin, etc); £40.8m income (contributions, investment income, etc); £446.4m total fund value at 31st March 2010)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.6 fte (current)

2. If from existing staff resources, number of staff hours: c21 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2007 and LGPS (Administration) Regulations 2008

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,360 current employees; 4,413 pensioners; 3,607 deferred pensioners (as at 31st March 2010)

Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 The Pension Fund is required by the Local Government Pension Scheme (Administration) Regulations 2008 to publish an Annual Report and Statement of Accounts. The Regulations set out what is to be included within the report and require the report to be published by 1st December.

3.2 The Bromley Pension Fund had total net assets of £447.8m as at 31st March 2010 (£299.2m as at 31st March 2009). The large increase in value of the Fund in 2009/10 (almost 50%) was due to a major stock market recovery after the turmoil faced by financial markets during 2008/09, when the fund lost around £63m (17%). The Fund Accounts and Net Assets Statement can be found on pages 24 to 33 of the Annual Report.

3.3 Fund performance was reported quarterly to the Sub-Committee during 2009/10 and the fund outperformed against its benchmark by 5.0% over the year (+48.7% against a benchmark return of +41.0%). Performance compared to the local authority universe (average return of +35.2%) was very good and a ranking of 2% was achieved in the year (1% being the best and 100% being the worst). Details of investment policy and performance are set out on pages 7 to 10 of the Annual Report.

3.4 Total membership of the fund rose from 12,864 as at 31st March 2009 to 13,380 as at 31st March 2010, when it comprised 5,360 employees, 4,413 pensioners and 3,607 deferred members. Payments into the Fund from contributions (employee and employer), transfers in and investment income totalled £40.8m (£37.3m in 2008/09) and payments from the Fund for pensions, lump sums, transfers out and administration totalled £31.4m (£25.4m in 2008/09). Details of this can be found in the Pension Fund Revenue Account statement on page 33 of the Annual Report.

3.5 The Annual Report and Accounts have been prepared in accordance with officers' understanding of the requirements of both the LGPS Regulations and the CIPFA Statement of Recommended Practice. The accounts have been audited as part of the overall audit of the Council's Accounts by PricewaterhouseCoopers LLP (PWC) and were approved in draft form by the General Purposes and Licensing Committee on 30th June 2010. At the time of writing, no issues have been raised on the Pension Fund accounts and the auditor anticipates issuing an unqualified audit opinion on the financial statements, including the Pension Fund accounts. PWC will include a revised opinion at pages 25 to 26 when the audit of the Annual Report is complete.

4. POLICY IMPLICATIONS

4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2007, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits. An Annual Report is required to be published under LGPS (Administration) Regulations 2008.

5. FINANCIAL IMPLICATIONS

5.1 These are summarised in the body of the report and more details are provided in the relevant sections of the Annual Report. The fee for the separate audit of the Pension Fund Annual

Report was £35,000 in 2009/10 (£38,500 in 2008/09), which was charged to the Pension Fund Revenue Account.

Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	LGPS Regulations 2007 & LGPS (Administration) Regulations 2008.

DRAFT

LONDON BOROUGH OF BROMLEY PENSION FUND

ANNUAL REPORT 2009/10

DRAFT

LONDON BOROUGH OF BROMLEY PENSION FUND
ANNUAL REPORT 2009/10
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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, and to comply with regulation 34 of the Local Government Pension Scheme (Administration) Regulations SI2008 No 239.

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 final salary 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 Retail Price Index for September, although it has recently been proposed that this be amended to the Consumer Price Index. The scheme is operated by designated administering authorities - each maintains a pension fund and invests monies not needed immediately.

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 Investment Sub-Committee (re-named the Pension Investment Sub-Committee from May 2010) consisting of seven councillors appointed by the Council and one staff representative. The Investment Sub-Committee is primarily responsible for Fund investment and monitoring matters and reports to the General Purposes and Licensing Committee, which has overall responsibility for the administration of the scheme.

The 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 monitored quarterly. The Fund's managers are regulated by the Financial Services Authority (FSA). The Fund's investment managers are set individual performance targets marked against relevant market benchmarks.

2009/10 saw positive returns for markets after negative returns in 2008/09. In 2009/10, the Bromley Fund outperformed the benchmark by a significant margin, achieving a return of 48.7% compared to the benchmark return of 41.0% and the local authority universe average of 35.2%. Further details about the Fund's performance can be found on pages 7 to 10. Our investment policy is summarised on page 7 and further details are set out in the Statement of Investment Principles on pages 38 - 45.

During 2009/10, the fund's total value rose from £299.2m at 1st April 2009 to £447.8m at 31st March 2010. Since the end of 2009/10, however, there has been a fall in the FTSE All Share Index and other stock markets, as a result of which the total fund value had fallen to £424.9m at 31st July 2010.

This Annual Report will be presented in draft form to the meeting of the Investment Sub-Committee on 8th September 2009.

MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

The Scheme

The Bromley Pension Fund is part of the national Local Government Pension Scheme (LGPS), which is a statutory final salary 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. Councillors are also eligible to join the scheme at the discretion of individual councils, although councillors' pensions are based on career average Members' allowances (in Bromley the Council has decided that all councillors under 70 can elect to join).

As well as for its own employees, Bromley's fund provides for employees who transferred from Bromley to Broomleigh Housing Association and to Bromley Mytime. It also provides for non-teaching staff in the three colleges of further education within the borough and for one employee of Beckenham Mind. The Council is responsible for administering the fund in accordance with various statutory regulations, the principal regulations being the Local Government Pension Scheme Regulations 2007. 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.

Scheme 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 Resources) or referred to General Purposes and Licensing Committee. The Investment Sub-Committee oversees the investment of the fund, together with a general responsibility to monitor the fund's financial position. The Governance Policy Statement (pages 18 - 19) sets out the responsibilities of the various parties involved in managing the fund. Meetings are held quarterly and the Sub-Committee's membership as at 31st March 2010 comprised:

Councillor Brian Toms (Chairman)
Councillor Peter Morgan (Vice-Chairman)
Councillor Reg Adams
Councillor Eric Bosshard
Councillor Russell Mellor
Councillor Ernest Noad
Councillor Stephen Wells
Non-voting staff representative: Glenn Kelly

In 2009/10, the Council used the services of a number of professional advisers, including:

Actuary and scheme advisor
Barnett Waddingham LLP, 163 West George St, Glasgow, G2 2JJ
Auditors
PricewaterhouseCoopers LLP, 80 Strand, London, WC2R 0AF
Investment managers
Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN
Fidelity Investment Management Ltd, Beechgate, Millfield Lane, Lower Kingswood, Surrey, KT20 6RP
Legal adviser
Director of Legal & Democratic 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, 60 Queen Victoria Street, London, EC4N 4TR
Secretary to the trustees
Director of Legal & Democratic Services, LB Bromley
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
WM Company, Deutsche Bank House, 525 Ferry Road, Edinburgh, EH5 2AW
Council officers – Paul Dale, Director of Resources
Mark Gibson, Assistant Director of Resources
Martin Reeves, Group Accountant (Technical)

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 34 - 37), together with comments on their materiality, on the procedures for monitoring them and on measures available to mitigate them. The risks listed there have been categorised in four main areas, i.e. financial, demographic, regulatory and governance risks.

Financial Performance
The Council prepares accounts as at 31st March each year, which comply with the recommendations of the CIPFA Code of Practice and the provisions of Chapter 2, Recommended Accounting Practice, of the Pensions SORP (Statement of Recommended Practice) 2007. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2007 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 Pension Fund are recorded in the Pension Fund Revenue Account, which showed an overall surplus of £9.4m in 2009/10, compared to the budgeted surplus of £11.5m. 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 2009/10 from £299.2m as at 1st April 2009 to £447.8m as at 31st March 2010, primarily due to the recovery of the financial markets during 2009/10 following significant losses in the previous year. The Pension Fund Accounts and Net Assets Statement, together with supporting notes, are attached (pages 24 - 33).

Management Performance
Liberata UK Ltd manage 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 scheme, 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
  810 pieces of correspondence responded to in the last year, of which 99.51% were within the performance standard

- Process each stage of a transfer of pension rights (to or from the Scheme) within 10 days of receiving the required information
  95.03% of 161 transfer-in quotations and 96.08% of transfer-out quotations issued within the performance standard

- Process retirement grants (lump sums) within 10 working days of retirement, provided that Liberata have all the necessary information
  97.29% of 258 retirement grants paid within the performance standard

- Issue a benefit statement annually to all active and deferred members
  Statements issued to all active members in October and deferred members in August

- Advise pensioners in April of the annual increase to their local government pension
  Pensions increase letters issued to all pensioners in March

Scheme membership
Fund membership as at 31st March:

	2009	2010
Employees	5,179	5,360
Pensioners - widows/dependents	697	710
- other	3,573	3,703
Deferred pensioners	3,415	3,607
Total	12,864	13,380

A list of contributing employers and details of contributions received is given in the supporting notes to the Pension Fund Accounts (pages 29 and 30).

INVESTMENT POLICY AND PERFORMANCE REPORT

Investment Principles

In accordance with the requirements of regulation 9A of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 ("the Regulations"), as amended by SI 1999/3259 and SI 2002/1852, the Council has produced a Statement of Investment Principles (SIP). This was approved by the Investment Sub-Committee on 12th May 2009 and is published on the Council's website (see pages 38 - 45). A revised SIP is being considered by Members on 8th September 2010.

Investment Managers

Investment of the fund is governed by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, which define the categories of investments that may be used and set various limits to prevent too much concentration in single asset types or single investments. In practice, investment in all the principal classes of assets is permitted. Most of the Investment Sub-Committee's work relates to the monitoring of investment performance, which can have a critical impact on the value of the Pension Fund's assets. For many years until May 2006, the Council had employed just two investment managers, Fidelity Pensions Management (appointed April 1998) and Baillie Gifford & Company (appointed December 1999). A third manager, Credit Agricole Asset Management (CAAM), was appointed with effect from 1 June 2006, but this agreement was subsequently terminated with effect from 31st May 2008. The Council 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 Investment Sub-Committee is responsible for all these appointments.

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 Statement of Investment Principles (pages 38 - 45). Fidelity and Baillie Gifford operate balanced portfolios with benchmarks based on a broad 80:20 ratio of equities to bonds. These benchmarks were agreed by the Investment Sub-Committee in 2006. Between 2006 and 2008, CAAM managed £40m of the fund's assets on a target return basis, using two proprietary funds with a wide variety of asset classes and derivatives, but the agreement was terminated because of poor performance in May 2008. The Sub-Committee is responsible for determining and reviewing the asset allocation strategy of the fund. The asset allocation agreed in 2006 followed a comprehensive review of the fund's strategy.

The regulations require the performance of the investment managers to be reviewed at least once every three months. Quarterly meetings of the Sub-Committee are held for this purpose and each manager submits a report on his activities in the previous quarter. The practice to date has been for one of the two managers to attend each meeting on an alternating basis to present a report. The Director of Resources presents a separate report on investment performance to each meeting, based on data prepared by the independent WM Company. The regulations also require the authority to review periodically whether to retain their managers.

Fees paid to the investment managers are charged to the Pension Fund, on the following bases:

> Fidelity – Base fee 0.25% of total fund value (quarterly). Performance-related fee (annual) 25% of outperformance between 1% and 2% and 30% of outperformance above 2% (no fee on outperformance below 1%).

Baillie Gifford – Base fee (quarterly) 0.50% of first £15m of fund value, 0.35% of next £15m and 0.175% of remainder. No performance-related fee is payable.

Review of Investment Performance
The WM Company provides an independent performance measurement service for the Council and attends the Investment Sub-Committee once a year to present an annual report. This section includes data on the investment performance and general financial and membership trends of Bromley's Pension Fund for the whole of the financial year 2009/10 and in the longer term.

Performance data for 2009/10

The total market value of Bromley's Fund has fluctuated considerably in the last few years. In 2002/03, the value fell by some 20% to £180m, but since then, in spite of some periods of volatility (most recently in the first and third quarters of 2008), a steady improvement was seen and the total value had increased to £357m as at 31st March 2008. In 2008/09, however, turmoil in financial markets caused the fund value to fall to £298.1m as at 31st March 2009, a fall of 16.5% in that year. During 2009/10, it increased steadily and ended the year at £446.4m as at 31st March 2010, a gain of almost 50% in the year. Further market volatility since then has seen the fund value fall to £425.2m as at 31st May 2010.

In 2009/10, the Bromley Fund as a whole returned 48.7% compared to the benchmark return of 41.0%. With regard to the local authority universe, Bromley's Fund achieved an overall ranking of 2% (the lowest rank being 100%). This comprised rankings of 1% in the March quarter, 3% in the December quarter, 1% in the September quarter and 11% in the June quarter. This means that Bromley's Fund was the second best in 2009/10 of all local authorities included in the local authority universe, which is an exceptionally good result. For comparison, the rankings in recent years were 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.

Since April 2006, Baillie Gifford and Fidelity have both operated under their new benchmarks and the WM Company has measured their results against these benchmarks instead of against its local authority indices and averages, as was its previous practice. However, at total fund level, it continues to use the local authority indices and averages. Other comparisons with local authority averages may be highlighted from time to time. Baillie Gifford returned 51.3% in the year (6.3% above their benchmark) while Fidelity returned 45.9% (4.4% above their benchmark). A summary of the fund performance returns in 2009/10 is shown in the following table.

Quarter	Baillie Gifford		Fidelity		Total Fund		LA Ave
	Benchmark %	Return %	Benchmark %	Return %	Benchmark %	Return %	Return %
Jun-09	7.7	8.8	7.2	8.2	7.6	8.6	6.3
Sep-09	19.5	21.6	18.6	20.0	19.0	20.8	15.7
Dec-09	2.9	4.8	2.8	3.8	2.9	4.3	3.4
Mar-10	7.1	9.1	7.0	8.2	7.0	8.6	6.3
Cumulative	42.3	51.3	39.8	45.9	41.0	48.7	35.2

Medium and long-term performance data for Baillie Gifford and Fidelity

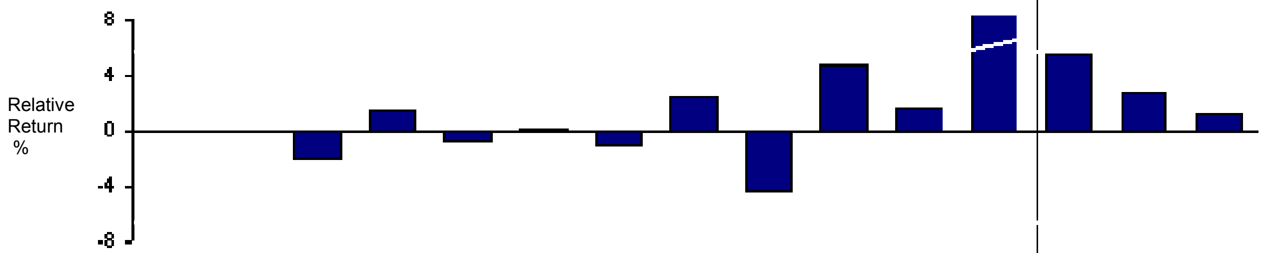
The first three-year period after the fund was restructured in April 2006 was completed on 31st March 2009 and Fidelity's annualised return of -4.1% was 2.1% above benchmark (i.e.

they outperformed their target by 0.2%) while Baillie Gifford's annualised return of -6.1% was 0.6% below the benchmark (i.e. between 1.6% and 2.1% below target). The second three-year period was completed on 31st March 2010. The following table sets out comparative returns over 3 and 5 years for both Baillie Gifford and Fidelity for periods ended 31st March 2009 and 2010. Baillie Gifford's superior returns in 2009/10 have resulted in their 5-year return (10.2%) overtaking that of Fidelity (10.1%), although Fidelity's 3-year return (7.6%) is still better than that of Baillie Gifford (7.2%).

	Baillie Gifford			Fidelity			
	Return	BM	+/-	Return	BM	+/-	LA Ave
	%	%	%	%	%	%	%
Periods to 31/3/09							
3 years (1/4/06-31/3/09) - annualised	-6.1	-5.5	-0.6	-4.1	-6.1	2.1	-5.9
5 years (1/4/04-31/3/09) - annualised	3.7	3.3	0.3	4.1	2.9	1.1	3.1
Periods to 31/3/10							
3 years (1/4/07-31/3/10) - annualised	7.2	4.6	2.5	7.6	3.0	4.4	1.7
5 years (1/4/05-31/3/10) - annualised	10.2	8.5	1.6	10.1	7.6	2.3	7.1

The graph below shows total fund performance to 31st March 2010 over 1, 3, 5 and 10 years compared to the local authority universe. This shows that, in the short, medium and long-term, the Bromley Fund has performed very well in comparison to its peers (rankings of 2% in the last year, 2% over 3 years, 1% over 5 years and 5% over 10 years).

Fund Returns



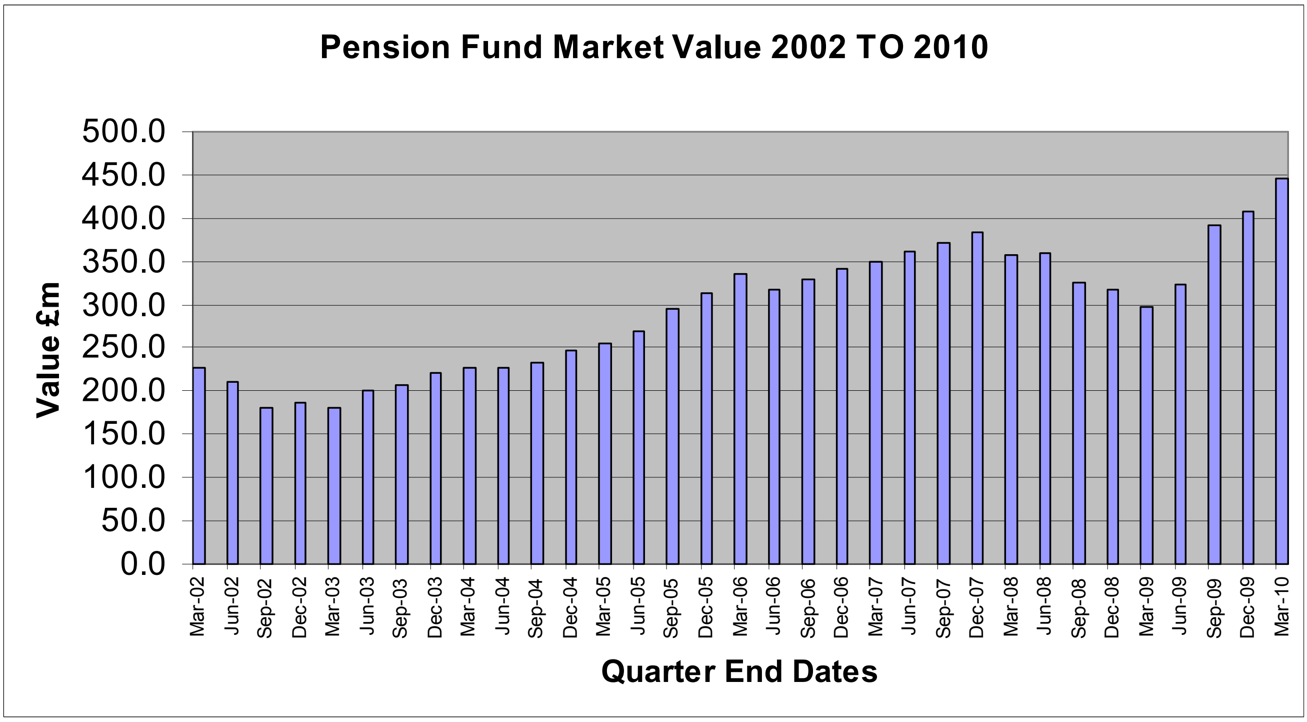
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	3yrs % pa	5yrs % pa	10yrs % pa
Fund	-8.2	1.0	-20.0	23.7	10.6	27.9	2.4	1.8	-18.6	48.7	7.2	10.0	5.0
Benchmark	-6.3	-0.5	-19.5	23.4	11.7	24.9	7.0	-2.8	-19.9	35.2	1.7	7.1	3.8
Relative	-2.1	1.5	-0.7	0.2	-1.0	2.4	-4.3	4.7	1.6	9.9	5.4	2.8	1.2
Ranking	(63)	(12)	(43)	(52)	(75)	(5)	(100)	(5)	(33)	(2)	(2)	(1)	(5)

An analysis of the total market value of assets held by the Fund managers is shown in the following table, starting from its previous peak position in December 1999.

Market Value as at	Fidelity	Baillie Gifford	CAAM	Total
	£m	£m	£m	£m
31st December 1999	122.6	121.0	-	243.6
31st March 2000	121.6	120.4	-	242.0
31st March 2001	113.4	110.4	-	223.8

31st March 2002	112.9	113.3	-	226.2
31st March 2003	90.1	90.2	-	180.3
31st March 2004	112.9	113.1	-	226.0
31st March 2005	126.6	128.5	-	255.1
31st March 2006	164.1	172.2	-	336.3
31st March 2007	150.1	156.0	43.5	349.6
31st March 2008	151.3	162.0	44.0	357.3
31st March 2009	143.5	154.6	-	298.1
30th June 2009	155.7	168.4	-	324.1
30th September 2009	186.3	204.6	-	390.9
31st December 2009	193.9	214.5	-	408.4
31st March 2010	210.9	235.5	-	446.4

The total market value of assets held by the Fund managers over the last 10 years is shown below (including new money added to the fund, but excluding cash held by the Council).



Custodial arrangements

The Council 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.

SCHEME 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 18 - 19. In June 2007, the regulations were amended to require administering authorities to report the extent of compliance against a set of best practice principles published by the government. This Governance Compliance Statement was reported to the General Purposes and Licensing Committee in July 2008 and is attached at pages 20 - 23.

Scheme 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 fund manager fees, adviser fees and fees paid to Liberata are shown in the supporting notes to the Pension Fund accounts (pages 30 and 31).

Liberata UK Ltd

As administrators of the Bromley scheme, 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 in excess of 13,000 scheme members, including LB Bromley staff, non-teaching staff employed by LB Bromley, Broomleigh Housing Association, Bromley MyTime, Beckenham MIND, the Council's 3 colleges (Bromley, Orpington and Ravensbourne) 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 scheme members informed of their options.
- Provision of illustrations for transfer of members' previous pension benefits into the scheme 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 capital impact on pension fund of early payment of benefits – including one-off payments.
- Operation of special provisions of the scheme relating to elected Members who have opted to join the scheme.
- Provision of data to the Council's actuary for the annual FRS17 exercise and for triennial full valuations of the fund.
- Submission of statutory returns to government bodies as required.
- Maintenance of AXISe 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 scheme for new employers.

Key activity in 2009/10 included:

- Department of Work and Pensions – combined state benefit forecast included within the Annual Benefit Statement.
- Involvement with the Single Status project and agreement on pension calculations and data to be held in the future.
- Production of a comprehensive HR procedure manual.
- Production of a combined NEPD/Pension Application Form.
- Management of the National Fraud Initiative exercise in conjunction with Internal Audit.
- Provision of Road-Shows and “One to One” consultations for Customer Service Week.

Enquiries and Complaints

In order to protect Members’ interests, the Council is required by the Scheme regulations to set up a two-stage appeal procedure. Full details of these 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, Surrey, CR0 0ZW	Tel: 020 8666 9919 E-mail: pensions@bromley.gov.uk Website: www.liberata.com
London Borough of Bromley, Resources Directorate, Civic Centre, Stockwell Close, Bromley, Kent, 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, Tyneview Park, Whitley Road, Newcastle upon Tyne, NE98 1BA	Tel: 0845 600 2537

The Pensions Advisory Service (if problems can not be resolved with pension schemes)	
11 Belgrave Road, London, SW1V 1RB	Tel: 0845 601 2923 Website: www.pensionadvisoryservice.org.uk

Pensions Ombudsman	
Tel: 020 7834 9144	Website: www.pensions-ombudsman.org.uk

Self-Service Pensions

Members of the Pension Fund can access their own pension records online, through the AXISe Internet Member Self Service (AIMSS). 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. Forms can also be downloaded in order to update Members Expression of Wish records. Details of how to use AIMSS are available on the Council’s Intranet or from the Liberata e-mail address pensions@bromley.gov.uk.

ACTUARIAL REPORT

The regulations require an actuarial valuation of the fund's assets and liabilities every three years and the Investment Sub-Committee is responsible for considering the actuary's report. In the report on the most recent valuation as at 31 March 2007, Bromley's actuary, a partner of Barnett Waddingham LLP, determined the level of employers' contributions for the three years 2008/09 to 2010/11. 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.

In that valuation, the actuary found that the value of the fund's assets now represented 81% of the value of its liabilities, up from 66% in 2004. The principal reason for the improvement in the fund's funding level was better than predicted investment returns over the period. The actuarially assessed position at 31 March 2007 is summarised in the table below.

Valuation	**31 March 2004**	**31 March 2007**	**% change**
	£m	£m	%
Liabilities	347.3	436.6	+25.7
Assets	228.7	354.5	+55.0
Shortfall	118.5	82.1	-30.7
Funding level	65.9%	81.2%	+15.3

The key actuarial assumptions as at 31st March 2004 and 2007 are shown below:

Financial Assumptions	**Nominal**	**Real**	**Nominal**	**Real**
Future investment returns	**% p.a.**	**% p.a.**	**% p.a.**	**% p.a.**
	2004	**2004**	**2007**	**2007**
Equities/absolute return funds	7.4	4.6	7.6	4.3
Gilts	4.8	2.0	4.7	1.3
Bonds & Property	5.6	2.8	5.4	2.0
Discount rate	6.7	3.9	6.9	3.5
Pay increases	4.6	1.7	4.9	1.5
Price inflation / pension increases	2.8	-	3.4	-

The employer's contribution rate in respect of future service increased with effect from 1st April 2008 from 12% to 14.7% for all employees (except for a small number of former manual workers with a protected contribution rate). The main reason for the increase was the continued improvement in mortality rates. In addition to contributions in respect of fund members, the Council is also required to make contributions to eliminate the fund deficit. These have been fixed at £8.0m in 2008/09, £8.3m in 2009/10 and £8.6m in 2010/11 with the aim of recovering the deficit over a period of 12 years. The original figure (£8.0m) was a reduction of some £1.9m on the deficit contribution set by the actuary in the 2004 valuation. The net impact on the General Fund of the increased employer contributions and the reduced past deficit contribution was a reduction of around £0.8m and this was reflected in the revenue budget.

The 2007 valuation report also contained contribution rates for the other employers in the fund, including Bromley, Orpington and Ravensbourne Colleges, Broomleigh Housing Association and Bromley MyTime. In the case of the three colleges and Broomleigh, the rates have also been determined on the basis of recovering their share of the deficit over 12 years. In the case of Bromley Mytime, the actuary has found that no deficit contribution is payable.

	Future Service contribution	Monetary amount (Deficit Contribution)		
		2008/09	2009/10	2010/11
	%	£000	£000	£000
Bromley College	14.1	76	79	82
Orpington College	13.9	30	31	32
Ravensbourne College	12.5	88	91	94
Broomleigh	17.3	113	117	121
Bromley Mytime	13.4	-	-	-

In the case of Ravensbourne College, the contribution rate has been set based on the current location. Proposals have been worked through for the College to relocate to the London Borough of Greenwich. This is to be implemented from September 2010. Following discussions with the college, the London Borough of Greenwich and DCLG, it was agreed that it was in the best interests of all parties for the college to remain in the Bromley Fund. An application has been made to the Secretary of State for a determination to this effect.

The fund income from employer's contributions by the Council has increased steadily in recent years, principally because there has been a funding shortfall in the Bromley fund since the early nineties. Since then there has been a programme of annual increases in employer's contributions with a view to 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 strategy is to achieve a funding level of 100% by 2019 and the next full valuation (as at 31st March 2010) will be carried out during 2010/11.

The actuary's Summary Funding Statement and Rates and Adjustments certificate are attached at pages 15 and 16 - 17 respectively.

London Borough of Bromley Pension Fund – Actuarial Valuation as at 31 March 2007 - Valuation Report

Section 6. Valuation Results

6.1 Past Service Position

The following table sets out the valuation results for the Fund as a whole assuming the deficit is recovered over a 12 year period.

Past Service Funding Position	**£000**	**£000**
Asset Value		354,526
Past Service Liabilities		
Active Members	177,014	
Deferred Pensioners	70,792	
Pensioners	188,847	
Value of Scheme Liabilities		436,653
Surplus (+) / Deficit (-)		**-82,127**
Funding Level		**81.2%**

Contribution Rates	**% of payroll**
Future Service Total	21.1%
Less: average employee contribution rate	-6.5%
Employer Contribution (normal)	14.6%
Deficit Contribution (12 years)	9.7%
Total Employer Contribution Rate	24.3%
Employer Contribution (% of employee contributions)	370%

London Borough of Bromley Pension Fund – Actuarial Valuation as at 31 March 2007 - Valuation Report

Appendix F – Rates and Adjustments Certificate

Paul Dale
Director of Resources
London Borough of Bromley
Bromley Civic Centre
Stockwell Close
Bromley BR1 3UH

Dear Sirs

On your instruction, we have made an actuarial valuation of the London Borough of Bromley Pension Fund ("the Fund") as at 31 March 2007.

In accordance with Regulation 77 of the Local Government Pension Scheme Regulations 1997 we have made an assessment of the contributions which should be paid to the Pension Fund by the employing authorities as from 1 April 2008 in order to maintain the solvency of the Fund.

The required contribution rates are set out in the attached statement.

Yours faithfully

Graeme D Muir
Fellow of the Faculty of Actuaries

London Borough of Bromley Pension Fund – Actuarial Valuation as at 31 March 2007 - Valuation Report

Statement to the Rates and Adjustments Certificate

The Common Rate of Contribution payable by each employing authority under Regulation 77 for the period 1 April 2008 to 31 March 2011 is 14.7% of payroll.

Individual Adjustments payable by each employing authority under Regulation 77 for the period 1 April 2008 to 31 March 2011 resulting in Minimum Total Contribution Rates comprising the Future Service Contribution Rate and the Deficit Contribution are as set out below:

			Deficit Contribution for Year beginning		
Employer Code	**Employing Authority**	**Future Service Contribution Rate**	**01-Apr-08**	**01-Apr-09**	**01-Apr-10**
		% of payroll	£	£	£
1	LB Bromley	14.7%	£8,000k	£8,300k	£8,600k
4	Bromley College	14.1%	£76k	£79k	£82k
6	Broomleigh Hsg Assoc	17.3%	£113k	£117k	£121k
24	Orpington College	13.9%	£30k	£31k	£32k
27	Ravensbourne College	12.5%	£88k	£91k	£94k
33	Bromley MyTime	13.4%	-	-	-

Notes

Further sums should be paid to the Fund to meet the costs of any early retirements using methods and assumption issued by us from time to time.

The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by ourselves.

The assumptions underlying the number of members who will become entitled to pensions under the provisions of the Scheme and the liabilities arising in respect of such members are set out in Appendix D.

Barnett Waddingham LLP

LONDON BOROUGH OF BROMLEY PENSION FUND
GOVERNANCE POLICY STATEMENT

1. This statement has been published in accordance with regulation 31 of the administration regulations.

2. It has been published after consultation with the other employers in the fund, namely Bromley College, Orpington College, Ravensbourne College, Broomleigh Housing Association, Bromley Mytime and Beckenham 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 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 Resources. 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 seven times per year. Its membership comprises 15 elected councillors, with its political make-up determined according to proportionality rules.

7. The Investment Sub-Committee normally meets four times per year about four weeks after the end of each quarter. 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, and one non-voting representative of the council's employees.

8. Neither the General Purposes and Licensing Committee nor the 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 over 90% of the fund's members are the financial responsibility of the Council. There is a non-voting representative of the Council's employees on the Investment Sub-Committee.

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.	Not applicable
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.	Not applicable

* 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 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 over 90% of the fund's members are the financial responsibility of the Council. This matter will be kept under review. There is a non-voting representative of the Council's employees on the Investment Sub-Committee.

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	Fully compliant

	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.	

Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)
The Investment Sub Committee includes an employee representative as part of its membership.

Please use this space if you wish to add anything to explain or expand on the ratings given above :-
The employee representative that currently is a member of Investment Sub Committee receives all non-exempt papers and can attend the Committee other than for exempt matters. Equal access is given to training and also has 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.

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 an employee representative is currently a member of Committee. Presentations are made to the employee forum where opportunities exist for the representation of interests and issues.

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 6 times per year plus any special meetings. The 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 falls 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 asset 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 and with the guidelines set out in the Statement of Recommended Practice (SORP): "Financial Reports of Pension Schemes".

The accounts have to be accompanied by the independent auditor's report and by a statement of responsibilities signed by the Director of Resources. These can be found on pages 25 to 27. The Fund Account and Net Assets Statement are on page 28, supporting notes are on pages 29 to 32 and details of the Pension Fund Revenue Account are on page 33.

During 2009/10, the total net assets of the fund value rose from £299.2m to £447.8m, largely the result of a recovery in financial markets following the turmoil that took place in 2008. Since the end of 2009/10, however, the market has continued to be volatile, as a result of which the total fund value had fallen to £424.9m at 31st July 2010. The Pension Fund Revenue Account showed a surplus for the year of £9.4m and total fund membership numbers increased from 12,864 to 13,380.

Independent auditor's report to the Members of London Borough of Bromley

Opinion on the pension fund accounts as included in the Annual Report

We have audited the pension fund accounts of London Borough of Bromley for the year ended 31 March 2009. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

Respective responsibilities of the Chief Finance Officer and auditor

The Chief Finance Officer is responsible for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008. In preparing the pension fund accounts, the Responsible Financial Officer is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimations that are reasonable and prudent;
- keeping proper accounting records which are up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibility is to audit the pension fund accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

This report, including the opinion, has been prepared for and only for Bromley Council's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

We review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008. We report if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read the other information published with the pension fund accounts and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Foreword, Management and Financial Performance Report, Investment Policy and Performance Report, Scheme Administration Report, Actuarial Report, Funding Strategy Statement, Statement of Investment Principles and Communications Policy Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pension fund accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the pension fund accounts.

Opinion

In our opinion the pension fund accounts present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

PricewaterhouseCoopers LLP
80 Strand
London
NW3 2AT

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 Resources;
* 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 Resources' Responsibilities

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

In preparing this Statement of Accounts, the Director of Resources has:

* selected suitable accounting policies and then applied them consistently;
* made judgements and estimates that were reasonable and prudent; and
* complied with the Code of Practice.

The Director of Resources 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 Resources

I certify that the Pension Fund accounts set out on pages 28 - 32 of the Pension Fund Annual Report present fairly the financial position of the Authority as at 31st March 2010 and its income and expenditure for the year ended 31st March 2010.

Paul Dale
Director of Resources

LONDON BOROUGH OF BROMLEY PENSION FUND - ACCOUNTS FOR 2009/10

2008/09		Note		2009/10	
£000	£000			£000	£000
			Dealings with members and employers		
		2	**Contributions and similar payments**		
5,850			Contributions - from members	6,152	
13,045			- from employers - normal	14,728	
8,000			- deficit funding	8,300	
3,174			Transfers in	4,457	
	30,069				33,637
		3	**Benefits**		
(16,848)			Pensions	(18,350)	
(4,409)			Lump sum benefits - retirement	(5,530)	
(389)			- death	(328)	
	(21,646)				(24,208)
			Payments to and on account of leavers		
(11)			Refunds of contributions	(12)	
(1,473)			Transfers out	(4,223)	
	(1,484)				(4,235)
	(788)	4	**Administrative expenses**		(763)
	6,151		**Net addition from dealings with Fund members**		4,431
		5	**Returns on investments**		
7,818			Investment income	7,141	
			Change in market value		
2,724			- realised investment gains/(losses)	(1,137)	
(77,741)			- unrealised investment gains/(losses)	140,393	
(1,478)			Investment management expenses	(2,185)	
	(68,677)		Net return on investments		144,212
	(62,526)		**Net Fund increase/(decrease) during year**		148,643
	361,679		Opening net assets		299,153
	299,153		**Closing net assets**		447,796

31st March 2009			NET ASSETS STATEMENT	31st March 2010	
£000	£000			£000	£000
		5	**Investment assets**		
74,029			Equities - UK	111,971	
75,075			- overseas	118,585	
	149,104				230,556
	144,067		Pooled investment vehicles		211,646
	4,350		Cash deposits held by investment managers		4,148
331			Other investment balances - sales	0	
(437)			- purchases	(75)	
	(106)				(75)
	297,415	5			446,275
		6	**Current assets and liabilities**		
984			Current assets - sundry debtors	901	
(820)			Current liabilities - sundry creditors	(1,456)	
	164				(555)
	1,574		**Internal cash temporarily invested**		2,076
	299,153		**Closing net assets**		447,796

The fund's financial statements include all assets and liabilities of the fund as at 31st March 2010, but do not take account of liabilities to pay pensions and other benefits after the period end.

1 General

These accounts comply with the recommendations of the CIPFA Code of Practice and have been prepared in accordance with the provisions of Chapter 2, Recommended Accounting Practice, of the Pensions SORP 2008/09. The Council's Pension Fund is a defined benefit Fund operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2008/09 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. A Statement of Investment Principles was approved by the Investment Sub-Committee on 12th May 2009 and is published on the Council's website.

2 Employer and Employee Contributions

(a) Contributions - general

Members contribute between 5.5% and 7.5% of pensionable salary. Some members have also made voluntary contributions to secure additional benefits. The employer pays the balance required to fund the benefits and to meet fund administration costs. Normal contributions, both from members and employers, are accounted for on an accruals basis in the payroll period to which they relate. Employers' augmentation contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, when they are received. The totals of employer and employee contributions in 2008/09 and 2009/10 are shown in the following table:

	2008/09	**2009/10**
Employer Contributions	**£000**	**£000**
L.B. Bromley part of Fund		
L.B.Bromley - normal	9,769	11,304
- deficit funding	8,000	8,300
Foundation Schools	1,725	1,862
	19,494	21,466
Other		
Scheduled bodies - normal	934	941
- deficit funding	194	201
Admitted bodies - normal	310	303
- deficit funding	113	117
	21,045	23,028
Employee Contributions		
L.B. Bromley part of Fund		
L.B.Bromley - normal	4,521	4,764
Foundation Schools	732	792
	5,253	5,556
Other		
Scheduled bodies	454	454
Admitted bodies	143	142
	5,850	6,152

(b) Additional Voluntary Contributions (AVCs)

In accordance with Regulation 5 (2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831), AVCs are not included in the Pension Fund accounts. AVCs are managed independently of the fund by specialist providers (Aviva and Equitable Life) and are invested separately on behalf of those members who elect to make AVCs. Members of the AVC scheme received an annual statement to 31st March 2010 confirming the amounts held in their accounts and the movements in the year. In 2009/10, a total of £35,144 was paid by members (£50,477 in 2008/09) and the total value of AVC benefits as at 31st March 2010 was £1,467,454 (£1,391,864 as at 31st March 2009).

2 Employer and Employee Contributions (cont)

(c) Non- London Borough of Bromley contributors

During 2009/10, 27 scheduled and 3 admitted bodies (ie outside organisations) were permitted under the regulations to contribute to the Pension Fund. A total of 24 of the scheduled bodies were foundation schools, which returned to Local Authority financial control in 1999/00. In 2009/10, the scheduled and admitted bodies contributed a total of £4.812m (£3.424m from employers and £1.388m from employees). The bodies are listed on the following page:

Scheduled Bodies - Foundation Schools

Beaverwood School
Bishop Justus School
Bullers Wood School
Charles Darwin School
Coopers School
Crofton Junior School
Darrick Wood School
Hayes Primary School
Hayes School
Highfield Infants School
Highfield Junior School
Holy Innocents Primary School
Kelsey Park School
Kemnal Technology College
Langley Park Boys School
Langley Park Girls School
Newstead Wood School
Raglan School
Ravenswood School
St Mary's RC Primary School
St Olave's School
The Glebe Special School
The Priory School
The Ravensbourne School

Scheduled Bodies - Other

Bromley College
Orpington College
Ravensbourne College

Admitted Bodies

Beckenham and District Mind
Bromley Mytime
Broomleigh Housing Association

3 *Benefits*

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.

4 Administrative Expenses

Administrative expenses incurred by the Council and investment expenses, including fees paid to advisers, are accounted for on an accruals basis and are charged to the fund as provided by the LGPS Regulations 2008/09. A breakdown of administrative expenses is shown below.

	2008/09	2009/10
	£000	£000
Bank charges	14	16
Advice & other costs	58	62
Internal recharges	716	685
	788	763

5 Returns on Investments

(a) Investment income

Income from equities and pooled investment vehicles is accounted for on an accruals basis on the date stocks are quoted ex-dividend / interest. Investment income includes withholding taxes but excludes any other taxes, such as attributable tax credits, not payable wholly on behalf of the recipient. Withholding tax is accrued on the same basis as investment income. A breakdown of investment income is shown below.

	2008/09	**2009/10**
	£000	**£000**
Dividends from equities	7,379	7,088
Interest on securities	285	12
Internal interest on cash	154	41
	7,818	7,141

5 Returns on Investments (cont)

(b) Investment management fees

Investment management fees are accounted for on an accruals basis and totalled £2,185,000 in 2009/10 (£1,478,000 in 2008/09). The fee has increased significantly in 2009/10 because a performance-related fee was payable to one of the fund managers (Fidelity) and, in the 3 years to 2009/10, they exceeded their rolling 3-year performance target by 4.56% (2.00% in the 3 years to 31/3/09). As a result, an additional fee of £1,324,997 was payable in 2009/10 (£717,604 in 2008/09).

(c) Investments

All investments are managed by external fund managers. Equities traded through the Stock Exchange Electronic Trading Service are valued at bid price at the close of business on 31st March. Other quoted investments and pooled investment vehicles are also valued at the closing bid price.
The change in bid price value of investments during the year comprises all increases and decreases in the value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles, which are accumulation funds, changes in value also includes income, net of withholding tax, which is re-invested in the Fund.
The table below analyses movements in asset values between the start and end of the year.

	Bid Price 31/03/2009	Purchases	Sales	Change in Bid Price	Bid Price 31/03/2010
	£000	£000	£000	£000	£000
Fidelity	142,996	49,352	(47,757)	66,267	210,858
Baillie Gifford	154,419	41,950	(35,078)	74,126	235,417
Total	297,415	91,302	(82,835)	140,393	446,275

Stock market values have fallen since 31st March 2010 and the total bid price market value of investments held by the fund managers had fallen to £424,804,000 as at 31st July 2010.

The SORP requires the Council to disclose Pension Fund investments valued at over 5% of the total investment portfolio as at the end of the financial year. Details are shown below.

Baillie Gifford - none
Fidelity - Institutional UK Aggregate Bond Fund (value £37,645,558 - 8.44%)
- Institutional Europe Fund (value £25,341,584 - 5.68%)
- Institutional Exempt America Fund (value £24,234,408 - 5.43%)
- Institutional Global Focus Fund (value £25,367,711 - 5.68%)

6 Current Assets and Current Liabilities

Debtors and Creditors are raised for all income and expenditure outstanding at 31st March 2010, with the exception of transfers receivable and payable, which are accounted for on a cash basis. Significant items are shown below.

	2008/09	2009/10
Debtors (current assets)	£000	£000
Contributions due from employers	391	260
Investment income	586	641
Other	7	-
	984	901
Creditors (current liabilities)		
Fund management fees	804	1,447
Pension advice fees	11	6
Other	5	3
	820	1,456

See Note 5(b) above for explanation of large increase in fund management fees in 2009/10.

7 Value Added Tax

VAT is reimbursed to the fund by HM Customs and Excise and the accounts exclude VAT.

8 Membership as at 31 March

	2009	2010
Employees	5,179	5,360
Pensioners - widows / dependents	697	710
- other	3,573	3,703
Deferred Pensioners	3,415	3,607

9 The Actuarial Position of the Fund

The Fund is valued triennially in accordance with the provisions of the Local Government Pension Scheme Regulations 2007. The Fund’s Actuaries, Barnett Waddingham LLP, carried out a full valuation of the Fund at 31st March 2007, when its solvency level was calculated at 81%, an increase of 15% over the 2004 valuation. The 2007 actuarial valuation set the level of employer contributions required to attain 100% solvency within 12 years. The employer rates for the years ended 31st March 2009, 2010 and 2011 were set by the 2007 actuarial valuation at an average of 14.7% of pay. The 2007 valuation also specified that additional lump sum past-deficit contributions of £8m, £8.3m and £8.6m should be made in the three years. The next full valuation of the Fund (as at 31st March 2010) will take place later in 2010 and will set employer rates and additional contributions for the years ending 31st March 2012, 2013 and 2014.
The economic assumptions employed in the 2007 valuation are shown on the following page.

Increases in earnings	4.9% p.a.	Investment return-equities	7.6% p.a.
General Inflation	3.4% p.a.	- Gilts	4.7% p.a.
Increases in pensions	3.4% p.a.	- Bonds	5.4% p.a.
		- Discount rate	6.9% p.a.

10 Monitoring of Fund Liabilities

Under the Regulations, Bromley is required, as the Fund's administering Authority, to monitor factors which might lead to an increase in the liabilities of any body in the fund in excess of the actuary's assumptions. In 2009/10 the total cost of early retirement on grounds of ill-health (£45,000) was well below the actuary's assumption (£800,000), which will have a positive impact on the next valuation as at 31st March 2010.

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2008/09 £'000's	Estimate 2009/10 £'000's	Final Outturn 2009/10 £'000's
INCOME			
Employee Contributions	5,850	6,300	6,153
Employer Contributions	21,045	22,300	23,028
Transfer Values Receivable	3,174	3,000	4,457
Investment Income	7,232	8,000	7,141
Total Income	37,301	39,600	40,779
EXPENDITURE			
Pensions	16,848	17,500	18,350
Lump Sums	4,798	5,500	5,858
Transfer Values Paid	1,473	3,000	4,223
Administration	2,266	2,000	2,948
Refund of Contributions	11	100	12
Total Expenditure	25,396	28,100	31,391
Surplus/Deficit (-)	11,905	11,500	9,388

MEMBERSHIP	**31/03/2009**	**31/03/2010**
Employees	5,179	5,360
Pensioners	4,270	4,413
Deferred Pensioners	3,415	3,607
	12,864	13,380

A distribution of £3m (£1.5m to each manager) was made in January 2010.

LONDON BOROUGH OF BROMLEY PENSION FUND
FUNDING STRATEGY STATEMENT

INTRODUCTION

In accordance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008/239), the Council is required to prepare, publish and maintain a Funding Strategy Statement for its Pension Fund. The statement was prepared in consultation with the fund's actuaries, Barnett Waddingham LLP, and the other employers in the fund. The Statement was approved by the Investment Sub-Committee on 4th August 2009.

PURPOSE OF THE STATEMENT IN POLICY TERMS

The purpose of this Funding Strategy Statement (FSS) is:

- To establish a clear and transparent fund-specific strategy, which will identify how employers' pension liabilities are best met going forward
- To support the regulatory requirement to maintain as nearly constant employer contribution rates as possible
- To take a prudent longer-term view of funding those liabilities

AIMS AND PURPOSE OF THE PENSION FUND

The aims of the fund are:

- To ensure that sufficient resources are available to meet all liabilities as they fall due
- To achieve this with as stable as possible employer contributions at the minimum level agreed by the Actuary
- To manage employers' liabilities effectively
- To maximise the returns from investments within reasonable risk parameters

The purpose of the fund is:

- To receive monies in respect of contributions, transfer values and investment income
- To pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses

As defined in the Local Government Pension Scheme Regulations 2007 and in the Local Government Pension Scheme (Management and Investment of Funds) regulations 1998.

RESPONSIBILITIES OF THE KEY PARTIES

The administering authority should:

- Collect employer and employee contributions
- Invest surplus monies in accordance with the regulations
- Ensure that cash is available to meet liabilities as and when they fall due
- Manage the valuation process in consultation with the fund's actuary
- Prepare and maintain a Funding Strategy Statement and a Statement of Investment Principles, both after proper consultation with interested parties
- Monitor all aspects of the fund's performance and funding

The individual employers should

- Deduct contributions from employees' pay correctly
- Pay all contributions, including their own as determined by the actuary, promptly by the due date
- Exercise discretions within the regulatory framework
- Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain

- Notify the administering authority promptly of all changes or proposed changes in scheme membership

The fund actuary should:

- Prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the FSS
- Prepare advice in connection with bulk transfers and individual benefit-related matters

SOLVENCY ISSUES AND TARGET FUNDING LEVELS

The overall funding level of the fund as at the valuation date of 31 March 2007 was 81%. The fund's target is to achieve 100% funding by 31 March 2019. The current funding position for individual employers in the fund is set out below, together with target funding levels to be achieved at each successive valuation. The fund employers are the London Borough of Bromley (LBB), Bromley College (BC), Orpington College (OC), Ravensbourne College (RC), Broomleigh Housing Association (BHA), Bromley Mytime (BM) and Beckenham & District Mind (Mind).

In determining the target funding levels for the bodies other than the Council, the Council had regard to guidance on risk issued by the Chartered Institute of Public Finance and Accountancy in November 2004 and took advice from the fund actuary. Targets of 100% at each valuation have been set for Bromley Mytime, because its sole business depends at present on retention of its contract with the Council, and for Beckenham & District Mind, because it only has one contributing employee and when this employee retires there would otherwise be issues about recovering any outstanding shortfall.

In the case of the Broomleigh Housing Association and the three colleges, the Council has concluded that it is reasonable to provide for the same deficit recovery period as for the Council itself, subject to further consideration of the position of Ravensbourne College, which is planning to relocate to a site within the London Borough of Greenwich. This could involve transfer of the college's employees to the fund administered by the London Borough of Greenwich, unless the Secretary of State issues a direction to the effect that they should remain in the Bromley fund. Once it is confirmed that the relocation will go ahead, the Council, in conjunction with the fund actuary, the college and the London Borough of Greenwich, will consider options to ensure that appropriate provision is made for recovery of the college's share of the fund deficit. The target date for relocation is September 2010.

Target	**Target Funding Level (%)**						
Date	**LBB**	**BC**	**OC**	**RC**	**BHA**	**BM**	**Mind**
31.03.07	80	89	90	75	93	100	100
31.03.10	85	92	93	81	95	100	100
31.03.13	90	95	95	88	97	100	100
31.03.16	95	97	98	94	98	100	100
31.03.19	100	100	100	100	100	100	100

LINKS TO INVESTMENT POLICY IN STATEMENT OF INVESTMENT PRINCIPLES

In the 2007 Actuarial review, the actuary assumed future investment returns of 7.6% for equities, 4.7% for gilts and 5.4% for corporate bonds, giving an assumed combined return of 6.9% based on the broad 75:25 equity / bond ratio in the fund's asset mix at the valuation date. His assumed rate of liability growth was 6.9%, in line with those assumptions. He determined the fund employers' contributions by reference to this assumed rate of liability growth, to the target funding levels in the table above, and to the other financial and economic assumptions set out in the Valuation Report. The Council has agreed fund-specific benchmarks for its two balanced investment managers with an 80:20 equity / bond ratio, which is a slightly higher equity ratio than the actuary assumed in the 2007 review, and with targets to exceed the benchmark by between 1% and 1.9% per annum. Overall, therefore, the fund's investment objectives are consistent with exceeding the actuary's assumptions by between 1% and 1.9% per annum, which, if they are achieved, would secure a 100% funding level in advance of 2019.

IDENTIFICATION OF KEY RISKS AND COUNTER-MEASURES

There are many factors that could have an adverse impact on achievement of the funding strategy and target funding levels. Some of the key potential risks are listed below, together with comments on their materiality, on the procedures for monitoring them and on measures available to mitigate them. The risks have been categorised in four main areas, i.e. financial, demographic, regulatory and governance risks.

Key Areas of Risk	**Comments on materiality, monitoring and counter-measures**
Financial	
Investment markets fail to perform in line with expectations Market yields move at variance with assumptions Investment managers fail to achieve their targets over the longer term Asset reallocations in volatile markets may lock in past losses	If actual investment returns are 1% less than assumed discount rate (6.9%) over the three years to next valuation, the funding level will be about 3% lower than planned. Further analysis in the valuation report. Investment returns to be monitored quarterly
Pay and price inflation significantly more or less than expected	On past experience, this is not a material risk in the short term
Demographic	
Longevity horizon continues to expand	Monitor at triennial reviews Support government proposals for increased employee contributions and a normal retirement age of 65
Deterioration in pattern of early retirements	Quarterly review of retirement levels Non-ill-health retirements paid for up front by Council over three years Bromley Mytime required under their admission agreement to pay for non-ill-health retirements in full up front Other employers required under statutory powers to pay for non-ill-health retirements in full up front Ill-health retirements monitored against allowance in basic contribution rates and actuary to determine revised rates if deemed appropriate Support government proposals to tighten up criteria for early retirement

Regulatory

Changes to regulations	Implications of the new regulations have been factored in by the actuary. Uncertainties remain, however, on items such as cost sharing.
Potential new entrants to scheme, e.g. part-time employees	Assessment of impact of successful part-time claimants in hand No other significant issues likely as a result of new Council entrants
Changes to national pension requirements and/or Inland Revenue rules	Monitor and assess as they arise Respond to consultation where appropriate

Governance

Administering authority unaware of structural changes in an employer's membership, e.g. large fall in employee members, large number of retirements	Encourage other employers to keep Council informed of changes Bromley Mytime employer's contribution rate to be reviewed annually towards end of contract Broomleigh membership levels to be reviewed annually as it is closed to new members Beckenham & District Mind has only one fund member
Administering authority not advised of an employer closing fund to new members	All other employers apart from the three referred to above are scheduled bodies, for whom this is not an option
An employer ceasing to exist with insufficient funding	Admission Agreement with Bromley Mytime includes measures intended to maintain funding close to 100%, e.g. payment for early retirement up front, annual reviews of contribution rate towards end of contract Beckenham & District Mind funding level to be maintained at 100%
Change in status of employing body affecting its right to fund membership	Admitted bodies required under their admission agreement not to do anything to prejudice their status
Relocation of scheduled body outside the borough	Implications of planned transfer of Ravensbourne College to Greenwich to be kept under review

LONDON BOROUGH OF BROMLEY PENSION FUND
STATEMENT OF INVESTMENT PRINCIPLES

Introduction

This statement has been produced in accordance with the requirements of regulation 9A of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 ("the Regulations"), as amended. The Regulations provide that an administering authority must, after consultation with such persons as they consider appropriate, prepare, maintain and publish a written statement of the principles governing their decisions about investments. The Regulations specify seven issues that must be addressed in the statement. The following sections of this statement address these issues in turn.

(a) The types of investment to be held

The fund's investment managers are 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 attached on page 40.

(b) The balance between different types of investments

The broad balance between different types of investments is defined in the investment managers' benchmarks, which were last comprehensively revised in 2006. Details of the two balanced managers' benchmarks are attached at page 41. The Investment Sub-Committee will review its asset allocation strategy every three years.

(c) Risk

At the last valuation date of 31 March 2007, the actuary valued the fund's assets at 81% of the fund's liabilities. He determined employers' contribution rates with a view to achieving 100% solvency over a 12-year period, assuming a broad 75:25 asset allocation between equities and bonds as at the valuation date. The Investment Sub-Committee has adopted a slightly more aggressive 80:20 allocation in the benchmarks for its two balanced managers and has set targets to out-perform the benchmarks by between 1% and 1.9%. It believes that the risks associated with a high allocation to equities are justified by the need to improve its funding level.

Other key risks that could have an adverse impact on 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 expected return on investments

The fund's investment strategy is based on the long-term returns assumed by the actuary in the 2007 actuarial review. The nominal and real returns assumed per annum were:

Expected returns	Nominal	Real
	%	%
Equities	7.6	4.3
Gilts	4.7	1.3
Corporate Bonds	5.4	2.0
Overall Returns (discount rate)	6.9	3.5

(e) The realisation of investments

The investment managers have full discretion to make decisions on the realisation of investments having regard to their benchmarks and their investment targets.

(f) The extent to which social, environmental or ethical considerations are taken into account in 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. 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; and the lack of support for such a policy from other employers in the fund, the authority has decided to take no action at this time in developing an ethical investment policy.

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.

(g) The exercise of the rights (including voting rights), if any, attaching to the investments

The investment managers have been authorised to exercise voting rights on behalf of the Council 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 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 issues 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.

Compliance with CIPFA Pensions Panel Principles

Under amending regulations issued in 2002 (SI 2002/1852), the statement must also

(a) state the extent to which the administering authority comply with the ten principles of investment practice set out in the document published in April 2002 by the Chartered Institute of Public Finance and Accountancy, and called "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance note issue No. 5); and

(b) give the reasons for not complying where they do not do so.

These requirements are covered on pages 42 - 45.

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 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 apart from the total limit below)
- All investments in unit trusts and open-ended investment companies (OEICs) managed by any one body: 35% [N.B. In practice, because neither of the investment managers will use unit trusts or OEICs managed by the other, they may invest up to 70% or thereabouts of their own portfolios in their own unit trusts and OEICs]
- Any single insurance contract: 25%
- All securities transferred under stocklending arrangements: 25%

Other restrictions imposed by the authority

- Cash held at custodian's bank is not to exceed £2,500,000, 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

Benchmarks for the Balanced Managers

(a) Baillie Gifford

Asset class	Allocation	Range	Index
	%	%	
Equities	(80)	70-90	
UK	25		FTSE All Share
Overseas	(55)		
US	18		FTSE AW North America
Europe	18		FTSE W Europe ex UK
Dev Asia (inc Japan)	9.5		FTSE AW Developed Asia Pacific ex Japan
Emerging	9.5		FTSE Emerging
Bonds	(18)	10-30	
UK gilts	9		FTSE Government Securities UK Gilts All Stocks
Other	9		Merrill Lynch Sterling Non Gilt
Cash	2		
Total	100		

Baillie Gifford's performance target is to exceed the composite benchmark returns by 1.0-1.5% per annum gross over rolling three-year periods.

(b) Fidelity

Asset class	Allocation	Range	Index
	%	%	
Equities	(80)		
UK equities	35	30-40	FTSE All Share
Overseas	(45)		
US	12.5	7.5-17.5	S&P 500
Europe	12.5	7.5-17.5	MSCI Europe ex UK GDR
Japan	5	0-10	TOPIX
Asia	5	0-10	MSCI AC Asia Pacific ex Japan
Global	10	5-15	MSCI World GDR
Bonds	(20)		
UK aggregate	20	5-15	Iboxx Sterling Overall Bond
Total	100		

Fidelity's performance target is to exceed the composite benchmark returns by 1.9% per annum over rolling three-year periods.

Compliance with Myners Principles

This addendum has been published in accordance with regulation 9A (3A) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended by S.I. 2002/1852, which came into force on 9th August 2002.

Under this regulation, the Council is required to state the extent to which it complies with the ten principles of investment practice set out in the document published in April 2002 by the Chartered Institute of Public Finance and Accountancy, and called "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance note issue No. 5)". This document was published in response to the recommendations of the Review of Institutional Investment in the United Kingdom undertaken by Paul Myners.

The principles, together with the Council's position on compliance *(in italics)*, are set out below:

Principle 1. Effective decision-making
Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. Trustees should also be paid, unless there are specific reasons to the contrary.

It is good practice for trustee boards to have an investment sub-committee to provide the appropriate focus.

Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively. They should draw up a forward-looking business plan.

Bromley complies with this principle in all major respects. As a statutory scheme, it does not have trustees but its Investment Sub-Committee performs functions similar to those of trustees. The training requirements of Investment Sub-Committee members is reviewed on an ongoing basis. The Funding Strategy Statement serves as the fund's business plan.

Principle 2. Clear objectives
Trustees should set out an overall investment objective for the fund that:
- Represents their best judgement of what is necessary to meet the fund's liabilities given their understanding of the contributions likely to be received from employer(s) and employees; and
- takes account of their attitude to risk, specifically their willingness to accept underperformance due to market conditions.

Objectives for the overall fund should not be expressed in terms which have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.

The fund's overall investment objective, as recorded in its Funding Strategy Statement, is to achieve 100% funding of its liabilities by 31 March 2019, compared with 81% as at 31 March 2007.

Principle 3. Focus on asset allocation

Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflects the contribution they can make towards achieving the fund's investment objective. Decision-makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equity. Asset allocation should reflect the fund's own characteristics, not the average allocation of other funds.

The fund considered the full range of asset classes before adopting a new structure for its investment management arrangements and strategic asset allocation in 2006. In doing so, it had regard to its objective of moving from a funding level of 66% in 2004 to 100% by 2019 and to the discount rate and other factors assumed by the actuary in valuing the fund's liabilities as at 31 March 2004. The benchmark asset allocation adopted as a result of this process was not influenced by the average allocation of other funds. From this starting point, the Investment Sub-Committee intends to develop a process of regular asset allocation reviews based on expert advice from the fund managers.

Principle 4. Expert advice

Contracts for actuarial services and investment advice should be opened to separate competition. The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.

Bromley complies with this principle in that the contract for the authority's actuarial services was awarded after a competitive process. It does not retain an investment adviser on a permanent basis but relies on advice from the authority's S151 officer together with that of the investment managers for most investment matters. Independent advice is obtained on an ad hoc basis if required.

Principle 5. Explicit mandates

Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on:

- An objective, benchmark(s) and risk parameters that together with all the other mandates are coherent with the fund's aggregate objective and risk tolerances;
- The manager's approach in attempting to achieve the objective; and
- Clear timescale(s) of measurement and evaluation, such that the mandate will not be terminated before the expiry of the evaluation timescale for underperformance alone.

The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the Fund.

Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy - whether through direct financial incentives or otherwise - for ensuring that these costs are properly controlled without jeopardising the fund's other objectives.

Trustees should not without good reason permit soft commissions to be paid in respect of their fund's transactions.

Bromley complies with the requirement to have an explicit written mandate with each of its managers, which addresses the specific points above. Bromley permits one of its managers to deal with persons with whom it has a soft commission agreement on the grounds that this is permitted under the rules of its regulatory authority.

Principle 6. Activism

The mandate and trust deed should incorporate the principle of the US Department of Labour Interpretative Bulletin on activism. Trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.

Bromley's approach to corporate governance is set out in the main body of the SIP, including its approach to voting rights and engagement with companies' management. This approach is broadly consistent with the Bulletin.

Principle 7. Appropriate benchmarks

Trustees should:

- explicitly consider, in consultation with their investment manager(s), whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies;
- if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection;
- consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned; and
- where they believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies.

The Investment Sub-Committee considered all of these issues in the review of its investment strategy leading to the adoption of new benchmarks for its two balanced managers. This has been kept under review.

Principle 8. Performance measurement

Trustees should arrange for measurement of the performance of the fund and make formal assessment of their own procedures and decisions as trustees. They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers.

The investment performance of the fund and its managers is measured by the independent WM Company in full compliance with this principle. No arrangements are in place for formal assessment of the Sub-Committee's own procedures and decisions.

Principle 9. Transparency

A strengthened Statement of Investment Principles should set out:

- who is taking which decisions and why this structure has been selected

See items (a), (b) and (e) of the SIP. The balanced investment managers have full discretion in stock selection and limited discretion in asset allocation as defined in their benchmarks

(Annex B). The Investment Sub-Committee is responsible for decisions on asset allocation strategy as a whole.

- the fund's investment objective

This is set out in Annex C, Principle 2.

- the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at;

This is set out in items (c) and (d) of the SIP.

- the mandates given to all advisers and managers

The principal details are set out in Annexes B and C.

- the nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected

The fee structures in place for the two balanced managers provide for fixed percentage fees calculated by reference to the value of funds under management at the end of each quarter, supplemented in the case of one of the managers by a performance related fee payable when investment returns exceed its benchmark returns over any 3-year period ending on 31 March.

Principle 10. Regular reporting

Trustees should publish their Statement of Investment Principles and the results of their monitoring of advisers and managers. They should send key information from these annually to members of these funds, including an explanation of why the fund has chosen to depart from any of these principles.

Bromley's SIP is published on its website. The results of the monitoring of the managers are published in the public agendas of the Investment Sub-Committee, which are also published on the website. It is not Bromley's practice to communicate direct to fund members on investment issues, because their contributions and benefits are determined by statute and are not linked to investment returns.

LONDON BOROUGH OF BROMLEY PENSION FUND
COMMUNICATIONS POLICY STATEMENT

Regulation 67 of the administration regulations 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.
	Councillors All newly elected Councillors are provided with a booklet shortly after appointment.	Booklet – Liberata. Distribution - Head of Committee services.
	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 Resources.
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 and 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 of developments in the	Production & distribution - Liberata.

	Scheme accompany this.	
	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 of developments in the Scheme accompany this.	Production & distribution - Liberata.
Pay Advice to pensioners	A monthly pay advice is sent to Scheme pensioners.	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 Resources.
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 Resources
Consultative documents	Consultative documents issued by ODPM are distributed to employing authorities where relevant.	Director of Resources

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Report No. **DR10081**	**London Borough of Bromley** **PART 1 - PUBLIC**	**Agenda Item No.** **10**

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**8th September 2010**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**NEW INVESTMENT REGULATIONS AND MYNERS PRINCIPLES**
Contact Officer:	Mark Gibson, Assistant Director of Resources (Audit & Technical) Tel: 020 8313 4295 E-mail: mark.gibson@bromley.gov.uk
Chief Officer:	Director of Resources
Ward:	All

1. Reason for report

1.1 To advise the Committee of the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and to propose changes to the Pension Fund Statement of Investment Principles to meet the requirements of the new regulations, including the level of compliance with the Myners' Principles.

RECOMMENDATIONS

2.1 The Sub-Committee is asked to note the report and agree the revised Statement of Investment Principles set out in Appendix 1.

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2007, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: No cost

2. Ongoing costs: Recurring cost. Total fund administration costs £2.9m in 2009/10 (includes fund manager/actuary fees, Liberata charge and officer time)

3. Budget head/performance centre: Pension Fund

4. Total current budget for this head: £31.4m expenditure in 2009/10 (pensions, lump sums, admin, etc); £40.8m income (contributions, investment income, etc); £446.4m total fund value at 31st March 2010)

5. Source of funding: Contributions to Pension Fund

Staff

1. Number of staff (current and additional): 0.6 fte (current)

2. If from existing staff resources, number of staff hours: c21 hours per week

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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2007 and LGPS (Administration) Regulations 2008

2. Call-in: Call-in is not applicable.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 5,360 current employees; 4,413 pensioners; 3,607 deferred pensioners (as at 31st March 2010)

Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 The new Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 were brought into force on 1st January 2010 and the Myners' Principles on institutional investment have been updated and adjusted to reflect the Local Government Pension Scheme. Pension Funds are required to disclose their level of compliance with the principles in their Statement of Investment Principles. The new regulations require a statement on the Fund's stock lending activities and its policy on responsible ownership to be included in the Statement of Investment Principles.

3.2 The legal framework for the investment of Local Government Pension Scheme (LGPS) monies is set out in the LGPS (Management and Investment of Funds) Regulations. Until 31st December 2009, the set of regulations in place dated back to 1998 and had become out of date. In response to this, the Communities and Local Government Department brought a new set of regulations into force from 1st January 2010.

3.3 In 2001, following a review of institutional investment, a set of ten principles was developed for all institutional investors to work to. Lord Myners conducted the review and the principles became known as the "Myners' Principles". The principles were revised during 2008 and a new set of six principles was published. In December 2009, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued statutory guidance for Local Government Pension Schemes to determine their level of compliance with the principles.

Regulatory Framework for LGPS Investments

3.4 The LGPS Management and Investment of Funds regulations set out the framework within which the investment of LGPS monies can take place. The regulations define investments, investment managers, and specify the need for diversification, risk management and professional advice.

3.5 The revised regulations, which came into force on 1st January 2010, made a number of minor technical changes to bring them up to date. The changes are not considered to be significant. Three changes have been made, which are brought to the attention of the Pension Investment Sub-Committee to take action:

- Pension fund cash held by the Council for the payment of benefits will be subject to a separate treasury management strategy and cannot be lent to the Council. This is being updated through a revised approach to separation of funds.
- The Statement of Investment Principles should include a statement of the extent to which the Fund complies with the statutory guidance on the six new "Myners' Principles".
- The Statement of Investment Principles should now include a reference to the Fund's stock lending activities and the policy on responsible ownership.

Statutory Guidance on the Application of the Myners' Principles

3.6 The Myners' Principles were first established in 2001 following a review of institutional investment in the UK initiated by HM Treasury. Following the publication of the Principles, the LGPS investment regulations were amended in 2002 to require Pension Funds to publish their level of compliance with the Principles. This has been part of the Fund's Statement of Investment Principles and the annual report presented to the Investment Sub-Committee annually since that time.

3.7 In October 2008, HM Treasury published a new set of six principles for investment. These principles were reviewed by a working group in 2009 and adjusted to reflect the specific nature of the LGPS. In December 2009, CIPFA produced statutory guidance for Local Government Pension Schemes to determine their level of compliance with the new principles. The new LGPS investment regulations require Funds to publish their level of compliance with the principles by 1st July 2010. This has been delayed due to the formation of a new Sub-Committee and the schedule of meetings.

3.8 The draft Statement of Investment Principles attached at Appendix 1 shows the Principles and the Fund's level of compliance. There are areas where developments are required for the Fund to fully comply with the Principles. The table included after the compliance statement in Appendix 1 summarises these and suggests actions and timescales to enable compliance to be achieved. The majority of these will form part of a review of working practices which will take place over the next 12-18 months to be completed by December 2011.

Statement of Investment Principles

3.9 As is outlined above, the new regulations require the Fund to publish its compliance with the new Myners' Principles in its Statement of Investment Principles. They also require the Fund to publish details of its policy on the lending of stock and the ways the risks associated with it are measured and managed. This is not currently applicable to Bromley's fund. A revised version of the Statement of Investment Principles is attached at Appendix 1.

3.10 Principle 5 – Responsible Ownership – requires Funds to include a statement of their policy on responsible ownership in the Statement of Investment Principles. The voting and social, ethical and environmental considerations statements from the previous versions have been combined to meet this requirement.

4. POLICY IMPLICATIONS

4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2007, for the purpose of providing pension benefits for its employees. These regulations allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. FINANCIAL IMPLICATIONS

5.1 None at this stage.

Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	LGPS Regulations 2007. LGPS (Administration) Regulations 2008. LGPS (Management & Investment of Funds) Regulations 2009.

APPENDIX 1

LONDON BOROUGH OF BROMLEY PENSION FUND
STATEMENT OF INVESTMENT PRINCIPLES 2010

Introduction

This statement has been produced in accordance with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the Regulations"). The Regulations provide that an administering authority must, after consultation with such persons as they consider appropriate, prepare, maintain and publish a written statement of the principles governing their decisions about investments. The Regulations specify seven issues that must be addressed in the statement. The following sections of this statement address these issues in turn.

(a) The types of investment to be held

The fund's investment managers are 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 balance between different types of investments

The broad balance between different types of investments is defined in the investment managers' benchmarks, which were last comprehensively revised in 2006. Details of the two balanced managers' benchmarks are shown below. The Pension Investment Sub-Committee will review its asset allocation strategy every three years.

(c) Risk

At the last full valuation of the Fund (as at 31st March 2007), the actuary valued the fund's assets at 81% of the fund's liabilities. He determined employers' contribution rates with a view to achieving 100% solvency over a 12-year period, assuming a broad 75:25 asset allocation between equities and bonds as at the valuation date. The Pension Investment Sub-Committee has adopted a slightly more aggressive 80:20 allocation in the benchmarks for its two balanced managers and has set targets to out-perform the benchmarks by between 1% and 1.9%. It believes that the risks associated with a high allocation to equities are justified by the need to improve its funding level.

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 expected return on investments

The fund's investment strategy is based on the long-term returns assumed by the actuary in the 2007 actuarial review. The nominal and real returns assumed per annum were:

Expected returns	Nominal	Real
	%	%
Equities	7.6	4.3
Gilts	4.7	1.3
Corporate Bonds	5.4	2.0
Overall Returns (discount rate)	6.9	3.5

(e) The realisation of investments

The investment managers have full discretion to make decisions on the realisation of investments having regard to their benchmarks and their investment targets.

(f) The extent to which social, environmental or ethical considerations are taken into account in 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. 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; 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.

(g) The exercise of the rights (including voting rights), if any, attaching to the investments

The investment managers have been authorised to exercise voting rights on behalf of the Council 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 Pension 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.

(h) Stock lending

The Council's Pension Fund does not currently operate a stock lending programme through its custodian bank.

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 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 apart from the total limit below)
- All investments in unit trusts and open-ended investment companies (OEICs) managed by any one body: 35% [N.B. In practice, because neither of the investment managers will use unit trusts or OEICs managed by the other, they may invest up to 70% or thereabouts of their own portfolios in their own unit trusts and OEICs]
- Any single insurance contract: 25%
- All securities transferred under stocklending arrangements: 25%

Other restrictions imposed by the authority

- Cash held at custodian's bank is not to exceed £2,500,000, 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

Benchmarks for the Balanced Managers

(a) Baillie Gifford

Asset class	Allocation	Range	Index
	%	%	
Equities	(80)	70-90	
UK	25		FTSE All Share
Overseas	(55)		
US	18		FTSE AW North America
Europe	18		FTSE W Europe ex UK
Dev Asia (inc Japan)	9.5		FTSE AW Developed Asia Pacific ex Japan
Emerging	9.5		FTSE Emerging
Bonds	(18)	10-30	
UK gilts	9		FTSE Government Securities UK Gilts All Stocks
Other	9		Merrill Lynch Sterling Non Gilt
Cash	2		
Total	100		

Baillie Gifford's performance target is to exceed the composite benchmark returns by 1.0-1.5% per annum gross over rolling three-year periods.

(b) Fidelity

Asset class	Allocation	Range	Index
	%	%	
Equities	(80)		
UK equities	35	30-40	FTSE All Share
Overseas	(45)		
US	12.5	7.5-17.5	S&P 500
Europe	12.5	7.5-17.5	MSCI Europe ex UK GDR
Japan	5	0-10	TOPIX
Asia	5	0-10	MSCI AC Asia Pacific ex Japan
Global	10	5-15	MSCI World GDR
Bonds	(20)		
UK aggregate	20	5-15	Iboxx Sterling Overall Bond
Total	100		

Fidelity's performance target is to exceed the composite benchmark returns by 1.9% per annum over rolling three-year periods.

Compliance with Myners Principles

The Principles, together with the Council's position on compliance *(in italics)*, are set out below:

Principle 1. Effective decision-making
Administering authorities should ensure that:

- **Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and to monitor their implementation; and**
- **Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.**

Bromley complies with this principle in all major respects. As a statutory scheme, it does not have trustees but its Pension Investment Sub-Committee performs functions similar to those of trustees. The training requirements of Pension Investment Sub-Committee members are reviewed on an ongoing basis. The Funding Strategy Statement serves as the fund's business plan.

Principle 2. Clear objectives
An overall investment objective(s) should be set out for the fund that takes account of:

- **the scheme's liabilities;**
- **the potential impact on local tax payers;**
- **the strength of the covenant for non-local authority employers; and**
- **the attitude to risk of both the administering authority and scheme employers.**

These should be clearly communicated to advisors and investment managers.

The fund's overall investment objective, as recorded in its Funding Strategy Statement, is to achieve 100% funding of its liabilities by 31 March 2019, compared with 81% as at 31 March 2007.

Principle 3. Risk and Liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

The Fund's main investment objective, as set out in this Statement of Investment Principles, acknowledges the need to meet the Fund's liabilities and states that the aim is to ensure the impact on local tax payers in minimised.

Principle 4. Performance Assessment

Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as decision-making bodies and should report on this to scheme members.

The investment performance of the fund and its managers is measured by the independent WM Company and is reported quarterly to the Pension Investment Sub-Committee. No arrangements are in place for formal assessment of the Sub-Committee's own procedures and decisions.

Principle 5. Responsible Ownership

Administering authorities should:

- **adopt (or ensure their investment managers adopt) the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents;**
- **include a statement of their policy on responsible ownership in the Statement of Investment Principles; and**
- **report periodically to scheme members on the discharge of such responsibilities.**

The Pension Fund's investment managers have adopted the Institutional Shareholders' Committee Statement of Principles. A statement regarding responsible ownership is included in the Statement of Investment Principles. This forms part of the Annual Report published on the Council website, which is accessible to all scheme members.

Principle 6. Transparency and Reporting

Administering authorities should:

- **act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and**
- **provide regular communication to scheme members in the form they consider most appropriate.**

Bromley's SIP is published on the Council's website. The results of the monitoring of the fund managers are published in the public agendas of the Pension Investment Sub-Committee, which are also published on the website. It is not Bromley's policy to communicate directly with scheme members on investment issues, because their contributions and benefits are determined by statute and are not linked to investment returns. The fee structures in place for the two balanced fund managers provide for fixed percentage fees calculated by reference to the total value of funds under their management at the end of each quarter, supplemented in the case of one of the managers by a performance related fee payable when investment returns exceed the benchmark returns in any 3-year period ending on 31st March.

Potential action plan for Myners' Principles compliance for development / discussion

Myners' Principle	Development Area	Action
1 – Effective decision making	Consider means of assessing members' and officers' skills, etc in order to develop a training plan.	Undertake self-assessment of knowledge and skills using CIPFA Knowledge & Skills Framework and use to develop a training plan. Agree a business plan of key priorities over the coming 2-3 years along with any investment strategy review following the forthcoming valuation results.
2 – Clear objectives	Review the Fund's attitude to risk and how this feeds into the Fund's objectives.	Carry out review and provide clear definition of attitude to risk in SIP.
3 – Risk and liabilities	Consider the form and structure of liabilities as well as non-investment risks more explicitly in the next review of investment strategy.	Update the risk register.
4 – Performance assessment	Consider options to formally measure the performance of the Fund's advisors and for the Pension Investment Sub-Committee to assess its own effectiveness.	Officers to consider options to measure advisors' performance. Effectiveness of Pension Investment Sub-Committee to be considered after self-assessment has been done and training plan is in place.

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Agenda Item 12

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Agenda Item 15

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