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DATE: 28 April 2011

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

Glenn Kelly (Non-Voting Staff Representative)

A meeting of the Pensions Investment Sub-Committee will be held at Bromley Civic Centre on **TUESDAY 10 MAY 2011 AT 7.30 PM**

MARK BOWEN
Director of Resources

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 MEETING HELD ON 10TH FEBRUARY 2011 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION (Pages 3 - 8)

4 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

- **Declarations of Interest (Minute 26 – 10th February 2011)**

The Chairman enquired at item 12 of the Sub- Committee's previous agenda whether there was any level of company ownership above which it was necessary to make a declaration and it was agreed to confirm the position. Accordingly a response was provided to the Chairman and copied to Sub Committee Members.

- **Pension Fund Performance (Minute 30 – 10th February 2011)**

The Chairman asked for a report on funding administration costs to be provided to the Sub-Committee's next meeting. Accordingly, a Part 2 report is provided at item 13 of this agenda.

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 Wednesday 4th May 2011 and to respond.

6 **GENERAL UPDATE** (Pages 9 - 14)

7 **PENSION FUND PERFORMANCE** (Pages 15 - 32)

8 **PENSION FUND 2010/11 AUDIT PLAN** (Pages 33 - 56)

9 **INVESTMENT IN PROPERTY** (Pages 57 - 62)

10 **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
11	**CONFIRMATION OF EXEMPT MINUTES - 10TH FEBRUARY 2011** (Pages 63 - 90)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
12	**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 Baillie Gifford 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)
13	**PENSION FUND ADMINISTRATION COSTS** (Pages 91 - 96)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

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PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.30 pm on 10 February 2011

Present:

Councillor Nicholas Bennett J.P. (Chairman)
Councillor Paul Lynch (Vice-Chairman)
Councillors Russell Mellor, Richard Scoates and Stephen Wells

Also Present:

Glenn Kelly, Staff Side Representative

25 APOLOGIES FOR ABSENCE AND NOTIFICATION OF ALTERNATE MEMBERS

Apologies were received from Councillors Eric Bosshard, Julian Grainger and Russell Jackson. Councillor Richard Scoates attended as alternate for Councillor Julian Grainger.

26 DECLARATIONS OF INTEREST

All Members present along with Mr Glenn Kelly declared a personal interest as Members of the Bromley Local Government Pension Scheme. Councillor Stephen Wells also declared a personal interest at item 12 of the agenda as an employee of Shell Oil. The Chairman also enquired at item 12 whether there was any level of company ownership above which it was necessary to make a declaration and it was agreed to confirm the position.

27 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 11th NOVEMBER 2010, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes were agreed.

28 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

A report on the matter outstanding - investment in property – would be provided to the Sub Committee’s meeting after 1st April 2011.

29 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

30 PENSION FUND PERFORMANCE

Report DR11001

Members were apprised of the investment performance of Bromley's Pension Fund for the first three quarters of the 2010/11 financial year. Information was also provided on general financial and membership trends of the Pension Fund along with summarised information on early retirements.

For 2009/10 the quarterly and cumulative performance of the Council's two fund managers showed that Baillie Gifford was 6.3% above their benchmark for the year, while Fidelity were 4.4% above benchmark. An overall ranking of 2% was achieved in the year and medium and long-term returns had been extremely good. Bromley's Fund had been ranked in the second percentile over the last three years, in the first percentile over five years and in the fifth percentile over ten years. In 2010/11 to date, Bromley's Fund has achieved rankings of 94% in the June quarter and 6% in the September quarter.

A summary of the performance of the two fund managers for the first three quarters of 2010/11 was provided with further detail at Appendices 1 to 3 of report DR11001.

Baillie Gifford returned 7.5% in the December quarter (1.3% above benchmark) and achieved a cumulative return of 9.3% in the period 1st April 2010 to 31st December 2010 (2.8% above their benchmark). In the latest quarter, the WM Company attributed their relative outperformance to a combination of asset allocation (0.5%) and stock selection (0.7%). The main positive contributions from asset allocation and stock selection were from UK bonds and from European and UK equities respectively.

Fidelity returned 6.3% in the December quarter (0.2% above benchmark) and achieved a cumulative return of 5.9% in the first half year (0.4% below their benchmark). In the latest quarter, the WM Company attributed their relative outperformance to asset allocation (-0.3%) and stock selection (+0.4%). The negative asset allocation impact was mainly in UK Bonds, while the main stock selection impacts were seen in North American and Global equities.

Concerning medium and long-term performance data, comparative returns over one, three, five and ten years were shown for both Baillie Gifford and Fidelity for periods ended 31st December 2010 and 31st March 2010. Baillie Gifford's one, five and ten year returns to December 2010 (19.2%, 8.1% and 6.5% respectively) were better than those of Fidelity (14.6%, 7.5% and 5.7% respectively), although Fidelity's three year return (6.7%) was marginally better than that of Baillie Gifford (6.6%). Performance since the revised benchmarks were adopted in 2006 had been particularly strong. More detailed performance was also shown relative to benchmark in the medium and long term for the whole fund and for Baillie Gifford and Fidelity individually.

In discussion Members made a number of comments. Concerning the Pension Fund Revenue Account and Membership, the Chairman enquired about administration costs. The Director referred to Fidelity having a performance related fee structure and although capping was being looked at the fee did correspond to the return on the fund. The Chairman asked for a report on funding administration costs at the Sub Committee’s next meeting. The Director explained that Fidelity had been set a tough performance level and the Group Accountant provided a breakdown of the 2009/10 administration outturn explaining that the base fees for Baillie Gifford and Fidelity were about £350k to £400k per annum each. It was only in the last two years that Fidelity’s performance related fee had been triggered and of the £2,928k administration outturn for 2009/10, £2,185k related to fees. The Group Accountant also indicated that the outturn included the costs of support services such as Liberata’s costs.

Councillor Wells explained that he could understand the performance element of the administration costs against a challenging benchmark which had been outperformed in a difficult market but expressed concern for Liberata’s costs. The Director indicated that Bromley’s administration costs were at the lower end compared with a number of authorities.

It was also indicated that a 7.1% return per annum had been achieved over the previous three years and that a high performance fee should be seen in this context. It was desirable to reduce the fee but the return on investments was key. The Group Accountant reported that as of 9th February 2011 the Pension Fund value stood at £483m and the ranking of Bromley’s Fund in the December quarter was 12th in the Local Authority universe. This meant that the Fund was ranked in the 4th percentile in the year to 31st December 2010 and in the 2nd percentile over three years.

Referring to school pensions, Councillor Scoates highlighted that the deficit recovery period for primary schools considering a change to academy status appeared to be lower than the current nine years for the LBB fund. In response the Director referred to the deficit changing for such schools from 1st April 2011 when they would have a contract with the Secretary of Stare for Education over seven years. In running their businesses, such academy schools were in effect commercial companies. It was logical to protect their pension funds at the moment as there was no asset as yet to back the funds. The schools would take a deficit of up to £250k with them to academy status.

Councillor Scoates understood that Liberata had proposed a fee of £1500 to calculate the pension liabilities of support staff at each primary school considering academy status and indicated that this seemed excessive for a small school with a limited number of support staff. The Director explained that the same amount of work was involved for small schools and that the cost of actuaries was not cheap. The Staff Side Representative enquired whether there should be a merger of funds and the Director indicated that costs would soar with such an approach. Nevertheless, the Director referred to finding ways of joint working and explained that a lot of administration was being outsourced so reducing costs - the pressure to merge had reduced.

RESOLVED that the report be noted.

31 WORK OF THE SUB-COMMITTEE

Report DR11010

The role of the Sub-Committee was reviewed for the benefit of new Members and information was provided on:

- the Sub-Committee's terms of reference (including a brief description of how its functions are exercised and some general background);
- financial and membership information about the fund;
- the fund's Governance Policy Statement;
- the fund's Statement of Investment Principles setting out the framework within which investments of the fund are managed; and
- the fund's Funding Strategy Statement.

RESOLVED that the report be noted.

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

33 CONFIRMATION OF EXEMPT MINUTES - 11TH NOVEMBER 2010

The Part 2 minutes were agreed.

34 PENSION FUND ACTUARIAL VALUATION 2010

A presentation was provided by a representative from Barnett Waddingham on the 2010 valuation of the Bromley Pension Fund.

35 PENSION FUND VALUATION AND RESULTING DEFICIT ISSUES

Report DR11011

In the light of difficult budgetary circumstances Members considered a report outlining options – including a recommended option - for reducing the deficit associated with the Pension Fund.

RESOLVED that the report be noted and Council be recommended to agree that the pension deficit be recovered over 12 years.

36 PENSION FUND - INVESTMENT REPORT

Quarterly performance reports (to December 2010) from Fidelity and Baillie Gifford had been circulated prior to the meeting and two representatives from Fidelity attended the meeting to present the Fidelity review and answer questions from Members.

Thanks to the Director of Resources

In concluding the meeting the Chairman announced that the Director of Resources would be retiring at the end of the financial year. The Chairman wished to place on record his appreciation and the appreciation of the Sub Committee to the contribution made by the Director to the Sub Committee's work over the past ten years and more widely to the Director's contribution to the Council's work as a whole during this time.

The Meeting ended at 9.45 pm

Chairman

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Report No.
RES11009

London Borough of Bromley

Agenda Item No.

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**10th May 2011**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**GENERAL UPDATE**
Contact Officer:	Peter Turner, Finance Director, Tel: 020 8313 4668 E-mail: peter.turner@bromley.gov.uk
Chief Officer:	Director of Resources
Ward:	All

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1. <u>Reason for report</u>

This report provides a general update to Members on changes that will impact on the Pension Fund.

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2. RECOMMENDATION

2.1 The Sub-Committee is asked to note the report.

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); £489.7m total fund value at 31st March 2011)

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): 5,246 current employees; 4,522 pensioners; 3,859 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 Independent Public Services Pension Commission

3.1.1 Ex-Labour Cabinet minister John Hutton was appointed by the coalition Government to head a commission into public sector pensions with the aim of providing full proposals in time for the 2011 Budget.

3.1.2 A summary of the key changes arising from his proposals is shown below:

(a) Final salary pension scheme to be replaced by career average scheme but existing accrued pension rights to date to be honoured (thereafter move to average salary for the remaining years only in new scheme);
(b) Normal pension age to be linked to state pension age (state pension age is set to rise to 66 by 2020);
(c) If the employer contribution exceeds a set ceiling (to be determined), then there should be a review of costs, which could include the option to increase employee contributions or alternatively a review of the whole scheme;
(d) New changes will be introduced before the end of the current Parliament.

Further details are available in the Barnett-Waddingham link below:

http://www.barnett-waddingham.co.uk/public-sector-pensions/publications/

3.1.3 Initial suggestions from the Department for Communities and Local Government (DCLG) of possible options for increases in the employee contributions to the scheme include:

Band	Salary	Current rate	2012/13	2013/14	2014/15
1 to 4	Up to £24,000	5.5% to 6.5%	5.5% to 6.5%	5.5% to 6.5%	5.5% to 6.5%
5	£24,001 to £31,500	6.5%	7.8%	9.1%	9.7%
6	£31,501 to £42,000	6.8%	8.5%	10.2%	11.0%
7	£42,001 to £75,000	7.2%	9.5%	11.8%	13.0%
8	£75,001 to £100,000	7.5%	10.1%	12.7%	14.0%
9	£100,001 to 150,000	7.5%	10.3%	13.1%	14.5%
10	£150,000 +	7.5%	10.5%	13.5%	15.0%

Further details are available in the website link below:

http://www.lge.gov.uk/lge/aio/10150853

3.1.4 The indicative changes from DCLG would increase employee contributions for staff earning more than £24k per annum. If, as suggested, the changes are phased over 3 years from 2012/13 to 2014/15, potential full year savings to the Council of £1.8m would be achieved by 2014/15. However, it is not clear whether the Government would expect the savings to be reinvested into reducing pension fund deficits.

3.1.5 It is important to note that these changes could lead to reductions in the membership of the public sector pension scheme which could have adverse longer-term consequences on the viability of the pension scheme.

3.1.6 The Chancellor, as part of the March Budget, has confirmed that the Government “accepts Hutton’s recommendations as a basis for consultation with public sector workers, unions and others” and agreed that there should be “no cherry-picking on either side”. There is likely to be some delay in the implementation of the changes to allow for consultation and the changes will certainly be implemented before the end of the parliamentary term.

3.1.7 The Chancellor’s Budget also refers to merging the operation of National Insurance and Income Tax. In addition there are plans to change the state pension scheme which could be the “beginning of the end” of the contracted-out national insurance rate for defined benefit pension schemes. Under current arrangements, employees pay 1.6% less and employers 3.7% less than the standard rates. From April 2012, these discounts will be cut back. In the longer term, the elimination of the contracted-out rate would result in additional costs of £1.4m per annum for the Council as well as a reduction in take home pay for employees.

3.2 Restricting Pensions Tax Relief

3.2.1 Legislation will be introduced through the Finance Bill 2011 to restrict pension tax relief for individuals by reducing the annual allowance from £255,000 to £50,000 (wef April 2011) and the lifetime allowance from £1.8 million to £1.5 million (wef April 2012).

3.2.2 The changes are expected to raise £4 billion per annum nationally and affect 100,000 pension savers, 80% of whom have incomes over £100,000.

3.2.3 These changes were announced by the current coalition Government in the June 2010 Budget and the revised arrangements supersede the proposals by the previous Labour Government.

3.2.4 The annual allowance from 2011/12 will be reduced to £50,000. The key changes include, for example:

(a) the annual allowance will be linked to the individual’s marginal tax rate (highest rate of tax);
(b) any unused allowances can be carried forward for three years;
(c) the valuation factor to calculate the value of the defined benefit pension savings will increase from a factor of 10 to 16;
(d) inflation-linked increases in expected pensions of deferred members of schemes will not count towards the annual allowance charge.

Further details are available on the HMRC website.

3.2.5 The scheme will remain complex with two new options being identified, where a significant tax liability arises for an individual as follows:

(a) reducing pension benefits entitlement due to the scheme paying the tax charge at the time;
(b) rolling up the tax charge liability (including addition of tax interest rate) and deferring payment till benefits are realised – this will effectively reduce the final pension benefits.

A working model of how it would impact on individuals is available on the Barnett Waddingham website:

http://www.barnett-waddingham.co.uk/public-sector-pensions/restricting-pensions-tax-relief/

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 are provided in the main body of the report.

Legal and Personnel Implications	None directly arising from this report
Background Documents: (Access via Contact Officer)	References to websites that give background information are provided in the report.

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Report No.
RES11008

London Borough of Bromley

Agenda Item No.

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**10th May 2011**
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 investment performance of Bromley's Pension Fund for the whole of the financial year 2010/11. It also contains information on general financial and membership trends of the Pension Fund and summarised information on early retirements.

RECOMMENDATION

The Sub-Committee is asked to:

2.1 Note the report.

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); £489.7m total fund value at 31st March 2011)

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): 5,246 current employees; 4,522 pensioners; 3,859 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 2010/11, the fund value has continued to fluctuate and had risen to £489.7m as at 31st March 2011. At the time of writing this report, the fund value stood at £492.3m (valuation as at 25th April 2011).

3.2 The report to the May 2010 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. An overall ranking of 2% was achieved in that year (1% being the highest in the WM Company local authority universe), which was a very good result after a reasonable year in 2008/09 and another good year in 2007/08. 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. Given the long-term nature of pension fund liabilities, medium and long-term returns are of greater importance and 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. In 2010/11 to date, Bromley's Fund has achieved rankings of 94%, 6% and 8% respectively in the June, September and December quarters. The rankings for the March 2011 quarter are not yet available and will be reported to the next meeting.

Performance data for 2010/11

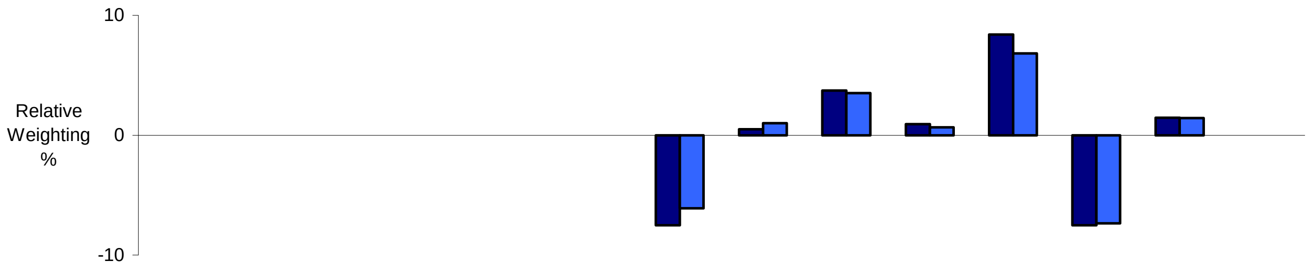
3.3 Before 1st April 2006, the Fund's performance was measured against the local authority average and both Baillie Gifford and Fidelity were set the target of outperforming against that average by 0.5% over rolling three-year periods. When the Fund was restructured in 2006, however, both managers were 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 the two fund managers' performance in 2010/11 is shown in the following table and more detail is provided in Appendices 1 to 4. Local authority averages for the March 2011 quarter are not known yet and will be reported to the next meeting. Representatives of Baillie Gifford will be present at the meeting to present a report on their performance.

Quarter	Baillie Gifford		Fidelity		Total Fund		LA Ave
	Benchmark %	Return %	Benchmark %	Return %	Benchmark %	Return %	Return %
Jun-10	-8.4	-7.6	-8.4	-9.0	-8.3	-8.3	-6.7
Sep-10	9.5	10.1	9.4	9.5	9.4	9.9	8.2
Dec-10	6.2	7.5	6.1	6.3	6.1	6.9	5.7
Mar-11	1.6	1.3	1.4	1.2	1.4	1.2	n/a
Cumulative	8.2	10.7	7.8	7.1	8.0	9.0	n/a

3.4 **Baillie Gifford** returned 1.3% in the March quarter (0.3% below benchmark) and achieved a cumulative return of 10.7% in the year 1st April 2010 to 31st March 2011 (2.3% above their benchmark). In the latest quarter, the WM Company attributed their relative underperformance to stock selection, primarily in the European equities sector. This is represented in the following graphs.

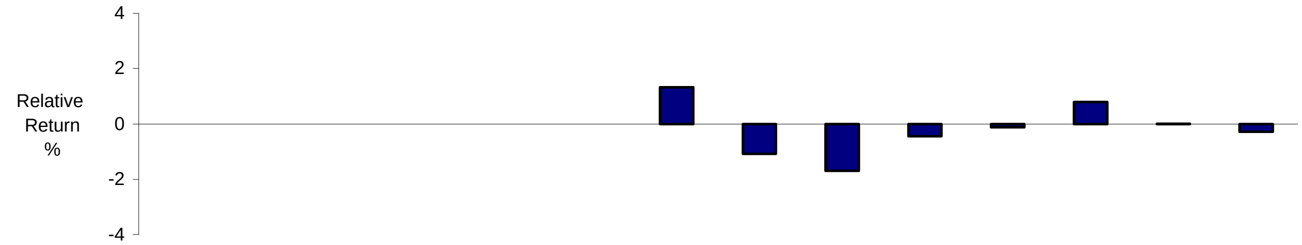
	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund

Asset Allocation



	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund
Fund Start	17.5	18.5	21.7	10.4	17.9	10.5	3.5	100.0
Fund End	18.8	19.4	22.2	9.8	16.1	10.4	3.4	100.0
BM Start	25.0	18.0	18.0	9.5	9.5	18.0	2.0	100.0
BM End	24.9	18.3	18.7	9.1	9.2	17.7	2.0	100.0
Impact	-	-	0.2	-	-0.2	0.1	-	-

Stock Selection

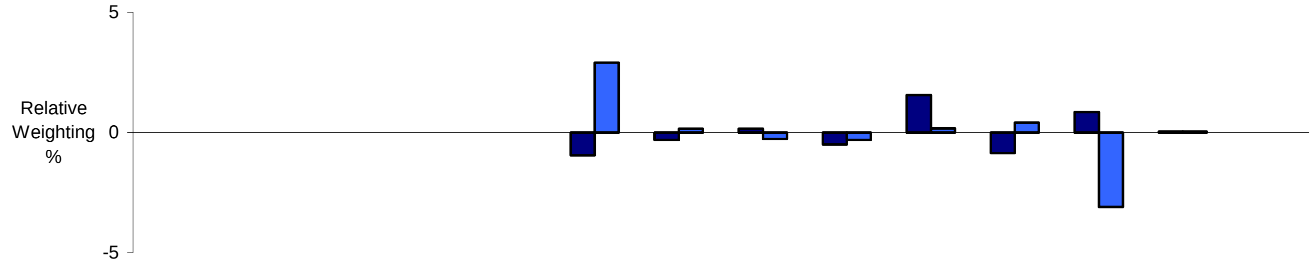


	UK Equities	N. America	Europe ex UK	Tot Far East	Other Intl.	UK Bonds	Cash/ Alts	Total Fund
Fund	2.4	2.4	3.9	-3.2	-1.3	0.9	0.2	1.3
Benchmark	1.0	3.5	5.7	-2.8	-1.2	0.1	0.2	1.6
Impact	0.3	-0.2	-0.4	-	-	0.1	-	-0.3

3.5 **Fidelity** returned 1.2% in the March quarter (0.2% below benchmark) and achieved a cumulative return of 7.1% in the year (0.7% below their benchmark). In the latest quarter, the WM Company attributed their relative outperformance to stock selection, primarily in Global equities. This is represented in the following graphs.

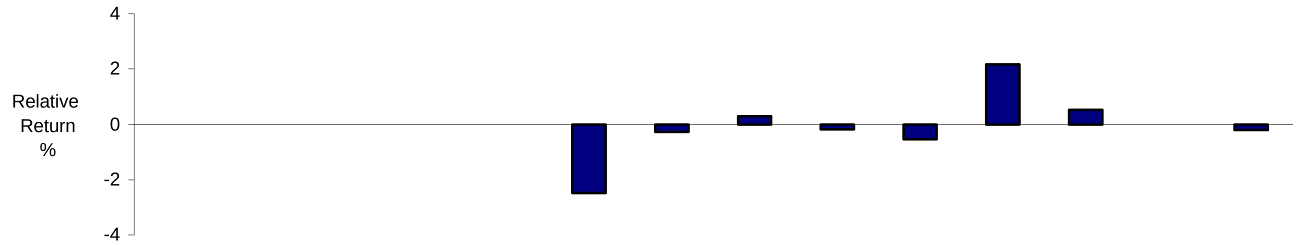
	Global Equit	UK Equities	N. America	Europe ex UK	Pacific	Japan	UK Bonds	Cash/ Alts	Total Fund

Asset Allocation



	Global Equit	UK Equities	N. America	Europe ex UK	Pacific	Japan	UK Bonds	Cash/ Alts	Total Fund
Fund Start	9.0	34.7	12.7	12.0	6.6	4.1	20.9	0.0	100.0
Fund End	13.0	35.0	12.5	12.7	5.1	5.0	16.6	0.0	100.0
BM Start	10.0	35.0	12.5	12.5	5.0	5.0	20.0		100.0
BM End	10.1	34.9	12.7	13.0	4.9	4.6	19.7		100.0
Impact	-	-	-	-	-0.1	-	-	-	-

Stock Selection



	Global Equit	UK Equities	N. America	Europe ex UK	Pacific	Japan	UK Bonds	Cash/ Alts	Total Fund
Fund	-0.1	0.8	3.6	5.2	-0.8	-4.5	0.6	n/a	1.2
Benchmark	2.5	1.0	3.3	5.4	-0.3	-6.5	0.0		1.4
Impact	-0.2	-0.1	-	-	-	0.1	0.1		-0.2

Medium and long-term performance data

3.6 The table below sets out comparative returns over 1, 3, 5 and 10 years for both Baillie Gifford and Fidelity for periods ended 31st March 2011 and 31st March 2010. Baillie Gifford's 1, 5 and 10-year returns to March 2011 (10.7%, 9.7% and 7.3% respectively) are better than those of Fidelity (7.1%, 6.6% and 6.5% respectively), although Fidelity's 3-year return (9.9%) is marginally better than that of Baillie Gifford (9.7%). Performance since the revised benchmarks were adopted in 2006 has been particularly strong.

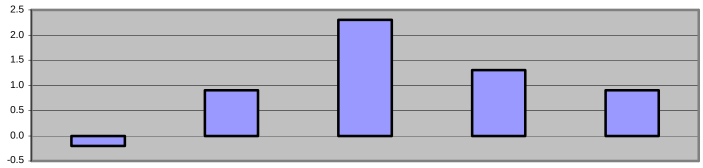
	Baillie Gifford			**Fidelity**			
	Return	BM	+/-	Return	BM	+/-	LA Ave
	%	%	%	%	%	%	%
Periods to 31/3/11							
1 year (1/4/10-31/3/11) - annualised	10.7	8.2	2.3	7.1	7.8	-0.6	n/a
3 years (1/4/08-31/3/11) - annualised	9.7	7.8	1.8	9.9	6.8	2.9	n/a
5 years (1/4/06-31/3/11) - annualised	6.8	5.4	1.3	6.6	4.6	2.0	n/a
10 years (1/4/01-31/3/11) - annualised	7.3	6.0	1.2	6.5	5.6	0.9	n/a

Periods to 31/3/10							
1 year (1/4/09-31/3/10) - annualised	51.3	42.3	6.3	45.9	39.8	4.4	35.2
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

3.7 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.

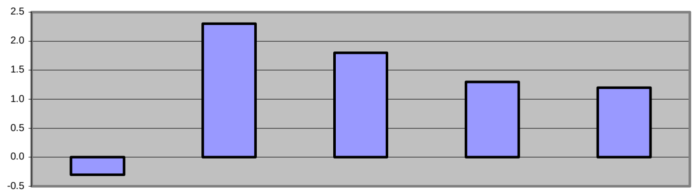
	Q ended 31/3/11	1 Year	3 Years	5 Years	10 Years

TOTAL FUND - RELATIVE OUTPERFORMANCE



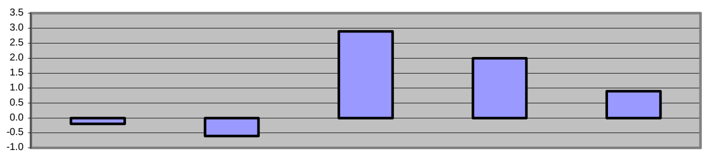
Fund	1.2	9.0	9.7	6.6	6.9
Benchmark	1.4	8.0	7.2	5.2	5.9
Relative Return	-0.2	0.9	2.3	1.3	0.9

BAILLIE GIFFORD - RELATIVE OUTPERFORMANCE



Fund	1.3	10.7	9.7	6.8	7.3
Benchmark	1.6	8.2	7.8	5.4	6.0
Relative Return	-0.3	2.3	1.8	1.3	1.2

FIDELITY - RELATIVE OUTPERFORMANCE



Fund	1.2	7.1	9.9	6.6	6.5
Benchmark	1.4	7.8	6.8	4.6	5.6
Relative Return	-0.2	-0.6	2.9	2.0	0.9

Fund Manager Comments

3.8 Baillie Gifford

Baillie Gifford's comments on their performance in short-term, medium-term and long-term periods ending on 31st March 2011 are attached as Appendix 6. Representatives of the company will be present at the meeting to answer any questions.

3.9 Fidelity

An extract from the Executive Summary of Fidelity's Quarterly Investment Review (circulated with the agenda) is attached as Appendix 7. Fidelity have provided the following comments:
"The lower part of the page shows the split of the lower part of the page shows the split of the Fund at the quarter end and the contributions from asset allocation and stock selection over the quarter. As you know Bromley has a portfolio made up of 7 different asset classes / Portfolio Managers and therefore it is difficult to briefly summarise performance without looking at the detail of the underlying managers (in the rest of the QIR).
During the quarter, the Fund underperformed the benchmark by 0.2%, the main drivers to this being marginal underperformance in the UK equity portfolio and in the Global Focus Fund. The quarter was relatively volatile with investor sentiment swung by the earthquake in Japan, issues with periphery Europe and conflict in Libya coupled with relatively robust corporate earnings. Detractors in the UK equity portfolio were an overweight position in materials (mining names) and an underweight position in Royal Dutch Shell, which rose on the back of strong oil prices and supply concerns in Libya. Performance within the regional portfolios was more mixed. The fixed income portfolio again delivered solid outperformance of the benchmark driven by an overweight credit stance within the portfolio as spreads narrowed slightly."
Details of Fidelity's views on the outlook and future prospects are included in their Quarterly Investment Review.

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 2007 to 2010 (£300,000) was well below the actuary's annual estimate of £800,000 per annum (in the 2007 actuarial valuation) and this will have had a beneficial impact on the actuarial valuation as at 31st March 2010. The cost of other retirements in the same 3-year period averaged around £516,000 per annum. In 2010/11, there was only one ill-health retirement (£94,000) and other retirements totalled £291,000.

Long-term cost of early retirements	**Ill-Health**		**Other**	
	No	£000	No	£000
Qtr 4 – Mar 11 - LBB	-	-	6	80
- Other	-	-	-	-
- Total	-	-	6	80
2010/11 (whole year) – LBB	-	-	15	230
- Other	1	94	5	61
- Total	1	94	20	291
Actuary's assumption – 2010 to 2013		800		N/a
- 2007 to 2010		800		N/a
Previous years - 2009/10	5	45	21	1,033
- 2008/09	6	385	4	256
- 2007/08	11	465	11	260

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.

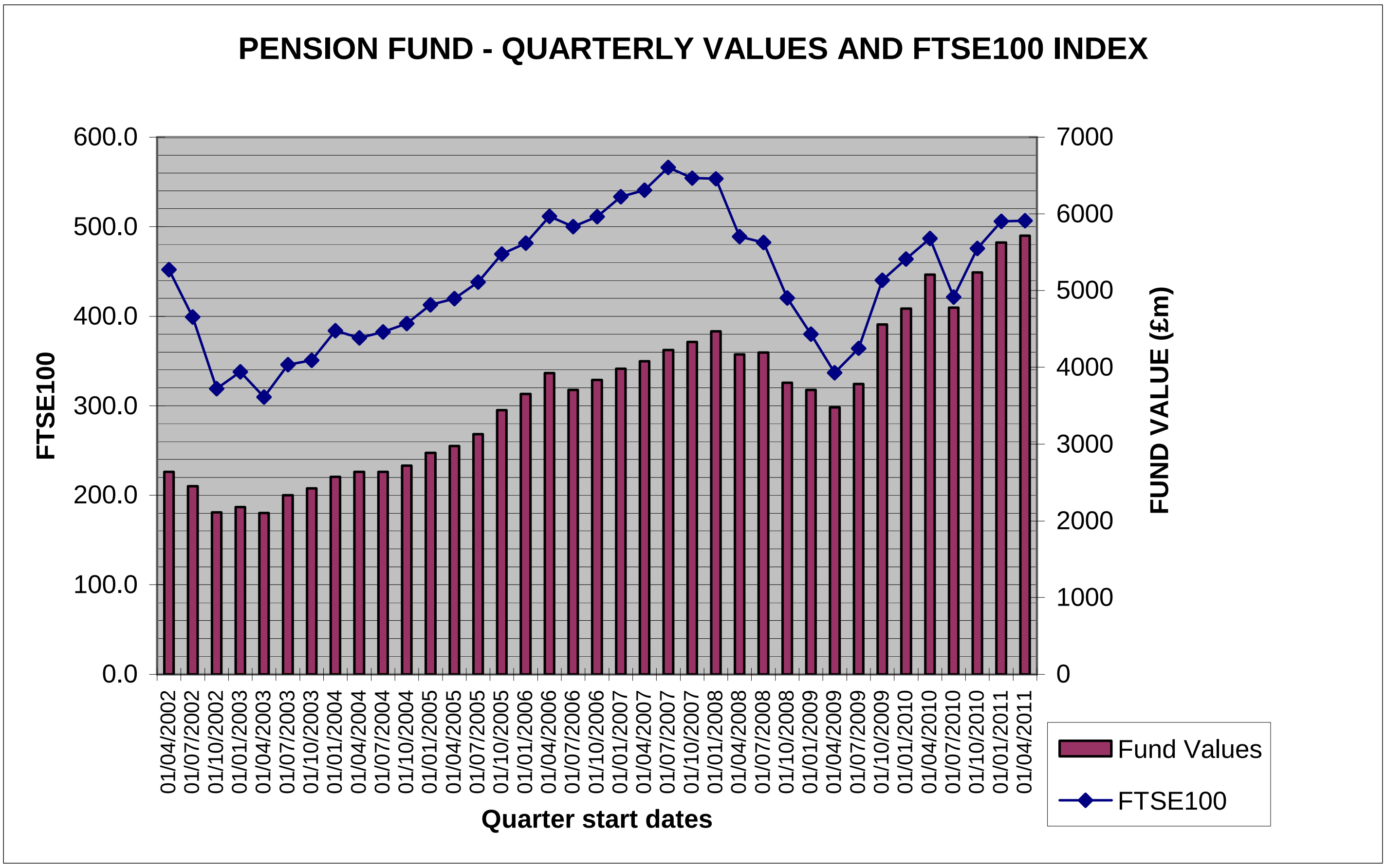
5. FINANCIAL IMPLICATIONS

5.1 Details of the provisional outturn for the 2010/11 Pension Fund Revenue Account are provided in Appendix 5 together with fund membership numbers. A provisional net surplus of £9.6m was achieved in the year and total membership numbers rose by 247.

5.2 Changes in the Fund's Market Value are shown in the following table, together with details of distributions of the revenue fund surplus cash to the fund managers and changes in the value of the FTSE 100 index. The graph below plots movements in the fund value and in the FTSE index. 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 2010/11, it lost ground initially but had increased to £489.7m as at 31st March 2011. The valuation at the time of writing this report (25th April) had risen slightly to £492.3m. Also of note, although not entirely surprising, is the fact that the fund value tracks the movement in the FTSE 100 fairly closely, even though, since 2006, only around 30% of the fund has been invested in the UK equity sector.

Market Value as at	**Fidelity**	**Baillie Gifford**	**CAAM**	**Total**	Revenue Surplus Distributed to Managers*	FTSE 100 Index
	£m	**£m**	**£m**	**£m**	£m	
31st March 2002	112.9	113.3	-	226.2	0.5	5272
31st March 2003	90.1	90.2	-	180.3	-	3613
31st March 2004	112.9	113.1	-	226.0	3.0	4386
31st March 2005	126.6	128.5	-	255.1	5.0	4894
31st March 2006	164.1	172.2	-	336.3	9.1	5965
31st March 2007	150.1	156.0	43.5	349.6	4.5	6308
31st March 2008	151.3	162.0	44.0	357.3	2.0	5702
31st March 2009	143.5	154.6	-	298.1	4.0	3926
31st March 2010	210.9	235.5	-	446.4	3.0	5680
30th June 2010	191.9	217.6	-	409.5	-	4917
30th September 2010	209.2	239.6	-	448.8	-	5549
31st December 2010	224.1	258.2	-	482.3	1.0	5900
31st March 2011	227.0	262.7	-	489.7	3.0	5909

* Distribution of cumulative surplus during the year.



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 31 March 2011

Baillie Gifford	Benchmark Weighting	Benchmark Returns	Portfolio Weighting	Portfolio Returns
	%	%	%	%
UK equities	25	1.0	18.8	2.4
Overseas equities				
North America	18	3.5	19.4	2.4
Europe	18	5.7	22.2	3.9
Far East	9.5	-2.8	9.8	-3.2
Other Int'l	9.5	-1.2	16.0	-1.3
UK bonds	18	0.1	10.4	0.9
Cash/other	2	0.2	3.4	0.2
Total assets	100	1.6	100.0	1.3

Fidelity	Benchmark Weighting	Benchmark Returns	Portfolio Weighting	Portfolio Returns
	%	%	%	%
UK equities	35.0	1.0	35.1	0.8
Overseas equities				
USA	12.5	3.3	12.5	3.6
Europe	12.5	5.4	12.7	5.2
Japan	5.0	-6.5	5.0	-4.5
S E Asia	5.0	0.3	5.1	-0.8
Global	10.0	2.5	13.0	-0.1
UK bonds	20.0	0.0	16.6	0.6
Cash/other	-	0.1	0.0	n/a
Total assets	100.0	1.4	100.0	1.2

Fidelity's UK equity holding above (35.1% of portfolio) includes 0.7% 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.

Returns for quarter ended 31 December 2010

Baillie Gifford	**Benchmark Weighting**	**Benchmark Returns**	**Portfolio Weighting**	**Portfolio Returns**
	%	%	%	%
UK equities	25	7.4	17.5	9.9
Overseas equities				
North America	18	11.6	18.5	10.7
Europe	18	4.6	21.7	7.8
Far East	9.5	11.1	10.4	12.7
Other Int'l	9.5	8.1	17.9	6.2
UK bonds	18	-2.3	10.5	-2.2
Cash/other	2	0.2	3.5	0.1
Total assets	100	6.2	100.0	7.5

Fidelity	**Benchmark Weighting**	**Benchmark Returns**	**Portfolio Weighting**	**Portfolio Returns**
	%	%	%	%
UK equities	35.0	7.4	34.7	6.5
Overseas equities				
USA	12.5	11.3	12.7	12.8
Europe	12.5	4.5	12.0	5.5
Japan	5.0	12.4	4.1	13.3
S E Asia	5.0	9.0	6.6	10.6
Global	10.0	9.8	9.0	11.9
UK bonds	20.0	-2.3	20.9	-1.7
Cash/other	-	0.1	0.0	n/a
Total assets	100.0	6.1	100.0	6.3

Fidelity's UK equity holding above (34.7% of portfolio) includes 1.0% 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.

Returns for quarter ended 30 September 2010

Baillie Gifford	Benchmark Weighting	Benchmark Returns	Portfolio Weighting	Portfolio Returns
	%	%	%	%
UK equities	25	13.6	16.7	14.1
Overseas equities				
North America	18	5.8	18.0	6.3
Europe	18	13.6	21.5	13.9
Far East	9.5	7.1	10.3	7.9
Other Int’l	9.5	12.1	18.2	13.3
UK bonds	18	4.2	11.5	5.1
Cash/other	2	0.2	3.8	0.4
Total assets	100	9.5	100.0	10.1

Fidelity	Benchmark Weighting	Benchmark Returns	Portfolio Weighting	Portfolio Returns
	%	%	%	%
UK equities	35.0	13.6	34.0	14.4
Overseas equities				
USA	12.5	5.7	13.5	5.1
Europe	12.5	13.2	12.3	10.5
Japan	5.0	-0.0	4.4	1.9
S E Asia	5.0	13.0	5.6	11.2
Global	10.0	8.1	8.1	11.6
UK bonds	20.0	4.3	22.1	4.7
Cash/other	-	0.1	0.0	n/a
Total assets	100.0	9.4	100.0	9.5

Fidelity’s UK equity holding above (34.0% 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.

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 (33.3% 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	Provisional Outturn 2010/11 £'000's
INCOME			
Employee Contributions	6,153	6,300	6,100
Employer Contributions	23,028	23,000	22,200
Transfer Values Receivable	4,457	4,000	4,800
Investment Income	7,141	7,000	7,100
Total Income	40,779	40,300	40,200
EXPENDITURE			
Pensions	18,350	19,000	19,200
Lump Sums	5,858	6,000	6,000
Transfer Values Paid	4,223	4,000	2,700
Administration	2,948	2,500	2,700
Refund of Contributions	12	100	20
Total Expenditure	31,391	31,600	30,620
Surplus/Deficit (-)	9,388	8,700	9,580
MEMBERSHIP	**31/03/2010**		**31/03/2011**
Employees	5,360		5,246
Pensioners	4,413		4,522
Deferred Pensioners	3,607		3,859
	13,380		13,627

Baillie Gifford Performance Report for the quarter ended 31 March 2011

Performance Objective

To outperform Bromley's benchmark by 1 - 1.5% pa over rolling 3 year periods.

Investment Performance to 31 March 2011

	Fund	Benchmark	Performance
Five Years (% pa)	6.9	5.4	+1.5
Three Years (% pa)	9.8	7.8	+2.0
One Year (%)	10.8	8.2	+2.6
Quarter (%)	1.3	1.6	-0.3

Commentary

We take a long-term approach to managing your assets, 3-5 years plus. Hence, we are pleased that our longer-term performance is good: +2% over three years, and +1% since we started to manage your portfolio in 1999.

In the first quarter of 2011, we were pleasantly surprised that markets held up as well as they did given all the bad news, and the Fund performed broadly in line with the benchmark. Our short term performance compared to the index we are measured against will tend to jump around, and so we typically focus more on operational, as opposed to share price, performance (ie checking we are happy that the earnings of stocks held are progressing as we expected). At present, we are satisfied that this is generally the case across the portfolio.

There were some exceptions to this. Shares in Cisco - which sells IT network equipment - were weak and a detriment to performance after the company warned that this year's profits would be lower than previously forecast. Cisco's margins are under pressure due to increasing competition from, among others, Hewlett-Packard. We are considering whether to retain the holding.

Meanwhile, in Japan fashion retailer Fast Retailing and printer / photocopier maker Canon fell along with the broader market following the earthquake and were also a drag on the Fund. We don't believe that the long-term investment case for either company should be significantly impacted by the recent events, and are therefore happy to continue to hold both stocks for now.

More positively, a number of the energy stocks held by the portfolio enjoyed buoyant share prices as the oil price rose: EOG Resources in America, BG Group in the UK and Total in France for example. UK holding Rightmove - the online property portal - was also strong as Google decided against competing with it in the UK market.

Looking ahead, we are optimistic about the prospects for the Fund. We have a preference for equities and away from bonds - shares look decent value, while bonds, in our view, do not. We are conscious that there are plenty of things to worry about in the short-term and so markets may be volatile. However, looking out further, the world economy is growing, corporate profits are rising and we are finding plenty of attractive stocks to invest in.

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Executive Summary

Your Regional Returns to 31/03/11

	12 Months		Annualised 3 Years p.a.		Since Inception p.a.	
	Fund (%)	Benchmark (%)	Fund (%)	Benchmark (%)	Fund (%)	Benchmark (%)
UK Equities	8.3	8.7	11.1	5.4	5.7	4.1
Europe ex UK Equities	3.1	7.1	1.9	3.0	4.9	5.9
North American Equities	7.8	9.1	11.1	9.9	4.1	3.4
Japanese Equities	0.3	-3.2	5.9	4.2	6.0	3.7
Pacific ex Japan Equities	11.9	12.0	21.1	13.8	14.9	12.3
Global Equities	12.9	7.9	11.3	7.8	n/a	n/a
UK Bonds	6.7	5.4	8.2	5.5	6.6	5.7
TOTAL RETURNS	7.1	7.8	9.9	6.8	6.1	5.4

Fund Source: WM(Gross)
Benchmark Source: WM

Your Total Fund Attribution for 3 months to 31/03/11

- Stock selection detracted 0.2% from relative performance, whilst asset allocation had a broadly neutral impact.
- Stock selection was marginally positive or neutral in the majority of asset classes.

	Weights (%)		Asset Allocation Relative Contribution (%)	Returns (%)		Stock Selection Relative Contribution (%)
	Fund	Bmk		Fund	Bmk	
UK Equities	35.1	35.0	0.0	0.8	1.0	-0.1
Europe ex UK Equities	12.7	12.5	0.0	5.2	5.4	0.0
North American Equities	12.5	12.5	0.0	3.6	3.3	0.0
Japanese Equities	5.0	5.0	0.0	-4.5	-6.5	0.1
Pacific ex Japan Equities	5.1	5.0	-0.1	-0.8	-0.3	0.0
Global Equities	13.0	10.0	0.0	-0.1	2.5	-0.2
UK Bonds	16.7	20.0	0.0	0.6	0.0	0.1
Total	100.0	100.0	0.0	1.2	1.4	-0.2

Fund Weighting Source: Fidelity
Returns and Attribution Source: WM

The official valuation point for the Institutional OEICs is noon using the most up to date market prices available at that time. The OEICs' official prices are then used in your monthly valuation. For the purpose of calculating performance returns that are comparable with market returns, these pooled funds are revalued at the end of each month using the closing prices for all markets. In some cases these returns may differ from those based on the official monthly valuation. The Life Company Funds invest in underlying institutional OEIC sub funds and/or authorised unit trusts. Past performance is not a reliable indicator of future results. The value of investments and the level of income from them may go down as well as up and an investor may not get back the amount invested. Please note that the performance returns may consist of more than just the current benchmark if the portfolio has undergone any benchmark changes since inception.

Above figures are subject to rounding.

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Report No.
RES11010

London Borough of Bromley

PART 1 - PUBLIC

Agenda
Item No.

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**10th May 2011**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND - 2010/11 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

The Audit Sub-Committee has previously resolved that the Audit Plan of the Pension Fund should be referred to the Pensions Investment Sub-Committee for consideration. The auditor, PricewaterhouseCoopers LLP (PWC), has submitted the plan and it is referred here for information and comment.

RECOMMENDATION

The Sub-Committee is asked to:

2.1 Note the Pension Fund Audit Plan for 2010/11.

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 2010/11. Total fund 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, admin, etc); £40.3m income (contributions, investment income, etc); £489.7m total fund value at 31st March 2011)

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): 5,246 current employees; 4,522 pensioners; 3,859 deferred pensioners (as at 31st March 2011)

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 In accordance with a decision of the Audit Sub-Committee in March 2010, the Pension Fund Audit Plan is attached as Appendix 1 for consideration by Members of the Pensions Investment Sub-Committee. The Plan was prepared by PWC to inform Members and officers about the responsibilities the external auditors have and how they plan 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 Council's accounts have been prepared in accordance with the requirements of both the LGPS Regulations and the CIPFA Statement of Recommended Practice and will be audited as part of the overall audit of the Council's Accounts by PricewaterhouseCoopers LLP (PWC).

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 2010/11 (unchanged from the 2009/10 fee), 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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London Borough of Bromley

Pension Fund: 2010/11 Audit Plan
April 2011

PRICEWATERHOUSECOOPERS

Audit Sub-Committee
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12 April 2011

Ladies and Gentlemen,

We are pleased to present to you our 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. Our approach is responsive to the many changes affecting the London Borough of Bromley Pension Fund.

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 Pensions Investment Sub Committee to ensure that all of those responsible for the governance of the Fund are aware of our work programme. 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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PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Services Authority for designated investment business.

Contents

In March 2010 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 and on the Audit Commission's website.

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 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 the London Borough of Bromley Pension Fund (the Fund) about our responsibilities as the external auditors of London Borough of Bromley Pension Fund and how we plan to discharge them.

We issued our audit fee letter, setting out our indicative fees for 2010/11, on 25th March 2010 in accordance with Audit Commission requirements. This plan sets out in more detail our proposed audit approach for the year.

The London Borough of Bromley 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 on a day to day basis by the Members of the Pensions Investment Sub Committee Pension Panel. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code).

Based upon discussion with management and our understanding of the Council and the local government sector, we have noted in the next section recent developments and other relevant risks. Our plan has been drawn up to consider the impact of these developments and risks.

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

We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code) which was last updated in March 2010. This is supported by the Statement of Responsibilities of auditors and of audited bodies (the Statement) which was updated in March 2010. Both documents are available from the Chief Executive or the Audit Commission's website.

Reporting responsibilities

To discharge our responsibility to report to those responsible for the governance of the Fund we propose to present any reports to the Pensions Investment Sub Committee.

Risk assessment

Planning of our audit

We have considered the Fund's operations and have assessed the extent to which we believe there are potential business and audit risks that need to be addressed by our audit. We have also considered our understanding of how your control procedures mitigate those risks. Based on the assessment we have scoped our core work in each of those 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. This exercise is only performed to the extent required to prepare our Plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

In this plan we detail those areas which we consider to be significant risks relevant to our audit responsibilities and our response to those risks. Significant risks are those risks requiring special audit attention in accordance with auditing standards.

In addition, we also identify other risks affecting the Fund and our response to those risks.

Our response includes details of where we are intending to rely upon internal controls, other auditors, and the work of internal audit, if applicable.

Risk assessment results

The following table summarise the results of our risk assessment and our planned response.

Risks	Audit approach
Significant Risks	
Management Override of Controls In any organisation, management may be in a position to override the financial controls that you have in place. A control breach of this nature may result in a material misstatement. For all of our audits, we are required to consider this significant risk and adapt our audit procedures accordingly. For the audit of the Fund the key area of risk of management override of controls that we have identified is around the benefits payments process.	We will review the controls around benefits payments and perform substantive tests on all material benefit balances, in addition to this we also performed analytical review on pensions in payment. In addition we will understand and evaluate internal control processes and procedures as part of our planning work. We will also undertake substantive testing of other management override of controls risks, including journals and management estimates as part of our final audit procedures.
Elevated risks	
Valuation of more difficult to value / less liquid 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.	We will understand the controls and procedures around the monitoring of investments, including reviewing management's minutes to ascertain/confirm the monitoring process, and their consideration of the impact of recent market volatility and compliance with the Fund's Statement of Investment Principles. We will understand the environment in which management 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 available up to the date of out audit opinion and evaluate the impact of any additional information these provide on fair values as at 31 March 2011. We will obtain an independent confirmation from the investment custodian and from the fund managers, to verify existence of the investments.
Reliance on controls within asset managers The Council's Pension Fund Investment Managers operate within agreed parameters and their performance is reviewed by the Director of Resources. Recent events at other authorities have highlighted the importance of the Council satisfying itself that the controls in place at its fund managers are robust.	We will understand and evaluate how the Council satisfies itself that controls within the Fund's asset managers are operating effectively and that they comply with the parameters and instructions set by the Council. We will seek to obtain and review AAF01/06 or SAS 70 reports for each

Risks	Audit approach
	Fund Manager which provides an independent opinion on the controls operating at fund managers. We will assess whether there is need for additional assurance as part of our approach to the accounts.
Job losses/early retirements in the public sector We understand that there are a number of significant structural changes occurring within the Council, which will involve a number of potential redundancies. This represents a significant additional workload for the Fund. Whilst the process of making calculations for employees leaving employment is not new, there is an increased potential for errors given that the resources available for managing the Fund are unchanged.	We will discuss arrangements to meet the additional workload with management and review the effectiveness of controls operating over employees leaving employment.

Our approach to the audit

Code of Audit Practice

Under the Audit Commission's Code we will carry out an audit of the financial statements of the Fund. This audit will involve:

- Expressing our opinion on the financial statements of the Fund as they appear in the Statement of Accounts of the London Borough of Bromley; 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 Council's accounts, including the Pension Fund, is carried out in accordance with the Audit Commission's Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). These standards have recently been fully updated and revised to improve their clarity and in some cases this is accompanied by additional audit requirements. We are required to comply with them for the audit of your 2010/11 accounts.

We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. 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 a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk and issues of concern to you. This involves breaking down the accounts into components. We assess the risk characteristics of each component to determine the audit work required.

We plan our work to have a reasonable expectation of detecting fraud where the potential effects would be material to the financial statements of the Fund. Based on the level of management's control procedures, we consider whether there are any significant risks of fraud that may have a material impact on the financial statements and adapt our audit procedures accordingly. We also consider the risk of fraud due to management override of controls and design our audit procedures to respond to this risk.

Our audit approach is based on understanding and evaluating your internal control environment. We do not plan to place reliance on any of the controls in place over the pension fund systems and processes. Our audit approach will be fully substantive, which includes the detailed testing of transactions and balances and suitable analytical procedures.

In undertaking our work we will take due account of the Auditing Practices Board Practice Note 15.

We work closely with Internal Audit and ensure that a continuous dialogue is maintained throughout the year. We receive copies of all relevant internal audit reports and meet with Internal Audit periodically to understand the findings of their work. Though we do not expect to place reliance on the work of Internal Audit we use their findings to assist in the focus of our external audit work.

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 the level of contributions, benefits and fund assets. We will confirm the level of materiality used in our audit findings report. 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 – third year on the engagement 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, ISA (UK&I) 260 report 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 – third year on the engagement 0207 804 7581 stuart.brown@uk.pwc.com	Senior Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of work and overall review of audit outputs. Completion of the Audit Plan, ISA (UK&I) 260 report and Annual Audit Letter.
Audit Manager: Accounts Matthew Williams – second year on the engagement 0207 212 5290 matthew.w.williams@uk.pwc.com	Manager on the assignment responsible for managing our accounts work, including the audit of the statement of accounts, and governance issues.
Audit Manager: Financial statements – Pension Fund Alicia Noble Tel: 0207 212 3608 alicia.j.noble@uk.pwc.com	Manager on the assignment responsible for managing our financial statements work, including the audit of the financial statements in respect of the Fund.

Our team members

It is our intention that staff work on the London Borough of Bromley Pension Fund audit each year, developing effective relationships and an in depth understanding of your business. 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 also act as director for another audit or advisory client of the firm should notify us, so that we can put 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' are the members of of the Pensions Investment Sub Committee. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the dates when we expect to provide the Pensions Investment Sub Committee with the outputs of our audit. We will also take the pension fund

Stage of the audit	Output	Date
Audit planning	**Pension Fund Audit Fee letter**	March 2010
	Final Audit Plan for the Fund	April 2011
Audit findings	**ISA (UK&I) 260 report to the Council which will incorporate specific comment on the Fund, including:** • 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 identified as part of the audit • Our views about significant qualitative aspects of your accounting practices including accounting policies, accounting estimates and financial statements disclosures. • Any significant difficulties encountered by us during the audit; • Any significant matters discussed, or subject to correspondence with, Management; and • Any other significant matters relevant to the financial reporting process..	September 2011
Audit reports	**Opinion on the Financial Statements of the Fund**	September 2011
	'Consistent with' opinion on the accounts in the annual report	September 2011
Other public reports	**Annual Audit Letter to the Council which will incorporate specific comment on the Fund** A brief summary report of our work, produced for Members and to be available to the public.	November 2011

Audit budget and fees

The Audit Commission has provided indicative audit fee levels for Pension Funds for the 2010/11 financial year, which depend upon their scale and complexity. In your case, the calculated audit fee is £35,000. The table below sets out the fee for both 2010/11 and 2009/10.

	2010/11	2009/10
Statement of Accounts and Annual Report	£35,000	£35,000
Total	**£35,000**	**£35,000**

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; and
- The separate Pension Fund Annual Report 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.

Appendices

Appendix A: Other engagement information

The Audit Commission appoint us as auditors to the London Borough of Bromley Pension Fund 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 which 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, NE1 8HW, or Richard Sexton, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6RH. 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 (revised) 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 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 London Borough of Bromley 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. RES11011

London Borough of Bromley

Agenda Item No.

PART 1 - PUBLIC

Decision Maker:	**Pensions Investment Sub-Committee**
Date:	**10th May 2011**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**INVESTMENT IN PROPERTY**
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

At its meetings on 4th May and 8th September 2010, the Sub-Committee considered the question of investment in property and agreed at the latter meeting that a further report be submitted after 1st April 2011, setting out the issues for further discussion on whether or not property should be included in the Bromley Pension Fund. The report in September included comments from the actuary, Barnett Waddingham LLP, and one of the Fund's managers, Fidelity, who attended that meeting and took part in a general discussion on investment in property. This report updates some of the information previously submitted and recommends that no further action be taken at this time.

RECOMMENDATION(S)

The Sub-Committee is asked to:

2.1 Note the report and agree that no further action be taken on placing Pension Fund investments in property.

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 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, admin, etc); £40.3m income (contributions, investment income, etc); £489.7m total fund value at 31st March 2011)

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): 5,246 current employees; 4,522 pensioners; 3,859 deferred pensioners (as at 31st March 2011)

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 At the meeting in May 2010, in a general discussion about Fund performance, some Members queried why, unlike most other Council pension funds, the Bromley fund currently lacked any exposure to property. This was seen by some Members as a potential disadvantage, particularly as they felt that property funds were recovering and in relation to the loss of rent yields. Other Members, however, felt 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 further information was required to enable detailed consideration of whether or not to include property in the Bromley Pension Fund and agreed that "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".

3.2 A further report was duly submitted to the September 2010 meeting comprising the views of Fidelity, one of the Fund managers, and Barnett Waddingham, the Council's actuary and adviser on pension fund matters. At that time, Fidelity put forward a number of reasons for considering investing in property, focussing mainly on the fact that property is a mature and established market, provides a relatively high and stable yield income, offers diversification benefits and has shown solid and stable performance against other asset classes. They felt that 2010 was an opportune time to enter the property market.

3.3 Barnett Waddingham agreed that property has a place in a Fund's Investment Strategy on diversification grounds, but did not agree that 2010 was a good time to get into property, mainly because the asset class has enjoyed a good run recently, as a result of which it may be difficult to get into pooled funds and some are holding high levels of cash. They were also concerned about high dealing costs and illiquidity issues and the fact that many banks have large amounts of property-related debt on their balance sheets. The Sub-Committee agreed that a watching brief should be kept on the property market and that a further report be provided after 1st April 2011.

3.4 Since September 2010, further advice has been sought from both the Council's current Pension Fund managers, Barnett Waddingham and the independent WM Company. Barnett Waddingham felt that they could not add to their original comments and were happy to reiterate the concerns summarised in paragraph 3.3 above. Baillie Gifford, Fidelity and the WM Company, however, have all provided a further update and information, as follows:

3.5 The WM Company has provided comparative performance returns to December 2010 across the Local Authority Universe for equities, bonds and property for periods up to 20 years, as follows:

Local Authority Universe (annualised)	1 Year	3 Years	5 Years	10 Years	20 Years
	%	%	%	%	%
Total Equities	16.4	2.9	5.8	4.3	9.5
Total Bonds	8.9	6.9	4.7	5.6	8.3
Total Property	11.8	-6.2	-1.0	5.9	7.4

Over the latest year, property has made a strong recovery from the global downturn of 2008. This has, however, not been enough to bring the performance back to a positive return over the 3 and 5 year periods, with property returns lagging way behind those of equities and bonds in those periods. Although property returns are the best over 10 years, equities and bonds have both outperformed property in the longest measured period, 20 years. The WM Company advises that the average property weighting of local authority funds at the end of December 2010 was 6.6% and roughly 90% of funds had a property allocation, with the smaller funds tending to invest via pooled funds.

3.6 Baillie Gifford does not have a "house" view on property as such, but has provided brief comments, as follows.

"Commercial property investment has often been viewed as a middle ground between equities and bonds in terms of its risk and return profile. On the one hand, it offers a relatively stable income stream and hence has bond-like characteristics, whilst of the other hand it should offer some link to economic growth in a similar way to equities. Over the period 1971-2006, property delivered a real return of 5.2% p.a., which was between the returns from bonds (3.9%) and equities (7.1%), with the property return being largely due to rental yields, rather than rental growth and revaluations. Historically, one of the challenges of investing in property has been the illiquidity and the large sum of money required to invest directly. Turnover costs and management fees are also a consideration and, based on discussions with property managers, we estimate that turnover costs are roughly 1.0% to 1.5% pa and management fess are between 0.5% and 1.0%. Annual management fees can be dependent upon the size of investment made, so a large institutional investment could see management fees negotiated as low as 0.4% pa. Additional consideration must be given to the reinvestment of income returns from commercial property investment and the periodic rebalancing of portfolio weightings. It may not be possible to reinvest cash distributions back into commercial property quickly or cheaply, which could result in dilution or cost inefficiencies."

3.7 Fidelity are somewhat more upbeat about investment in property. On the one hand, they point out a number of attractions, including good investment returns, diversification, good income yield, a secure capital base and inflation protection. On the other hand, they list a number of disadvantages, including illiquidity, the possibility of tenant default / vacant assets, the highly cyclical nature of property as an asset class, large transaction sizes and costs and a less effective hedge against high inflation. In Fidelity's view, the prime property market has recovered and is now fairly valued and now is an opportune time to enter that market.

3.8 Bromley's Pension Fund is relatively small (currently valued at around £490m) and, in the view of officers, it would not be appropriate to hold individual properties directly because of the low number of physical assets and liability risks. Property investment would require the use of some type of pooled vehicle.

3.9 Officers are of the view that the fund's performance returns in the short, medium and long-term have been sufficiently strong to more than justify the existing fund management strategy and feel that a change is not required at this time. Elsewhere on the agenda is the usual quarterly report that summarises the performance of Bromley's fund relative to other pension funds. This shows the very strong returns that have been delivered without the use of property. Members of this Sub-Committee have adopted a strategy of predominant equity exposure focused on gaining results through market and stock selection. This has delivered high returns but with variation between years. Members have been willing to stick with this strategy to deliver the best long-term returns and have not sought to diversify and to heavily invest in assets that do not correlate to equities to smooth between years, potentially at lower longer term return. The fund currently uses gilts as a diversification strategy that allows managers to have reasonably liquid investments available to respond to changes in market conditions. Property would not provide anything like the current level of flexibility and liquidity.

3.10 The key actuarial assumptions in valuing the fund as at 31 March 2007 and 31 March 2010 were:

Financial Assumptions	**Nominal**	**Real**	**Nominal**	**Real**
Future investment returns	**% p.a.**	**% p.a.**	**% p.a.**	**% p.a.**
	2007	**2007**	**2010**	**2010**
Equities/absolute return funds	7.6	4.3	7.5	4.0
Gilts	4.7	1.3	4.5	1.0
Bonds & Property	5.4	2.0	5.6	2.1
Discount rate	6.9	3.5	6.9	3.4
Pay increases	4.9	1.5	5.0	1.5
Price inflation	3.4	-	3.5	-
Pension increases	3.4	-	3.0	(0.5)

It is likely that any move from equities to property would lead to a reduction in the valuation of the investment returns of the fund and a requirement for the Council to increase the employers' contribution, resulting in a higher charge to the revenue budget.

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.

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Agenda Item 11

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Agenda Item 13

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