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DATE: 30 January 2023

To: Members of the
LOCAL PENSION BOARD

Employer Representatives

Brayan Bernal-Gil
Emma Downie

Member Representatives

Lesley Rickards
Vinit Shukle (Chairman)

A virtual meeting of the Local Pension Board will be held on **TUESDAY 7
FEBRUARY 2023 AT 3.00 PM**

PLEASE NOTE: This will be a virtual meeting held via Microsoft Teams. Members of the press and public can view the meeting by contacting the Clerk (details above) to request joining details for the virtual meeting.

TASNIM SHAWKAT
Director of Corporate Services & Governance

*Copies of the documents referred to below can be obtained from
<http://cds.bromley.gov.uk>*

AGENDA

- 1 APOLOGIES FOR ABSENCE**
- 2 DECLARATIONS OF INTEREST**
- 3 MINUTES OF THE MEETING HELD ON 22 NOVEMBER 2022 (Pages 1 - 4)**
- 4 MINUTES OF THE PENSIONS COMMITTEE MEETING HELD ON 1 DECEMBER 2022 (Pages 5 - 12)**
- 5 REPORT FROM THE PENSION FUND COMMITTEE (Pages 13 - 50)**
- 6 PENSION FUND ANNUAL REPORT 2021/22 (Pages 51 - 184)**

- 7 **PERFORMANCE MONITORING REPORT 2022/23 (Pages 185 - 200)**
- 8 **REPORT ON THE REVIEW OF THE FUNDING STRATEGY STATEMENT TO APPLY TO THE PENSION FUND VALUATION (Pages 201 - 262)**
- 9 **LOCAL PENSION BOARD - VERBAL UPDATE ON LATEST LGPS MATTERS**
- 10 **DATE OF NEXT MEETING**
- 11 **LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND THE FREEDOM OF INFORMATION ACT 2000**

The Chairman to move that the Press and public be excluded during consideration of the items of business listed 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 | EXEMPT MINUTES OF THE PENSIONS COMMITTEE MEETING HELD ON 1 DECEMBER 2022 (Pages 263 - 264) | Information relating to the financial or business affairs of any particular person (including the authority holding that information) |
|----|---|---|

LOCAL PENSION BOARD

Minutes of the meeting held at 3.00 pm on 22 November 2022

Present:

Emma Downie (Chairman)
Brayan Bernal-Gil, Lesley Rickards and Vinit Shukle

Also Present:

David Dobbs, Martin Doyle, Dan Parsons and Kerry Nicholls

7 APOLOGIES FOR ABSENCE

There were no apologies for absence.

8 DECLARATIONS OF INTEREST

There were no declarations of interest.

9 MINUTES OF THE MEETING HELD ON 22 JUNE 2022

RESOLVED – That the minutes of the meeting held on 22 June 2022 be agreed.

10 MINUTES OF THE PENSIONS COMMITTEE MEETING HELD ON 27 JUNE 2022

RESOLVED: That the minutes of the meeting of the Pensions Committee held on 27 June 2022 be noted.

11 LOCAL PENSION BOARD TERMS OF REFERENCE - UPDATED

The Board reviewed the Terms of Reference of the Local Pension Board which had been updated to reflect that the Pensions Committee was no longer a sub-committee of General Purposes and Licensing Committee.

RESOLVED: That the updated Terms of Reference of the Local Pension Board be noted.

12 PERFORMANCE MONITORING REPORT 2022 Report CSD22127

The Board considered a report of the Pensions Shared Service that provided the Local Pension Board with performance monitoring information to assess whether the Pensions Fund was complying with the Pension Regulator's Code of Practice on Governance and Administration of Public Service Pension Schemes. There had been no breaches of pensions legislation reported during the course of the year and no complaints submitted to the Pensions Ombudsman.

In considering the report, the Senior Accountant: Pension Fund observed that employee membership had fallen slightly over time whilst membership of beneficiaries and deferred members was rising. Whilst this situation had been complicated by Liberata's definition of an open post, it would be important to monitor membership levels over time; however, there were no current concerns as Bromley's pension fund was well-funded. In response to a question from a Board Member, the Senior Accountant: Pension Fund confirmed that member benefits of the Bromley Pension Fund were protected by law but that should scheme membership continue to reduce in the medium to long-term, an increased contribution might be required by the employer. Under Section 5: Liberata's Cyber Security Measures, the Chairman noted that the annual Disaster Recovery test had been completed successfully but highlighted the need to ensure that payroll procedures were similarly robust. Payroll for pensions was currently undertaken via Resourcelink but would transfer to Oracle from 1 April 2023 which should be reflected in future reporting.

RESOLVED: That the Local Pension Board note:

- **The Pensions Regulator Code of Practice 'Governance and administration of public service pension schemes' as a guide to good governance;**
- **Procedures and policies in place to monitor Liberata's performance; and,**
- **Liberata's current performance levels.**

**13 LOCAL PENSION BOARD - DRAFT ANNUAL REPORT
Report CSD22128**

The Board considered the Local Pension Board – Draft Annual Report which was an annual requirement under the Local Pension Board's Terms of Reference and would also be provided to Council via the Pensions Committee for noting.

The Head of the Pensions Shared Service advised that the Draft Annual Report comprised a range of information including a summary of the work of the Local Pension Board during the past year and details of areas of concern reported to or identified by the Board as well as any training that had been undertaken by Board Members. It was a legislative requirement for Board Members to hold a certain level of expertise on pension management and virtual and in-person training options were available from the Chartered Institute of Public Finance and Accountancy and the London Borough of Richmond and Wandsworth amongst other organisations. The Local Authority was hosting a training day on Bromley Pension Management and Investments Training on 3 December 2022 which Board Members were encouraged to attend.

The Chairman requested that details of available training, including in-person and virtual options, be circulated to Board Members prior to the next meeting.

RESOLVED: That the Annual Report of the Local Pension Board be approved and referred to the Council via the Pensions Committee for noting.

14 LOCAL PENSION BOARD ANNUAL WORK PLAN

The Board considered the annual work plan of the Local Pension Board.

In considering Item 10: Any Other Activities within the Stated Purpose to Secure Compliance with the Regulations and other Associated Legislation, the Senior Accountant: Pension Fund outlined work being undertaken to introduce a secure self-service option for Pension Scheme members to view their pension details and complete basic administration, such as updating contact or payroll details. The Chairman asked for clarification as to whether changes made via the self-service functionality would feed through to ResourceLink.

Update: Following the meeting, the Senior Accountant: Pension Fund confirmed that HR/Payroll would be notified of any changes made via the Pension Scheme self-service option by an automated e-mail or workflows.

RESOLVED: That the work plan be noted.

15 LOCAL PENSION BOARD - TRAINING UPDATE

The Board received a training presentation from the Head of the Pensions Shared Service on cyber risk.

With over £300B assets held within the Local Government Pension Scheme, it was critical to mitigate the threat posed by cyber risks including ransomware, data theft, cyber theft and fraud and distributed denial of service. The 2004 Pensions Act required trustees to establish and operate adequate internal controls with the Pension Regulator having issued guidelines including the need for controls around computer systems and databases as well as cyber security principles for pension schemes. Additionally, the Pensions Shared Service and Liberata were data controllers and were therefore required to comply with the General Data Protection Regulations with regard to privacy and security of data. A range of robust measures were in place to meet these stringent requirements, including the ISO27001 Statement of Applicability and fraud prevention arrangements such as participation in the National Fraud Initiative.

In addition to cyber risk, other issues currently impacting pension schemes included the impact of inflation on pension benefits and possible increases in member opt outs due to higher living costs. Environmental risk would be an increased focus moving forward, including a requirement to identify climate-related risks and opportunities as well as their impact on funding and investment strategies. Public sector pension schemes would also be required to provide user data to the National Pensions Dashboard.

In considering the update, the Head of Corporate Finance and Accounting outlined data protection risks related to home-based working, particularly where hard copy documents were printed for wet signature. A Board Member outlined a range of

options to mitigate this risk including digital pens or specialist document signing software as well as sharing documents via Sharepoint.

RESOLVED: That the training update be noted.

16 APPOINTMENT OF NEW CHAIRMAN

Under Term 22 of the Terms of Reference, the appointment of Chairman of the Local Pension Board was rotated on an annual basis between a member representing the employer and a member representing scheme members. The Board unanimously agreed to appoint Vinit Shukle, a Board Member representing scheme members, as Chairman for a term of one year.

RESOLVED: That Vinit Shukle be appointed Chairman of the Local Pension Board for a term of one year.

17 DATE OF NEXT MEETING

The Committee agreed that a minimum of three meetings be held per annum and that the next meeting be arranged for Quarter 4 of the 2022/23 financial year. The date of the next meeting would be confirmed shortly.

18 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 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.

**The following summaries
refer to matters involving exempt information**

19 EXEMPT MINUTES OF THE MEETING HELD ON 22 JUNE 2022

The Part 2 (Exempt) minutes of the meeting held on 22 June 2022 were agreed and signed as a correct record.

20 EXEMPT MINUTES OF THE PENSIONS COMMITTEE MEETING HELD ON 27 JUNE 2022

The Part 2 (Exempt) minutes of the meeting of the Pensions Committee held on 27 June 2022 were noted.

The Meeting ended at 4.05 pm

Chairman

PENSIONS COMMITTEE

Minutes of the meeting held at 7.00 pm on 1 December 2022

Present:

Councillor Keith Onslow (Chairman)
Councillor Kira Gabbert (Vice-Chairman)
Councillors Simon Fawthrop, Simon Jeal, Jonathan Laidlaw,
Christopher Marlow, Ruth McGregor, Tony Owen and
Sam Webber

Also Present:

John Arthur, MJ Hudson

16 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

There were no apologies for absence.

17 DECLARATIONS OF INTEREST

Councillor Simon Fawthrop declared that he was a member of the London Borough of Bromley Pension Scheme.

Councillor Tony Owen declared that he received a London Borough of Bromley pension and that his daughter was employed by Coopers School.

18 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

No questions had been received.

19 CONFIRMATION OF MINUTES OF THE MEETINGS HELD ON 8 AND 27 JUNE 2022, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

RESOLVED: That the minutes of the meetings held on 8 and 27 June 2022 be approved.

20 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

There were no matters outstanding.

A) Fund Manager Presentation – Baillie Gifford

The Committee received a presentation from Baillie Gifford representatives, Chris Murphy, Client Service Director: Local Government Client Team and

Tim Gooding, Client Service Director: Global Alpha Team, on the London Borough of Bromley Superannuation Fund.

Due to the current economic climate which had been impacted by geopolitical instability and significant increases in inflation and energy costs, performance during the 2022/23 financial year had been significantly below benchmark. This had been particularly marked in relation to stock held in tech companies which had seen exceptionally high growth during the pandemic and were now going through a period of normalisation but were considered a strong long-term investment in having better margins and much lower debt than the index on average. Performance over the long-term remained robust with active management outperformance of the Local Authority's investment with Baillie Gifford valued at £143.1M since 1 December 1999, with the value of the portfolio as at 30 September 2022 totalling £473,046,311. Over the past year, Baillie Gifford had worked to rebalance the portfolio with less stock held in technology-enabled companies and those with significant Chinese exposure, and more to durable franchises. The weight by category was now about 40% 'compounders', 30% 'disruptors' and 30% 'capital cycle' with the downturn in company valuations enabling the purchase of some outstanding investments at depressed prices. Growth investing would remain a key focus in future with innovation and structural change anticipated across a range of industries, such as healthcare and education, as well in emerging markets beyond China. The example of Moderna was used as a company experiencing reduced cashflow in the post-COVID period that was well-placed for long term growth due to technical innovations linked to the development of its COVID-19 vaccine.

In considering the update, the Chairman observed that just over a year ago, Baillie Gifford had presented to the Committee on the over-performance of its investments and that the recent underperformance demonstrated the impact of the difficult economic climate. A Member queried investments in Russia, and the Client Service Director: Global Alpha Team reported that stock held in the VK Group which was domiciled in Russia had recently been sold. A small holding in Russian stocks remained but were currently frozen and would be divested once trading resumed. The fund held no investments in Qatar but was looking to invest more in the growth markets of Latin America and South-East Asia when suitable opportunities arose. In response to a question by a Member, the Client Service Director: Global Alpha Team confirmed that the fund's exposure to Chinese investments had been reduced from approximately 8-9% to 4-5% over the past 12-months in response to concerns around the Chinese Government's view of foreign investment. Another Member queried Elon Musk's ongoing leadership of Tesla following his high-profile acquisition of Twitter, and the Client Service Director: Global Alpha Team advised that as a leading innovator in electric vehicles and energy, Tesla remained a robust investment option and the company benefitted from a strong leadership team that went beyond its co-founder and CEO.

A Member queried Baillie Gifford's corporate policies around free speech and further details would be provided following the meeting. The Chairman

observed that the Baillie Gifford was a strong advocate for environmental and social governance which was built into their investment practice.

The Chairman thanked the representatives of Baillie Gifford for their excellent presentation.

RESOLVED: That:

- **Matters outstanding be noted; and,**
- **The presentation from Baillie Gifford be noted.**

**21 2021/22 PENSION FUND ANNUAL REPORT AND DRAFT
 ACCOUNTS
 Report FSD22065**

The report presented the draft Pension Fund Annual Report and Accounts 2021/22, which set out details of the administration and performance of the London Borough of Bromley Pension Fund during the 2021/22 financial year for consideration and approval by the Committee. The Pension Fund was required by the Local Government Pension Scheme Regulations 2013 to publish an Annual Report and Statement of Accounts, and this was also subject to external audit.

In considering the draft Pension Fund Annual Report and Accounts 2021/22, the Committee was notified that the terminology 'Pensions Sub-Committee' was used throughout as the period of reporting pre-dated the establishment of the Pensions Committee as a full committee. With regard to the Governance Compliance Statement, a Member queried why there was only partial compliance in some areas designed to make the administration and stewardship of the scheme more transparent and accountable to stakeholders. The Chairman advised that this was primarily due to the size of the scheme, but that membership of the Local Pension Board was divided equally between employer and scheme member representatives who were invited to attend all meetings of the Pensions Committee. In response to a question from a Member regarding terminology, the Chairman explained that a deferred pension was one which was taken later than pensionable age and that scheme members had the option to defer taking their pension if it met their individual needs.

The Chairman moved that the draft Pension Fund Annual Report and Draft Accounts for the 2021/22 financial year be approved as recommended. The motion was seconded by Councillor Christopher Marlow, put to the vote and CARRIED unanimously.

RESOLVED: That the draft Pension Fund Annual Report and Draft Accounts for the 2021/22 financial year be approved.

22 PENSION FUND PERFORMANCE Q2 2022/23
Report FSD22087

The report provided a summary of the investment performance of Bromley's Pension Fund in Quarter 2 of the 2022/23 financial year and included information on general financial and membership trends of the Pension Fund, including early retirements, as well as details of training options for Members and key developments in the Local Government Pension Fund (LGPS) expected during the next 5 years.

The Committee received an update from John Arthur, Senior Advisor: MJ Hudson who confirmed that 2022 had been a difficult year for investors after central banks across the world had raised interest rates to curb rising inflation. Whilst this had been anticipated, inflation levels had been higher than expected due to the geopolitical situation and spiralling wholesale gas prices which had served to destabilise the markets. The Senior Advisor: MJ Hudson advised that in his view, inflation was now peaking and would reduce in the short to medium-term provided there were no more unexpected events impacting the markets. Increased interest rates also offered investment opportunities with the 10-year forecast on UK Gilts now projected at 4.2% for 2022 against 0.0% for 2021. MJ Hudson had undertaken stress testing of cashflow assumptions for more persistently high inflation which provided reassurance that the Bromley Pension Fund was covered to the 2026/27 financial year using investment income currently distributed from the underlying portfolios, and that a further year could be covered should income from Global Equities be distributed to the fund. The performance of Bromley Pension Fund's two equity managers, Baillie Gifford and MFS Global Equity had varied widely over the past year with MFS Global Equity outperforming its benchmark by 6.9% whilst Baillie Gifford's investments had underperformed by -21.3% during the same period. This demonstrated the impact of different philosophies and investment styles in varying market conditions and illustrated how the two equity funds could act in counterpoint to each other.

In considering the update, the Chairman emphasised that active engagement with the challenges presented by the economic climate would be critical moving forward. The Bromley Pension Fund was a resilient scheme between 110-120% funded, even allowing for the reduction in investment values over the past year, and continued to have strong cashflow. The Senior Advisor: MJ Hudson underlined the need to determine the level of risk the Local Authority was prepared to accept in its investment strategy as lower risk investments generally yielded low returns. Furthermore, the Committee may also like to review the proportion of the fund given over to equity investment if there were concerns over the volatile economic climate. A Member stressed the importance of maintaining a simple investment strategy and highlighted that the nature of long-term investment meant that short-term losses often recovered over time. The Chairman observed that this was borne out by independent research which had identified that the relative simplicity of Bromley's fund management practices had supported its long-term stability.

The Committee discussed the Asset Allocation Review which had been commissioned to reassess the Fund's Strategic Asset Allocation from an asset-only perspective and suggest potential alternative portfolios that optimised risk and return based on updated long-term capital market assumptions, expected cashflow requirements and other constraints. The review made two recommendations comprising rebalancing the portfolio to the Strategic Asset Allocation to reduce volatility and to implement a 50% currency hedge on the global equities' portfolio based on the current standing of global currencies. Four potential portfolios to de-risk the fund had also been proposed which comprised 5% allocation to infrastructure; 5% allocation to social/affordable housing; 5% allocation to private debt; and 5% allocation to global credit (hedged), all of which were designed to offer greater diversification and increased yield, albeit with a slightly lower expected return relative to the Strategic Asset Allocation and increased illiquidity.

The Chairman underlined the need to consider the findings of the Asset Allocation Review alongside the actuarial review of the Bromley Pension Fund when this information became available and proposed that rebalancing of the fund's Strategic Asset Allocation be reviewed by the Committee on a regular basis moving forward. Following discussion, this was supported by Members, and it was agreed that the Committee would review rebalancing of the fund's Strategic Asset Allocation on a six-monthly basis. A Member voiced support for action being taken to de-risk the portfolio as it was incumbent on the Committee to take a prudent and responsible approach to investment on behalf of the Bromley Pension Fund members. The Member requested the Senior Advisor: MJ Hudson provide an analysis of how the fund would look if rebalancing had taken place regularly over the past four years and this would be taken forward following the meeting.

With regard to the four potential portfolios to de-risk the fund, Members generally expressed a preference for investing in social housing over infrastructure, although some infrastructure options might be worth exploring, such as renewable energy. A Member suggested that if social housing was considered a viable investment, investment in a future phase of the Meadowship Homes scheme could offer a low-risk long-term investment that would also contribute towards the delivery the Local Authority's housing objectives. Members discussed this possible investment opportunity which would also represent an investment in the Borough and its residents; however, it was recognised that any such scheme was liable to create a conflict of interest and the Committee would need to be mindful of its fiduciary duty and pursue only the best investment options for the fund. Investment in social housing in the Borough which bought rather than built houses also had the potential to impact the local housing market and disadvantage buyers. It was noted that whilst the Government had asked local authorities to plan for investing 5% of local pension funds in social investment across England and Wales, there was no requirement to invest any funds as yet, and a Member underlined the importance of considering other secure fixed income investments to de-risk the portfolio, such as UK gilts. Another Member argued against the recommendation to implement a 50% currency hedge on

the global equities' portfolio in light of the difficulties predicting the dynamic between global currencies over time.

In summation, the Committee agreed not to make any decisions regarding the recommendation to the Asset Allocation Review at this time and to revisit it at the next meeting of the Pensions Committee on 22 February 2023, including the proposal to invest in a future phase of the Meadowship Homes scheme.

RESOLVED: That:

- **The contents of the report and information contained in the related appendices be noted including:**
 - a) **Appendix 7 which sets out the key developments in LGPS expected during the next 5 years;**
 - b) **Appendix 8 which is the response of the Bromley Pension Fund to the Task Force for Climate Related Financial Disclosures (TCFD) consultation; and,**
 - c) **Appendix 9 which formalises Bromley's Discretionary Policy on the Abatement of Pensions.**

- **Members' comments on Appendix 10: Asset Allocation Review document considered in conjunction with Appendix 11: Notes of the MJ Hudson meeting of 2 November 2022 be noted.**

**23 LOCAL PENSION BOARD - DRAFT ANNUAL REPORT
Report CSD22128**

The report presented the Local Pension Board – Draft Annual Report which had been approved by the Local Pension Board at its meeting on 22 November 2022 and would also be provided to Council for noting. The Draft Annual Report comprised a range of information including a summary of the work of the Local Pension Board during the past year and details of areas of concern reported to or identified by the Board as well as any training that had been undertaken by Board Members.

RESOLVED: That the Annual Report of the Local Pension Board be noted.

**24 UPDATES FROM THE CHAIRMAN/DIRECTOR OF
FINANCE/PENSIONS INVESTMENT ADVISOR**

The Committee agreed that the special meeting of Pensions Committee scheduled for 17 January 2023 be cancelled to allow more time for key workstreams to be completed.

RESOLVED: That discussions under the Part 1 (Public) update be noted.

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

RESOLVED 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.

**The following summaries
refer to matters
involving exempt information**

26 CONFIRMATION OF EXEMPT MINUTES - 8 AND 27 JUNE 2022

The Part 2 (Exempt) minutes of the meetings held on 8 and 27 June 2022 were approved.

27 PENSION FUND PERFORMANCE Q2 2022/23 PART 2 (EXEMPT) INFORMATION

The Committee considered Part 2 (Exempt) information on Pension Fund Performance Q2 2022/23.

28 UPDATES FROM THE CHAIRMAN/DIRECTOR OF FINANCE/PENSIONS INVESTMENT ADVISOR (PART 2)

The Chairman and the Director of Finance provided a Part 2 (Exempt) update to the Committee on recent developments relating to pensions.

The Meeting ended at 9.50 pm

Chairman

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Report No.
CSD23028

London Borough of Bromley

PART ONE - PUBLIC

Decision Maker: LOCAL PENSION BOARD

Date: 7 February 2023

Decision Type: Non-Urgent Non-Executive Non-Key

Title: REPORT FROM THE PENSION FUND COMMITTEE

Contact Officer: Martin Doyle – Head of Pensions Shared Service
Tel No: 020 8871 6522
E-mail: martin.doyle@richmondandwandsworth.gov.uk

Chief Officer: Director of Finance

Ward: Borough Wide

1. Reason for report

- 1.1 The Local Pension Board are recommended to review the minutes and selected appendices from the meeting of the Joint Pensions Committee held on 1st December 2022 and report any comments or concerns to the Pensions Committee's next meeting.

2. REVIEW PENSIONS COMMITTEE MEETING 1ST DECEMBER 2022 MINUTES

2.1 Members of the Local Pension Board are asked to note:

- 2.1.1 Minutes from the meeting of the Pensions Committee 1 December 2022 (see Agenda Items 4 and 12);
- 2.1.2 Appendix 1 - MJ Hudson - Pension Fund Performance Q2 2022/23;
- 2.1.3 Appendix 2 – Key Developments in LGPS;
- 2.1.4 Appendix 3 – Response to TCFD Consultation; and,
- 2.1.5 Appendix 4 – Formalising Abatement Policy.

Impact on Vulnerable Adults and Children

1. Summary of Impact: N/A
-

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 for the purpose of providing pension benefits for its employees.
 2. BBB Priority: Excellent Council
-

Financial

1. Cost of proposal: No Cost
 2. Ongoing costs: TBC
 3. Budget head/performance centre: Pension Fund
 4. Total current budget for this head: TBC
 5. Source of funding: Contributions to Pension Fund
-

Personnel

1. Number of staff (current and additional): The Local Pension Board comprises of 2 Employer Representatives and two Member Representatives. The Board is supported by the Head of Pensions Shared Service.
 2. If from existing staff resources, number of staff hours: N/A
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Legal

1. Legal Requirement: Statutory Requirement Local Government Pension Scheme Regulations 2013 (as amended).
 2. Call-in: Not Applicable: No Executive Decision
-

Procurement

1. Summary of Procurement Implications: N/A
-

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,137 current active members, 7,469 deferred pensioners and 5,911 pensioner members (for all employers in the Fund) as at 30th September 2022.
-

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

- 3.1 Reviewing these documents will assist the scheme manager in ensuring the efficient governance and administration of the Scheme. With regard to any comments that the Local Pension Board may have on any other papers on this agenda, it is proposed that these be notified to the next Pensions Committee.
- 3.2 Reviewing the Pensions Committee documents will ensure that the Board is fulfilling its oversight function.

3. 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 for the purpose of providing pension benefits for its employees.

4. FINANCIAL IMPLICATIONS

- 5.1 None arising from directly from this report.

6. LEGAL IMPLICATIONS

- 6.1 The Public Service Pensions Act 2013 provides primary legislation for all public service schemes including the LGPS 2014.

Non-Applicable Sections:	Procurement and Personnel Implications Impact on Vulnerable Adults and Children
Background Documents: (Access via Contact Officer)	Public Service Pensions Act 2013; Local Government Pension Scheme Regulations 2013 (as amended); Code of Practice 'Governance and Administration of Public Service Pension Schemes' The Pensions Regulator Engagement Report "Governance and administration risks in public service pension schemes"

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London Borough of Bromley

Quarterly Report

Q2 2022

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Performance Summary

2022 remains a difficult year for investors as central banks across the globe raise interest rates to curb rampant inflation. Almost all asset classes were down in the third quarter, often by more than 10% and almost all are down year to date. The table below details the changes in the main asset classes to illustrate the scale of the downturn. The figures are in local currency. The scale of the fall in government bonds globally, but particularly in the UK, is unprecedented over such a short period.

Index (Local Currency)		Q3 2022	Quarter-on-Quarter	YTD
Equities		Index Value	Total Return	
UK Large-Cap Equities	FTSE 100	6,894	-2.8%	-3.8%
UK All-Cap Equities	FTSE All-Share	3,763	-3.5%	-8.0%
US Equities	S&P 500	3,586	-4.9%	-23.9%
European Equities	EURO STOXX 50 Price EUR	3,318	-3.7%	-20.4%
Japanese Equities	Nikkei 225	25,937	-0.9%	-9.8%
EM Equities	MSCI Emerging Markets (USD)	876	-11.5%	-27.0%
Global Equities	MSCI World (USD)	2,379	-6.07%	-25.12%
Government Bonds				
UK Gilts	FTSE Actuaries UK Gilts TR AllSocks	2,968	-12.8%	-25.1%
UK Gilts Over 15 Years	FTSE Actuaries UK Gilts Over 15 Yr	3,764	-18.8%	-38.9%
UK Index-Linked Gilts	FTSE Actuaries UK Index-Linked Gilts TR AllStocks	4,256	-9.3%	-29.3%
UK Index-Linked Gilts Over 15 Years	FTSE Actuaries UK Index-Linked Gilts TR Over 15 Yr	5,231	-11.1%	-39.2%
Euro Gov Bonds	Bloomberg EU Govt AllBonds TR	213	-5.1%	-16.7%
US Gov Bonds	Bloomberg US Treasuries TR Unhedged	2,173	-4.3%	-13.1%
EM Gov Bonds (Local)	J.P.Morgan Government Bond Index Emerging Markets Core Index	115	-4.3%	-16.7%
EM Gov Bonds (Hard/USD)	J.P.Morgan Emerging Markets Global Diversified Index	743	-4.6%	-23.9%
Bond Indices				
UK Corporate Investment Grade	S&P UK Investment Grade Corporate Bond Index TR	310	-11.4%	-23.3%
European Corporate Investment Grade	Bloomberg Pan-European Aggregate Corporate TR Unhedged	209	-4.7%	-16.6%
European Corporate High Yield	Bloomberg Pan-European HY TR Unhedged	372	-0.9%	-15.1%
US Corporate Investment Grade	Bloomberg US Corporate Investment Grade TR Unhedged	2,864	-5.1%	-18.7%
US Corporate High Yield	Bloomberg US Corporate HY TR Unhedged	2,099	-0.6%	-14.7%
Commodities				
Brent Crude Oil	Generic 1st Crude Oil, Brent, USD/bbl	88	-23.4%	13.1%
Natural Gas (US)	Generic 1st Natural Gas, USD/MM Btu	6.77	24.7%	81.4%
Gold	Generic 1st Gold, USD/toz	1,662	-8.0%	-9.1%
Copper	Generic 1st Copper, USD/lb	341	-8.1%	-23.5%
Currencies				
GBP/EUR	GBP/EUR Exchange Rate	1.14	-2.0%	-4.2%
GBP/USD	GBP/USD Exchange Rate	1.12	-8.3%	-17.5%
EUR/USD	EUR/USD Exchange Rate	0.98	-6.5%	-13.8%
USD/JPY	USD/JPY Exchange Rate	144.74	6.7%	25.8%
Dollar Index	Dollar Index Spot	112.12	7.1%	17.2%
Alternatives				
Infrastructure	S&P Global Infrastructure Index	2,411	-9.6%	-10.1%
Private Equity	S&P Listed Private Equity Index	144	-10.2%	-35.8%
Hedge Funds	Hedge Fund Research HFRIFund-Weighted Composite Index	17,496	1.7%	-4.0%
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP	3,599	-3.8%	-13.7%
Volatility			Change in Volatility	
VIX	Chicago Board Options Exchange SPX Volatility Index	32	10.1%	83.6%

In this hostile environment the Fund fell by only 0.5% which looks exceptionally good compared with the figures for asset class returns shown above but is explained by the weakness of Sterling which fell 8.3% against the US Dollar and 2.0%

against the Euro. The weakness of Sterling boosted the returns of all assets held overseas which includes almost all of the Global Equity exposure and much of the Multi-Asset Income exposure as well as the small holding in International Property and the US Dollar cash balance. The Fund's benchmark, which is also unhedged, fell 1% in the quarter. Given the weakness of Sterling against almost all major currencies so far this year, I am again reviewing the rationale for partially hedging Global Equities back to Sterling. This only makes sense if Sterling is currently undervalued on a long-term basis.

Over the last year the Fund has fallen by 12.5%, noticeably underperforming its benchmark by 7.8%. This has been caused by the underperformance of the Baillie Gifford Global Equity portfolio, the largest portfolio in the Fund which, following a period of exceptionally strong performance, has had a torrid last 12 months, and by the two Multi Asset Income portfolios which have a cash plus X style benchmark that will rise every quarter irrespective of market returns and, as such, will lead the two portfolios to show underperformance in falling markets. Over 3 and 5-year timespans the Fund is matching its benchmark return and even after the most recent market falls has returned 8.5% per annum over the last 35 years which remains substantially above inflation over that period.

The Fund is now valued at £1.22bn.

Comment

Although the last meeting of the Pensions Committee was cancelled due to the Queen's funeral, I believe the papers were sent out and will, therefore, assume my last report has been read.

Interest rates continue to rise and will do so for at least another quarter across the US, UK and EU. The questions are:

- Has inflation peaked
- How quickly it will come down
- Will the rise in interest rates cause a recession

The answer to these questions will set the tone for markets globally because all asset classes are, to some extent, priced off the expected government bond yield (theoretical risk free rate).

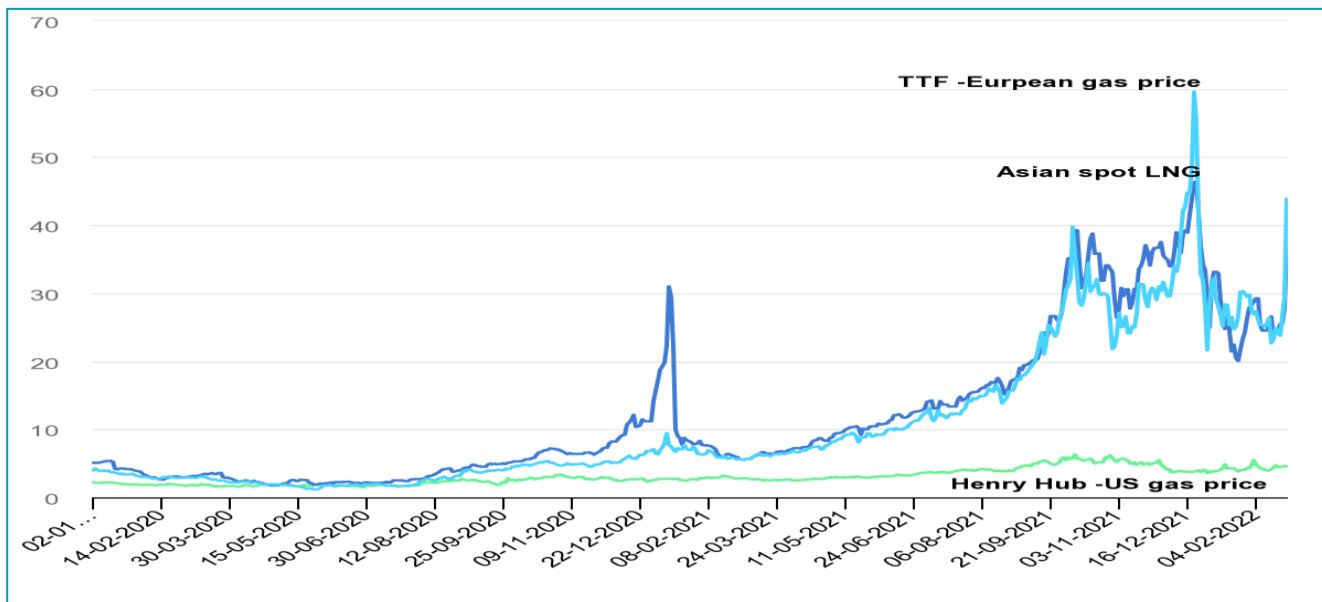
The common factor behind the rise in inflation is the pent up consumer demand post Covid hitting a disrupted supply chain, particularly whilst China follows a zero Covid policy which can shut down whole economic regions affecting millions of people. I would expect much of this supply chain disruption to ease as we enter the new year and we are already seeing some fall in shipping costs. Because inflation is measured as a year on year change, a number of factors will move from being large positive contributors to rising inflation (e.g. energy) to becoming a negative influence over the next few months as past year price rises drop out of the equation and more recent price falls are included. This could lead to inflation falling from its peak faster than many commentators expect. However, as discussed in my previous quarterly reports, there are now a number of long-term inflationary tailwinds which are likely to keep core inflation above the central bank targets of 2% per annum going forward. Outside of these effects, each region has different factors behind the rise in inflation. In the US, it is the tight labour market driven by record low unemployment which is pushing up wages.

The chart below shows the US unemployment rate as a percentage of the working age population.



A tight labour market causing inflationary pressures can be rectified by rising interest rates to a level where demand slows and unemployment therefore rises. The ability of a central bank to raise interest rates to just the right level to slow future demand without causing a recession is very debateable and history suggests this would be a highly unlikely outcome but it is made even harder this time because Covid lockdowns have left many companies and consumers with a raised savings rate and a greater ability to sustain spending, even as the economy slows. In addition, gas prices in the US are a fraction of those in the rest of the world because the country is self-sufficient in oil and gas. This gives the country a competitive advantage in any industry where gas is a feedstock, e.g. fertiliser. We are seeing whole industries in Europe and the UK shut down as customers switch to buying product from the US, again supporting US growth.

\$/mmbtu

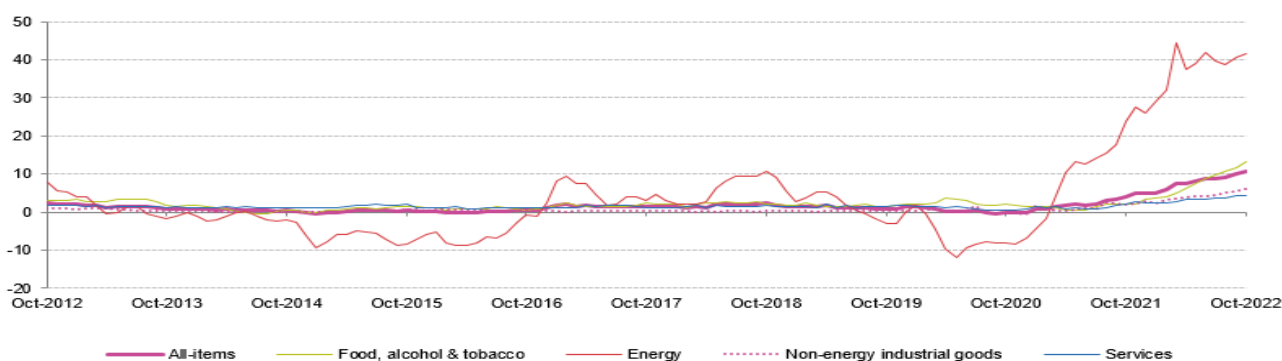


After 6 interest rate hikes this year, the last 4 being of 0.75% each time, the US Federal Fund's rate (interest rate) has now risen to 3.75%-4.25%. The market expects interest rates to continue to increase, albeit at a slower pace, and to peak at 4.75%-5.0% around the middle of 2023 before falling back as a mild recession takes place. US inflation peaked at 9.1% and has now fallen for 4 consecutive months to 7.7%. If you exclude food and energy, which can be volatile and where the Russian invasion of Ukraine has had a direct impact, core US inflation is running at near 5%. My personal expectation is that whilst the headline inflation figure will continue to fall back, allowing the US Fed to slow the pace of interest increases in line with market expectations, the underlying economy will prove rather resilient and therefore the tight labour market will persist and this will force the US Fed to eventually raise interest rates above the expected peak of 5% later in the year.

In Europe, the effect of the massive rise in gas prices is much more central to the inflation debate.

Euro area annual inflation and its main components, October 2012 - October 2022

(%)



Source: Eurostat (online data code: prc_hicp_manr)

This makes predicting the future much harder. Whilst gas prices have fallen from recent peaks, they are still high. Raising interest rates will have a much more delayed effect on energy prices as many industries and consumers have relatively fixed energy requirements and altering these takes time (think housing insulation). It also makes EU inflation much more dependant on the outcome of Russia's war in the Ukraine. The positive is that if this reached an acceptable conclusion that allowed both sides to resume trading with each other, then gas prices could decline rapidly solving much of the short-term EU inflation problem. On the negative side, the EU remains susceptible to further disruption in gas flows and parts of the gas infrastructure e.g. undersea pipelines from Norway to the UK are exposed to sabotage. A conclusion to the Russia/Ukraine war seems unlikely whilst Putin remains in power and on the assumption that he remains then the effects of high energy prices, high inflation and rising interest rates is likely to take the EU into a recession during 2022.

The UK is a mix of the issues confronting the US and EU with both a tight labour market and exposure to high global gas prices. The situation is made more precarious by a budget deficit which requires the country to borrow to meet its spending requirements and a current account deficit which means we export less than we import and therefore require overseas investors and lenders to invest in the UK and purchase UK assets to support the currency. Whilst it is not unusual for a country to run a current account and budget deficit it does mean that it is, to some extent, reliant on lenders and particularly overseas lenders to finance these deficits. The lenders need to believe their loans will be paid back in a stable currency. These issues, whilst simple, were not understood by the Truss/Kwarteng government with their actions leading to a major disruption in lender's views of the UK as a credit risk, forcing Gilt yields higher and Sterling lower. Whilst both UK Gilts and Sterling have now recovered, the reputation and competence of the UK Government has been brought into question and now needs to be restored by showing a much more believable path to lowering government debt levels hence the highly restrictive recent Autumn Statement released by Jeremy Hunt as UK chancellor. The UK remains in a poor position with low growth predicted going forward and whilst many of these problems seem to be of the Government's own making we have yet to see a credible plan to raise the long-term growth rate of the UK economy. Fortunately, the UK is not a major part of the global economy and market direction will be set by how inflation plays out in the US and globally.

Asset Allocation

The Fund's tactical asset allocation continues to deviate from the Strategic Asset Allocation (SAA) Benchmark, being overweight equities. The table below shows the changes to the asset allocation so far this year. There was a further small drawdown into the International Property fund during the last quarter, this was financed from the US Dollar cash holding. The increasing underweight in Bonds and overweight in property are a function of relative performance of these asset classes over the year to date.

Asset class	Asset Allocation as at 31/12/2021	New benchmark going forward	Position against the benchmark	Asset Allocation as at 30/6/2022	Position against the benchmark
Equities	65.8%	57.5%	+8.3%	65.8%	+8.3%
Fixed Interest	10.7%	12.5%	-1.8%	9.5%	-3.0%
Property	5.3%	5%	+0.3%	6.4%	+1.4%
Multi-Asset Income	17.2%	20%	-2.8%	17.0%	-3.0%
Int'l Property +US\$	1.0%	5%	-4.0%	1.4%	-3.6%

Figures may not add up due to rounding

In early November your officers and the Chair held their triennial meeting with the Fund's asset managers to discuss expectations for future investment returns. There was a consensus on the major change in asset valuations driven by the rising Government Bond yields and, whilst a number of managers saw some attraction in various of the alternative asset classes such as Infrastructure, the main improvement in expected returns is in the liquid asset classes of equities and bonds partly because these have been the fastest to reprice lower as interest rates have risen.

Below is printed a table of forecast asset class returns produced by J.P. Morgan, I find these the most comprehensive. Whilst there was some difference between the forecast returns set out here and those forecast by the Fund's individual asset managers, the actual numbers were not dissimilar and, in particular, the relative returns forecast between the various asset classes was fairly consistent.

These are 10 year forecasts and given that interest rates are still rising and we may be about to enter a recession, forecast returns may be back end loaded from here with the next two years remaining difficult.

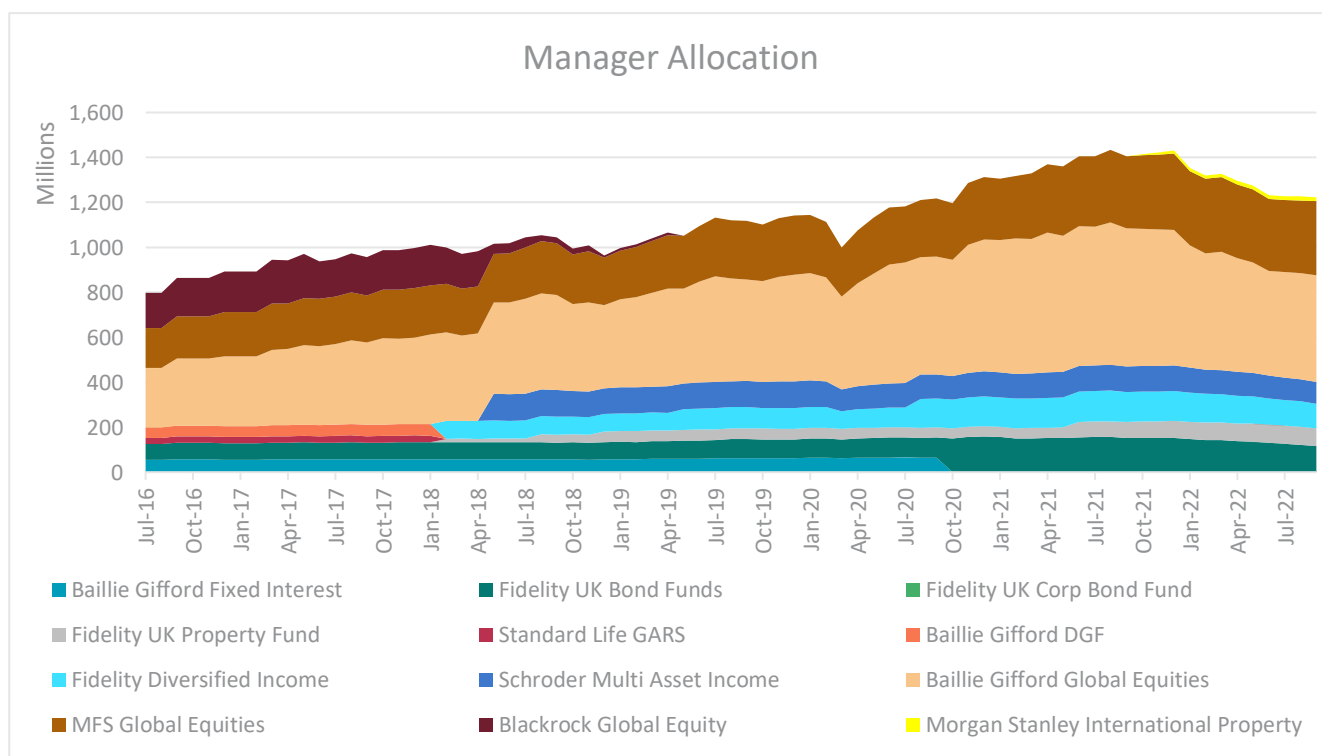
The table below sets out the LTCM forecast produced by JP Morgan in 2021 and 2022.

Asset Class	Index	2021 10 year return forecast	2022 10 year return forecast	2022 volatility forecast
Global Equities	MSCI AC World	5.2%	6.7%	13.9%
Fixed interest	UK Gilts	0.0%	4.2%	7.6%
	Global Investment Grade Bonds	2.5%	5.1%	5.4%
	UK Investment Grade Bonds	2.2%	4.2%	7.6%
Property	UK Core Real Estate	6.6%	5.5%	13.0%
	US Core Real Estate	5.6%	3.9%	10.2%
Alternatives	Global Core infrastructure	5.8%	4.5%	10.8%
	Private Equity	8.2%	8.1%	17.5%
	Direct Lending	7.4%	6.0%	15.8%
	Social housing	4.0%	4.0%	10.8%

As can be seen in the table above, the largest increase in expected returns is in the Fixed Interest markets and is as a direct result of expecting interest rates and thereby bond yields to remain higher into the future. The expected return on UK Gilts is approximately equal to the current yield. Return expectations for Global Equities have also risen which makes sense given the lower starting valuation post market falls. There has been no real increase in return expectations across alternative investment sectors and many of these areas have yet to see prices fall following the rise in bond yields due to their illiquid nature and therefore scarce pricing points.

A more detailed discussion of market return assumptions and the effect this should have on the Fund's investment strategy can be found in the recent Strategic Asset Allocation Review conducted by MJ Hudson.

The chart below shows the Fund's assets by manager/mandate.



Cash Flow

Your officers have again stress tested their cashflow assumptions for more persistently high inflation. Even under this scenario, the cash outflow (pension payments > pension contributions) from the Fund is covered out to 2026/7 using investment income which is currently distributed from the underlying portfolios. At present, the income from Global Equities is reinvested and if this was distributed to the Fund it would cover the cash outflow for at least a further year. Income is currently taken from the two Multi-Asset Income portfolios, the UK Property portfolio and the Fixed Interest portfolio. Income from the two Global Equity portfolios continues to be reinvested by their investment managers. The Fund does not, therefore, need to alter the strategic asset allocation of the Fund to generate more income at the current time.

The Fund currently holds £5m in US Dollar cash to cover future drawdowns into the International Property portfolio. This will cover the next quarter of potential drawdowns. Further to this the Fund is forecast to hold £16m in cash by the end of the 2022/3 financial year and this should cover the drawdown requirements for this portfolio into next year. The International Property portfolio is expected to drawdown approximately £20m per annum for the next 3 years.

Funding level

Date	Assets	Current Liabilities	Funding Level	Discount rate
31/3/10	£429m	£511m	84%	6.9%
31/3/13	£584m	£712m	92%	4.95%
31/3/16	£748m	£818m	91%	4.2%
31/3/19	£1,039m	£945m	110%	3.65%
Current	£1,222m	£1,073m	114%*	?

*This is an estimate!

The Funding level may deviate from the current assumption used in the table above due to the impact of legislative changes e.g. the McCloud judgement, changes to the actuarial discount rate or changes to inflation expectations. All these issues should be expected to increase the current valuation of future pension liabilities: even so, I would estimate that the Fund currently has in excess of 110% of the value of existing pension liabilities. The actuary assumes that future investment returns will cover the accrual of future pension liabilities. The next actuarial revaluation will commence using the figures from 31/3/2022. I would expect the main change to be the assumptions used for inflation which will have to rise from the 2.4% used in the 2019 revaluation. This will affect the assumptions used for pension increases and salary increases and is likely to increase the cash outflow out of the Fund.

Environmental, Social and Governance (ESG)

Your officers recently circulated a response to the Government consultation on the introduction of Taskforce for Climate Related Financial Disclosure (TCFD) reporting and we await the announcement from the Government regarding the timescale for LGPS funds to prepare this. This will be a major task for the Fund as it requires the Committee to set out the following:

- Governance: The organization's governance around climate-related risks and opportunities.
- Strategy: The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning.
- Risk Management: The processes used by the organization to identify, assess and manage climate-related risks.
- Metrics and Targets: The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Each of these sections will require the Committee to think through its current approach to climate change, how this will evolve into the future and what metrics and targets it will monitor to hold itself to account.

Carbon Emissions data

In order to illustrate the carbon intensity of the Fund I have asked each manager to provide the CO2 equivalent (CO2e) of six recognised greenhouse gases covered by the Kyoto protocol (CO2, CH4, N2O, HFC's, PFC's and SF6) and to show these as tonnes of CO2 equivalent per £m of sales (tCO2e/£m) aggregated to the portfolio level. This gives a comparable carbon footprint for each portfolio and their respective index where possible. These figures relate to scope 1 & 2 emissions only.

Carbon reporting is still developing and for many of the metrics it relies on the reporting of three scopes of emissions:

- Scope 1 covers direct emissions from owned or controlled sources.
- Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company.
- Scope 3 includes all other indirect emissions that occur in a company's value chain.

Whilst progress is being made by companies to quantify all three of these scopes, it is the last, covering the whole of the value chain, which is by far the most complex. The majority of carbon reporting available at present covers only scope 1 & 2 emissions.

Portfolio	tCo2e/£m	Benchmark equivalent.	% of portfolio covered	Benchmark
Baillie Gifford Global Equity	159.06	196.96	99%	MSCI All Countries World
MFS global Equity	tbc	tbc		MSCI World (Developed Markets only)
Fidelity Multi-Asset Income	243.9	n/a	46%	
Schroders Multi-Asset Income	145	n/a	67%	70% Global Equity 30% Global Bond
Fidelity Fixed Interest	99	104	68%	Sterling Corporate FI benchmark
Fidelity UK Property	n/a	n/a	70%	Insufficient data
Morgan Stanley Intl Property	n/a	n/a		Insufficient data

I believe these figures to be comparable, they are expressed as a carbon equivalent per million pounds of sales at the company level. Where there is a comparable index figure, the Fund's assets are managed with a noticeably lower carbon intensity than the index. Fidelity and Morgan Stanley are unable at present to provide this data for the Property portfolios but are inserting clauses in all new leases which require tenants to report such figures. Each manager has also noted a number of companies where they are currently unable to provide this data, this is mainly for emerging market companies and where the portfolio is invested in third party funds. We, and the industry, continue to push for greater disclosure.

I will continue to discuss with each manager the best way to report this data going forward and suggest it should be reviewed annually with the intention of seeing the carbon intensity of the Fund's portfolios fall over time. This may be hampered in the short-term by filling out the missing data. Personally, I regard carbon reporting as similar to performance reporting for the Fund, the quarterly data is just a point in time and of itself is of limited use, what is more important is the direction of travel and level of volatility within the figures, each of which can lead to further discussion but I have included in the table the percentage of each portfolio which is producing the required figure.

Executive Summary

- Q3 was challenging for most investors, with only temporary optimism as central banks continued their rate hikes. Markets are challenged by a combination of high inflation, slowing economic growth, a strong US dollar and, accelerated interest rate hikes. Equity markets rose for the first half of the quarter, in the hope that rate hikes would finish in early 2023 but disappointing inflation

figures turned expectations of monetary policy more hawkish one again and led to repricing in light of persistent high inflation. Similarly, long-term bond yields fell until late July as markets viewed recession risk as taking precedence over inflation, however, with policymakers tightening monetary policy further with additional rate hikes, the tide turned mid quarter with yields rising to quarter end. Global equities fell again, declining by -6.1% over the course of the quarter. Emerging markets detracted the most within equity markets (-11.5%) facing the headwinds of slowing growth from China and a strong US dollar. US equities fell -4.9%; followed by European and UK equities (-3.7% and -3.5% respectively). Growth stocks fell less (-5.2%) than value stocks (-7.8%) for the first quarter in a while. Corporate and government bond indices also fell sharply (with UK Gilts and UK investment grade credit falling by -12.8% and -11.4% respectively), while emerging market bonds in hard currency terms fell by -4.6%. Real assets such as commodities and real estate generally also fell and the US dollar strengthened against most currencies, benefiting from broad risk aversion and increasing interest rate differentials in its favour.

- **GDP growth:** Despite the ongoing recovery from the pandemic, the impact of the war in Ukraine on high inflation resulting in rising interest rates globally will slow growth in the UK and Europe in particular likely to enter a recession next year. As the Russian war continues, commodity prices will remain high and volatile and supply chains disrupted. The US is forecasting a GDP growth rate of 0.3% for Q3, following declines in both Q1 and Q2. China's growth has been disrupted by ongoing COVID-19 lockdowns and a real estate slump - its GDP growth is expected to slow sharply to 2.8% in 2022.
- The new UK Government's September "mini-budget", which in part attempted to boost growth, was poorly constructed and badly misjudged: markets were spooked by the risk which the unfunded tax-cuts, on top of a universal energy support package posed to the UK's fiscal position, resulting in a rapid rise in long-term interest rates and a sharp fall in Sterling. Gilt markets have stabilized following the BoE's intervention, but the increased volatility does represent a risk factor to UK pension funds, whilst those with "Liability Driven Investment" (LDI) portfolios have had to source liquidity in order to meet significant margin calls.
 - **It is worth highlighting the following themes, impacting investment markets:**
 - **Inflation – the end is not yet in sight.** While YoY CPI inflation appears more or less to have plateaued near double digit levels (in the US, August CPI increased to 8.3% YoY, Eurozone inflation rose to 10.0% and the BoE expects UK inflation to be in double digits for the next few months) there are clear indications of inflation becoming more entrenched. Euro core inflation rose to a new high at 4.8%, highlighting the stickiness as it shifts from goods to service prices, while average earnings are starting to rise faster (average hourly earnings rose to 5.2% in the US in August, 5.5% in the UK in July). 10-year inflation break-evens are well above Central Bank targets (e.g. c. 4% in UK), suggesting inflation is likely to remain "higher for longer".
 - **Inflation vs Recession – the monetary policy conflict.** To combat this, monetary policy continued to tighten in most major developed countries, with the US Fed, the BoE and the ECB all raising rates several times in Q3. In addition, the Fed is expected to increase the pace of reducing its balance sheet ("Quantitative Tightening", QT), while the BoE was planning to start QT at the end October before the mini-budget necessitated a reversal. Markets now expect rates to peak in the 4.5-4.75% range in the US and around 5.5% in the UK. But 10-year real rates are still only barely positive, suggesting further rises may be needed to quell inflation; central banks remain very focussed on the latter. As a result the likelihood of a "hard recession" is increasing, particularly in the UK and Europe.
 - **Liquidity risk rising:** While higher rates increase the attractiveness of cash, the tighter monetary policy (particularly QT) increases the risk of liquidity stresses appearing in financial markets. The spiral in UK Gilt yields, which caused UK pension funds with LDI exposure to sell other assets in order to meet margin calls is symptomatic of this. Investors may want to take this opportunity to examine the liquidity profiles of their portfolios, and ensure they are comfortable.
 - **Valuations – looking more attractive if earnings are sustained:** With global equities over 25% off their peak and credit markets 15-20% down, valuations are looking more in line with long-term averages. US equities are trading on 15x forward P/E, while most other regions are nearer 10x, and global investment grade indices yield c.4-5%. Corporate profits have so far remained broadly resilient, and expectations for 2023 earnings are still strong despite the strong US dollar which historically has a negative impact on S&P 500 earnings. US profit margins have declined to 10.9% for Q2, down from 11.9% for Q1, but still above the long-term trend and recessionary levels. Similarly, credit spreads have widened only slightly beyond their long-term average, signalling investors' views that economic recession may well occur, but widespread defaults are less likely. This potentially indicates that earnings forecasts and default expectations may still be too sanguine and a more severe recession could undermine valuations.
- Global equities fell sharply in Q3, continuing the year-to-date trend. In addition to the ongoing war in Ukraine, the impact from slowing economic growth, rising interest rates, and high inflation have all significantly hit markets. Given the selloff in equity markets, the VIX increased by 10.1%, from 28.7 to 31.6.
 - In the US, the S&P 500 fell by -4.9% and the NASDAQ fell by -3.9% in response to interest rate hikes. Communication services and REITs were the hardest hit in the quarter, down -12.7% and -11.0% respectively. Energy and consumer discretionary were the only positive sectors in the quarter, although consumer discretionary had fallen significantly in Q2.
 - UK equities continued to be impacted by the war in Ukraine and subsequent volatility in energy prices. The BoE raised the base rate to 2.25% in September. New fiscal policies from the new Government resulted in markets falling sharply and Gilt yields

rising dramatically at the end of the quarter. However. On a relative basis the UK somewhat outperformed global equities, declining by -2.8% (FTSE 100) and -3.5% (FTSE All-Share).

- The Euro Stoxx 50 fell by -3.7% in Q3 as the ECB ended its long period of negative rates. Concerns over the higher cost of living and the possibility of recession saw the European Commission's consumer confidence reading fall to -28.8 in September, a level lower than during the peak fear of the pandemic.
- Japanese equities fell by -0.9% in Q3. While inflation has been trending higher and above the target range, it remains well anchored relative to peers, at only 3.0% for August. The BoJ has steadfastly kept monetary policy stable, but was forced to intervene in currency markets as the yen has fallen particularly sharply against the US dollar, reaching 144.
- Emerging market equities fell more (-11.5%) than global equities, with US dollar strength the main headwind as well as marked weakness in Chinese economic data.
- Bond yields rose in Q3 amid elevated inflation and rising interest rates. Yields initially fell in July/August due to rising recession concerns; but ended the quarter higher on Central Banks' comments and rate hikes. In corporate bonds, high-yield credit outperformed as spreads were largely unchanged and have less duration sensitivity. Emerging market bonds fell -4.3% in local currency, and -4.6% in hard currency.
 - The US 10-year Treasury yield rose from 2.98% to 3.83% and the 2-year from 2.93% to 4.22%. Treasuries provided a total Q3 return of -4.3%. The unemployment rate rose slightly to 3.7% in August, indicating a still strong labour market, and supporting the Fed's case for further policy tightening. The Michigan Consumer Sentiment index rose to 58.6 in September but remains well below pre-pandemic levels.
 - The UK 10-year Gilt yield increased from 2.23% to 4.09% and 2-year rose from 1.88% to 4.30%. Much of the increase occurred in August/September due to the proposed tax cuts and borrowing by the new government, which caused sterling to slump and yields to spike, and for the BoE to announce emergency gilt buying. The yield spike is understood to have also resulted in forced selling to meet margin calls from some pension funds with LDI strategies.
 - European government bonds had a total return of -5.1% in Q3. The selloff in European government bonds took place as the ECB raised rates by 125bps in Q3 with further rises expected to try and reduce inflation, following the same path as the BoE and Fed. The German 10-year bund yield increased from 1.37% to 1.87% with Italy's up from 3.19% to 4.17%, although hitting as high as 4.75% in September.
 - US high-yield bonds outperformed the global bonds market, returning -0.6%, and European high-yield bonds returned -0.9%. Investment-grade bonds returned -11.4% in the UK, -4.7% in Europe and -5.1% in the US.
- Energy prices fluctuated in Q3 2022, with the continuation of the war in Ukraine, and tension regarding the Nord Stream pipeline. Natural gas prices rose, while crude oil prices fell as recession fears (and expectations of falling oil demand) weighed on sentiment. Precious metals fell, negatively impacted by the rise in rates.
 - US gas prices rose 24.7% over Q3, influenced by concerns over global supply. The increase in exports from the US to Europe, due to Europe seeking to replace Russian gas, has led US prices to rise. Prices in Europe climbed over Q3 (Dutch TTF Gas Futures +33%) due to the aforementioned Nord Stream issues. Prices spiked round 330 €/MWh in August when Russia announced a 3-day shutdown of Nord Stream 1, but subsequently retreated to end the quarter at 188.
 - Brent crude oil fell -23.4% in Q3. Prices have been volatile as fears of a fall in demand from a global recession and structural trends toward renewable energy have clashed with supply side disruptions. Oil prices fell through the quarter except a small jump prior to the OPEC+ meeting in early September where the group agreed a marginal but symbolic cut in production. Brent closed the quarter at \$88 per barrel.
 - Gold and Copper fell -8.0% and -8.1% respectively in Q3, with gold falling on rising interest rates, and copper falling on concerns of slowing economic growth, Chinese economic growth in particular. Gold and Copper closed Q3 at 1,662 USD/toz and 341 USD/lb, respectively.
- Global listed property had a weak quarter, with the FTSE EPRA Nareit Global Index falling -3.8% in Q3.
 - Property prices in the UK have begun to decline recently, with the Green Street Commercial Property Price Index down by -4.9% this quarter. The all-property index is now down -5.9% since the start of the year.
 - The rise in the Nationwide House Price Index in the UK slowed slightly to up 9.5% YoY in Q3, from up 10.7% in Q2. Expectations indicate a slowdown, with mortgage approvals falling back towards pre-pandemic levels and rising mortgage rates. However, the housing market has retained some momentum given rising inflation and further stamp duty cuts.
- In Q3, sterling weakened sharply against the US dollar (-8.3%) and the euro (-2.0%). The principal driver came late in September as the new Chancellor proposed cutting taxes and increasing government borrowing. Existing fears of a UK recession and inflation uncertainty had already placed relatively low confidence in the UK economy and currency. Overall, the US dollar (Dollar index +7.1%) had a strong Q3 and strong YTD (+17.2%). Notably the US dollar also strengthened against the Japanese yen by 6.7% despite the intervention by the BoJ, reflecting the attractive mix of a high interest rate and "safe haven" status that the dollar currently offers.

Performance report

Asset Class/ Manager	Global Equities/ Baillie Gifford
Fund AuM	£474m Segregated Fund; 38.8% of the Fund
Benchmark/ Target	MSCI All Countries World Index +2-3% p.a over a rolling 5 years
Adviser opinion	Short-term performance has been poor, acceptable longer term.
Last meeting with manager	John Arthur/John Carnegie by phone
Fees	

The Baillie Gifford Global High Alpha portfolio rose by 1.7% over the quarter against a benchmark rise of 1.5%. The portfolio is now behind the index over the last year by -17.6%. Long-term performance is mixed with the portfolio underperforming marginally over 5 years but adding 0.5% per annum since inception in 1999.

The table below gives the recent calendar year returns for both the portfolio and the benchmark. As can be seen in the table, performance has varied markedly from the benchmark over the last 5 years and this is because Baillie Gifford have a very strong investment philosophy and process which leads them to build a portfolio which differs markedly from the benchmark index. There is only a 14% overlap between their portfolio and the index at present.

	2017	2018	2019	2020	2021	Last 12 months
BG Global Alpha	23.3%	-3.7%	28.4%	33.1%	8.9%	-21.3%
MSCI All Country World	13.8%	-3.3%	22.4%	13.2%	20.1%	-3.7%
Relative performance	+9.5%	-0.4%	+6.0%	+19.9%	-11.2%	-17.6%

The MSCI All Countries World index fell by 6% in US Dollar terms but with Sterling falling over 8% against the US Dollar, this led to a positive index return in Sterling. The US accounts for over 60% of the MSCI AC Word Index.

This is the first quarter of positive performance in over 12 months. It should be remembered that 12 months ago we were assuming the stella outperformance of the Baillie Gifford portfolio was coming to an end as rising inflation was expected to force interest rates higher which would undermine the valuation of high growth companies. In my 2nd quarter 2021 report I stated: 'I have noted previously that this portfolio is less likely to add significant value during a period of rising interest rates and, as such, I would expect the exceptional performance of the last 5 years to fade slightly but I remain impressed by how Baillie Gifford approach investment and would expect this portfolio to continue to add value over the longer-term.'

The difference between our expectation then and what has actually happened is the scale of the underperformance. In September last year inflation expectations were for a short-term peak of 4-5% during 2022 with US interest rates rising to 3-3.5%. In reality, we have seen inflation peak at over 10% with interest rates now heading for 5%. It is the change in long-term interest rates which has altered the valuation of equity markets. The price of an equity theoretically is the current value of future dividends, discounted back to today's value. One of the major determinants of that price is the discount rate used which is taken from bond yields. Post the Russian invasion of Ukraine, inflation forecasts and therefore bond yields rose rapidly, undermining the valuation of growth companies in particular. Baillie Gifford have made some mistakes over the last year, e.g. being caught out by the regulatory zeal against the free market in China and being slow to sell their Russian holdings as well as being invested in a small number of early stage businesses where higher financing costs have undermined the business rationale. However, for the majority of their holdings, progress in terms of sales and profitability over the last year have been in line with expectations, it is purely the valuation which has changed. I stick by my comment of last year that I still expect Baillie Gifford to add value over the long-term because the speed of technological change and resulting disruption of whole swathes of the economy has not slowed and so, in a slow growth environment, companies

which can show rapid growth and are re-engineering the way an industry operates by undercutting the entrenched players, will still be a source of long-term growth and profitability and, hence, in time, share price performance.

Asset Class/ Manager	Global Equities/MFS
Fund AuM	£329m Segregated Fund; 26.9% of the Fund
Benchmark/ Target	MSCI World Index (Developed Markets)
Adviser opinion	This portfolio should outperform in a more inflationary environment
Last meeting with manager	Elaine Alston/John Arthur by phone
Fees	

MFS focuses on companies with a below market valuation but where returns are consistent and competitive positioning within their industry defensible. This makes them more stable in an environment where inflation is rising as they retain more pricing power. As previously noted and as specifically raised at the last Trustee meeting which the manager attended, it is my expectation that the performance of this portfolio should improve in the current inflationary environment. As such it is pleasing (although only short-term) to see the manager add value this quarter.

The MFS portfolio rose 3.3% against a rise in the benchmark of 1.4% in the third quarter, the portfolio has now outperformed its benchmark by 6.9% over the last year having previously struggled to add value during a period of falling inflation and low interest rates. The portfolio has added 1% per annum over the last 5 years.

In my 2nd quarter 2021 report I stated: 'I would expect some outperformance of this portfolio going forward as the manager focuses on defensible businesses where price pressure can be passed through to consumers which should give some protection in a more inflationary environment. The MFS portfolio acts as a useful counterweight to the Baillie Gifford Global Equity portfolio which helps reduce the level of risk taken by the Fund and hence overall volatility.'

It is the strong and consistent investment philosophy and process of both the Fund's global equity managers which makes it easier to understand in what market environment each equity manager with out or under-perform the benchmark.

With investors remaining cautious in the second quarter, it was secure, and well positioned companies with strong cash-flow which outperformed, this suited the investment philosophy and process of the manager.

Asset Class/Manager	UK Aggregate Bond Fund and UK Corporate Bond Fund/ Fidelity
Fund AuM	£116m pooled fund; 9.5% of the Fund
Performance target	25% Sterling Gilts; 25% Sterling Non-Gilts; 50% UK Corporate Bonds +0.75 p.a rolling 3 year
Adviser opinion	Manager continues to meet long-term performance targets
Last meeting with manager	Phone call during the quarter: Paul Harris/John Arthur
Fees	

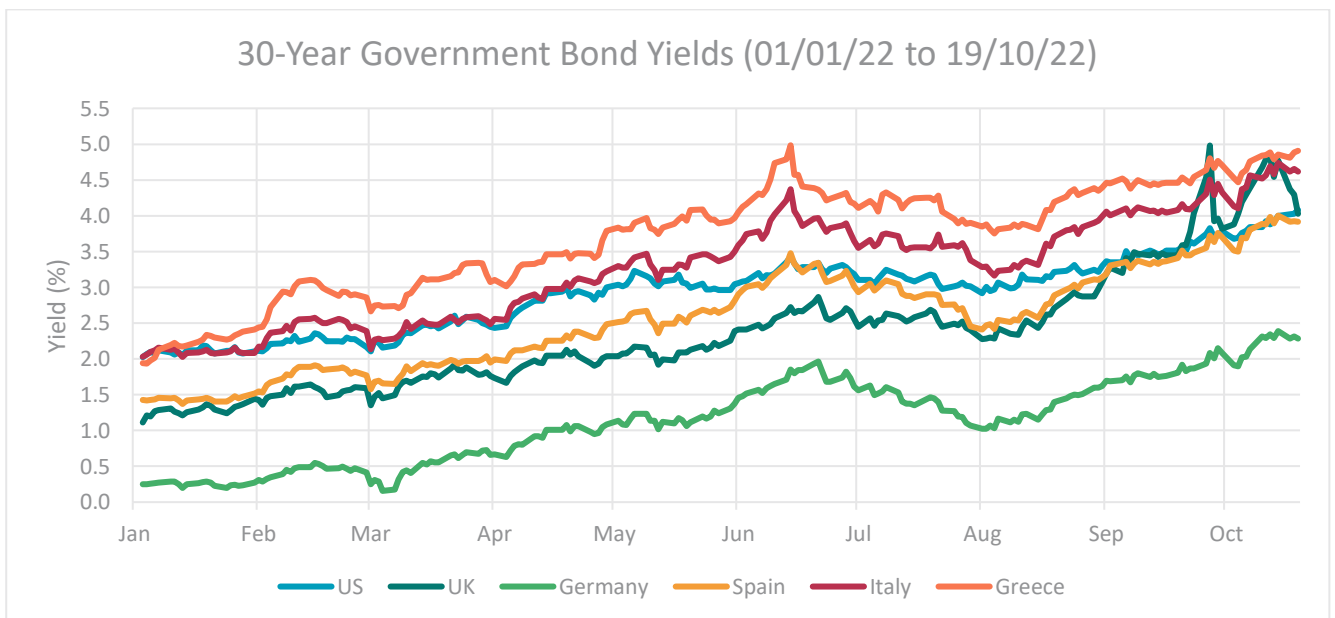
The Fund now has two similar Fidelity Fixed Interest portfolios. The UK Aggregate Bond Fund has a benchmark which is 50% UK Gilts and 50% UK non-Gilts; the UK Corporate Bond Fund which has a benchmark consisting entirely of UK Investment Grade Corporates and, as such, contains slightly higher credit risk and achieves a slightly higher yield. The manager can invest outside of these benchmarks with a proportion of the portfolio including into overseas investment grade bonds hedged back to Sterling and higher yielding bonds. These two portfolios are combined for reporting.

Portfolio	2Q22 performance	1 Year performance	Duration	Yield
UK Agg Bond	-11.4%	-22.6%	8.6 years	6.0%
UK Corp Bond	-12.5%	-24.1%	6.4 years	6.8%

The combined portfolio fell 11.1% over the last quarter and has fallen -23.6% over the last 12 months. The portfolio has continued to add incremental value against the benchmark over longer time periods and has outperformed the combined benchmark by 0.6% p.a. over 5 years and 0.8% p.a. since inception in 1998. This 25-year outperformance is a good indicator of the value added by the manager. It is often easy to add value in rising bond markets when yields fall as the manager can take on extra credit risk, creating a higher yield in the portfolio. It is far harder for a manager to outperform when bond prices are falling and yields rising as any credit exposure is likely to fall by more than the index. Fidelity have performed roughly in line with their benchmark during the current bond market retrenchment.

The chart below shows the moves in Government bond yields so far this year. The volatility in UK Gilts post the Truss/Kwarteng mini budget is clear to see (late September, dark green line) and caused major stress for many corporate pension schemes resulting in a real loss of investment performance for many.

Government Bond yields.



Globally, the scale of the fall in bond prices and the rise in yields has been extreme and whilst we were expecting an inflation problem the Russian invasion of Ukraine has altered the inflation outlook and lead to a much greater sell-off than was expected a year ago.

Asset Class/Manager	Multi-Asset Income / Fidelity
Fund AuM	£110m Pooled Fund; 9.0% of the Fund
Performance target	LIBOR +4% including a yield of 4% per annum
Adviser opinion	
Last meeting with manager	By phone during the quarter John Arthur/Paul Harris
Fees	

Asset Class/Manager	Multi-Asset Income / Schroders
Fund AuM	£98m Pooled Fund; 8.0% of the Fund
Performance target	LIBOR +5% including a yield of 4% per annum
Adviser opinion	
Last meeting with manager	By phone during the quarter: John Arthur/ Russel Smith/Remi Olu-Pitan
Fees	

The Fidelity Multi-Asset Income portfolio fell -5.4% over the quarter whilst the Schroders portfolio fell -2.2%. Over 12 months the Fidelity portfolio has returned -14.6% and the Schroders portfolio -11.0%. Over three years the Fidelity portfolio has fallen by -3.6% per annum and the Schroders portfolio by -2.0% per annum. Both these returns are below their benchmark for each period. As previously noted, the benchmarks for these portfolios are of a cash +x style and, as such, will increase by a margin over cash each quarter irrespective of market moves. Whilst both portfolios have underperformed their respective cash benchmarks they do serve an important purpose in that they distribute dividends back to the main Fund which helps cover the cash outflow as pension payments are greater than employer and employee contributions. By removing the need to constantly divest assets from the Fund to cover this cash outflow the Fund is more secure and does not have to sell assets during a period of market stress.

Returns from these two Multi-Asset Income portfolios have been slightly disappointing and are a close match for the returns delivered by mainstream Multi-Asset portfolios which do not concentrate on delivering income. My expectation was for the income requirement to push the managers to analyse the balance sheet strength of their chosen investments more fully, selecting more financially sound holdings which should have fared better in turbulent markets. In reality, what appears to have happened, is that during the period of ultra-low yields, both managers were forced to take greater investment risk to meet the portfolios' yield requirement of 4% per annum. Both managers were challenged on whether the yield requirement was achievable but both were comfortable with it when questioned. Now, will yields much higher, the managers can, hopefully, be more selective and produce a stronger performance.

Asset Class/Manager	UK Commercial Property / Fidelity
Fund AuM	£78m Pooled Fund; 6.4% of the Fund
Performance target	IPD UK All Balanced Property Index
Adviser opinion	
Last meeting with manager	Phone calls during the quarter John Arthur/Paul Harris
Fees	

The Fidelity UK Property portfolio fell by 3.0% over the quarter outperforming its benchmark by 0.9%. Over three years the portfolio has risen by 8.6% p.a. outperforming its benchmark by 1% per annum. This has mainly been driven by the redevelopment of almost a quarter of the portfolio over the last few years with each redeveloped property returning to the market with a higher rent roll and therefore valuation.

Whilst the performance of this portfolio has been in line with expectations I would treat current valuations with caution. Property is an illiquid asset class and takes time to reprice following sudden market moves as we have seen in the bond market during the last few months. Quoted UK property companies are trading at substantial discounts to their current net asset value and it is very likely this portfolio will show a negative return for the next quarter. The manager does not currently have a queue of investors waiting to buy the fund and so any attempt to sell will be priced at a discount to the current NAV.

Asset Class/Manager	International Property / Morgan Stanley
Fund AuM	US\$80m(£57.5M) committed / £11.8m drawn. Limited Partnership; 0.6% of the Fund
Performance target	Absolute return
Adviser opinion	
Last meeting with manager	Phone calls during the quarter John Arthur/Gareth Dittmer
Fees	

The International Property portfolio is now valued at £11.9m following a drawdown this quarter. The Fund currently holds £5.3m in US Dollar cash to cover further drawdowns and has some UK Sterling cash and is cash positive when distributions from other portfolios are taken into account.

The Morgan Stanley fund held its annual meeting in London this year which I attended in October. The day long meeting showcased the global resources Morgan Stanley have in place to manage this portfolio as well as the flexibility of approach, both of which are elements that led the Fund to appoint this manager.

With the repricing of bond yields across much of the globe, property valuations should be expected to fall. Whilst this does lead the manager to be more optimistic about the potential returns of this portfolio over the next 5-8 years, I did challenge the manager about the valuations at which current holdings already in the portfolio have been made.

Of the 17 investments made to date, the manager views 5 as unaffected by the changed interest rate environment; of these, 4 are in Japan where bond yields and interest rates have not risen because the Japanese economy is still fighting a period of prolonged deflation and one is on the US where the property has already been sold at a decent premium to the purchase price and is , therefore, not at risk. The manager classes 11 of the properties as at having no major issues, with increases in rental demand offsetting any rise in achievable yields and only 1 property, in the UK, where there is some risk of a fall in valuation as the increased price of debt is affecting the market. I regard this as a decent outcome given the dislocation in markets this year and am pleased with the level of detail the manager is sharing with investors.

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London Borough of Bromley Pension Fund

LGPS Developments and Updates

Investment			
Topic	Description	Timescale	LBB Status
1. Responsible Investment	<p>RI guidance is aimed to assist and help investment decision makers to identify the parameters of operation within scheme regulations, statutory guidance, fiduciary duty and the general public law and the scope for integrating ESG policies as part of investment strategy statements.</p> <p>This is a matter for local consideration and agreement in accordance with MHCLG's (now DLUHC) statutory guidance.</p>	<p>Approval was given for the first part of guidance. However, the SAB decided to restructure the proposed guidance and the revised document will be circulated in draft to scheme stakeholders for comment in the normal way.</p> <p>There is no indication as to when the new draft guidance will be published.</p> <p>The SAB has established the Responsible Investment Advisory Group and an "A-Z Responsible Investment" guide.</p>	<p>In March SAB and Secretary of State (SoS) asked LGPS to 'review and consider' Russian holdings. The Public Service Pensions Bill will require administering authorities to make investment decisions in line with foreign policy. More guidance from DLUHC to follow.</p> <p>In November, SAB submitted its response to DLUHC's climate risk reporting consultation. A link to the full response can be found here.</p> <p>LBB will keep a watching brief and, through consultation with the Pensions Committee, respond to further developments, guidance and regulations as and when they are published.</p>
2. Pension Schemes Act 2021 (click here)	<p>The key provisions: enhanced TPR's powers to protect defined benefit (DB) schemes, requiring pension schemes to report on how they manage the financial risks of climate change, tightening the conditions for paying statutory transfer values to protect members from scams and the creation of pensions dashboards.</p>	<p>The new measures will legally require schemes to assess and report on the financial risks of climate change within their portfolios by October 2021.</p> <p>The regulations will not apply to the LGPS. We expect DLUHC to bring forward regulations which will require similar levels of risk assessment and reporting later</p>	<p>LBB will keep a watching brief and, through consultation with the Pensions Committee, respond to further developments, guidance and regulations as and when they are published.</p>

		this year.	
Governance			
Topic	Description	Timescale	
1. The Good Governance Project. (click here)	The SAB published Good Governance: Phase 3 Report which provides further details on some of the recommendations <ul style="list-style-type: none"> • The LGPS senior officer • Conflicts of interest • Representation • Skills and training • Service delivery • KPIs • Business planning process 	The Board agreed that the Chair should submit the Board's Good Governance Action Plan to the Local Government minister for consideration. Hyman report to SAB	A report was presented to PISC on 29 April 2021 to make members aware of the direction of travel in this area. As and when related regulations are published by DLUHC an action plan will be produced.
2. Code of Transparency	The SAB is set to encourage best practice, increase transparency, and coordinate technical and standards issues as well as liaise with ministerial bodies and relevant sector regulators.	Already implemented click for further details A Code of Transparency covering investment management fees and costs was developed and approved by the Board and launched in May 2017.	Fund managers to the LGPS are being encouraged to sign up to this Code and as at June 2021, there were over 150 signatory firms, including all of the LBB's pension fund managers. The Cost Transparency Initiative (CTI) template was launched to gather data to investigate and understand LGPS Funds' respective fees and costs.
3. Cost control mechanisms for funded and unfunded public sector pension schemes and the 2020 valuations Link	On 7th October The Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2021 were published by HM Treasury. These Amending Directions allow schemes to conclude their 2016 valuations by setting out how they must carry out the cost control element of those valuations: <ul style="list-style-type: none"> • Moving to a reformed scheme only design: to remove any allowance for legacy schemes in the cost control mechanism 	As set out in the 18th August 2021 letter to the then minister Luke Hall MP SAB agreed to spread McCloud costs over a 10 year period (rather than the 4 used by HMT) resulting in an outcome of 19.4% against a target cost of 19.5%. Despite the slight shortfall in cost SAB agreed not to recommend any scheme changes, in particular citing the unwelcome impact of having to backdate any changes to April 2019	LBB will keep a watching brief and, through consultation with the Pensions Committee, respond to further developments, guidance and regulations as and when they are published.

	<ul style="list-style-type: none"> • Widening the corridor: to widen the corridor from 2% to 3% of pensionable pay. • Introducing an economic check: currently the mechanism does not include changes in long-term economic assumptions and therefore cannot consider the actual cost to scheme employers of providing the pension benefits • As a result of the increased cost of McCloud remedied benefits, none of the public service schemes have breached the floor of the cost-control mechanism, so no benefit improvements will now be required. 	would have on already hard pressed administration teams. However, SAB has set out its determination to revisit third tier ill health and contributions for the lowest paid members with the view to making recommendations in these areas separately to the cost management process.	
Administration			
Topic	Description	Timescale	
1. Exit Payment Cap	On 12 February 2021, HMT published the Exit Payment Cap Directions 2021. The Directions disapply regulations 3, 9 and 12 of the Restriction of Public Sector Exit Payment Regulations 2020 with immediate effect.	<p>This means the exit cap does not apply to exits that take place on or after 12 February 2021 (click here for further details).</p> <p>The Fund adopted the GAD factors from 4 November 2020 and will continue to do so until the next factors review.</p>	<p>We understand, from discussions with the LGA, that the Government remains committed to introducing the £95K cap within the current financial year.</p> <p>DLUHC has published updated Local authority exit payments data, covering exit payments made by English authorities from 2014/15 to 2020/21. The data for 2019/20 and 2020/21 has been updated to incorporate data submitted by employers</p>
2. Employer Flexibilities Guidance	MHCLG (now DLUHC) has published statutory guidance to assist LGPS administering authorities and scheme employers in implementing and operating the regulations on employer flexibilities introduced in September 2020.	The guidance covers Regulation 64 (Deferred debt agreement); Regulation 64A (Revision of rates and adjustment certificate) and 64B (Spreading of exit payments). click here for further details	<p>The SAB issued its guidance for pension funds</p> <p>LBB is required to have a formal review and update the Funding Strategy Statement. This is awaiting the completion of the Triennial Valuation and will be</p>

			presented to the PC at the February 2022 meeting.
3. McCloud	<p>On 13 May 2021, Luke Hall, Minister for Regional Growth and Local Government, made a Written Ministerial Statement on McCloud and the LGPS.</p> <p>The statement confirms the key changes that the Government will make to the LGPS regulations to remove the unlawful age discrimination. The statement confirmed that:</p> <ul style="list-style-type: none"> • the age requirement for underpin protection will be removed; • the remedy period will end on 31 March 2022; • the underpin calculation will be based on final pay at the underpin date, • even when this is after 31 March 2022; <p>there will be two stages to the underpin calculation: the first on the underpin date – the date of leaving or on the normal pension age in the 2008 Scheme, if earlier. The second stage will be applied when the benefits are paid; and the regulations will be retrospective to 1 April 2014.</p>	<p>It is government’s intention for legislation to be in place by April 2023.</p> <p>click here</p> <p>HM Treasury (HMT) published its response to the consultation on 4 February 2021. The LGA is still await further details on how transfers between unfunded schemes and the LGPS will operate.</p>	<p><u>Data collection exercise:</u> Under the SAB and LGA guidance, LBB has completed the McCloud data collection exercise (most employers have responded).</p> <p><u>Resources:</u> Resourcing impact considered and being addressed with Liberate and additional in-house resource</p> <p><u>Action required (subject to SAB and LGA guidance):</u></p> <ul style="list-style-type: none"> - Project management - Data treatments for missing data and overriding current data
4. Pensions Shared Service agreement	<p>The departure of the Pensions Manager in summer 2021 left an expertise gap in the team. The options were to either re-recruit the position or leverage pensions expertise elsewhere. With the approval of the FD, we engaged Wandsworth Council Shared Services for a 6 month trial.</p>	<p>After a successful 6 month trial period, on 31 August, Director Finance approved an agreement with Wandsworth Council for to provide outsourced shared services expertise for a period of 5 years.</p>	<p>LBB will continue to monitor the effectiveness of this arrangement and plan to report the developments towards this at the December 2022 PC meeting.</p>
5. Triennial Actuarial Valuation	<p>The 31 March 2022 actuarial valuation exercise is now underway with full membership data having been provided to the Actuary. This data is now being</p>	<p>(continued)</p> <ul style="list-style-type: none"> • Ill-Health – aside from the above, consideration will be given to modifying the approach for 	<p>As referred to above, the funding strategy will be considered further by officers and the Actuary once the 31 March 2022 outcomes</p>

	<p>processed by the Actuary and the results will be presented to the Committee in due course. To prepare the Committee for the valuation discussions ahead, we have set out some of key areas for consideration in relation to the Funding Strategy that will be discussed in detail with Officers once the initial outcomes are known.</p> <ul style="list-style-type: none"> • Inflation – unlike previous valuation assessments, given the current high inflation environment, the Actuary will propose to make an allowance in their 31 March 2022 calculations for the impact of known inflation to 31 March 2022 (which will impact the 2023 pension increase that will be awarded). This advance allowance will help the Fund “smooth out” the impact of the 2023 increase when this emerges given the % increase will be significantly higher than in previous years. As part of the valuation, the Actuary will also be considering the general marked changes to inflation over the short, medium and long term when setting our assumptions. • Life Expectancy – the Actuary has been undertaking an assessment of the demographic assumptions that will apply for the 2022 valuation, in particular life expectancy. Such analysis will reference the characteristics of the Bromley Fund’s own membership directly. The Actuary will also consider the likely future trends in life expectancy as we emerge from COVID. 	<p>managing ill-health retirement costs for employers at the 2022 valuation, thus minimising the risks to contribution outcomes that can emerge.</p> <ul style="list-style-type: none"> • Contribution Rate Sustainability – alongside the impact of the above, whilst the Actuary’s calculations will be undertaken as at 31 March 2022, in setting contribution outcomes they will also be considering the uncertain economic outlook. Since 31 March 2022, the UK has entered a stagflationary environment (high inflation/low growth) with the future outlook considerably uncertain. Therefore, consideration will be given to managing contribution outcomes from the 2022 valuation and provide better stability for employers at subsequent valuations. Such consideration will focus on the discount rates underlying the valuation calculations i.e. the expected rate of future investment return, above CPI and also the extent to which any margins are retained in the 31 March 2022 outcomes (subject to affordability etc.) given post 31 March movements and changes in the outlook. 	<p>have been assessed based on the full membership data. This is likely to take place in November. A consultation with all employers in the Fund in relation to the valuation outcomes and the proposed contribution rates (effective 1 April 2023) will also take place with a full update on the outcomes and the consultation to be provided to the committee thereafter in February 2023. The Actuary will be required to sign off the valuation by 31 March 2023. Officers plan to report progress and developments at the December 2022 PC meeting.</p>
Consultation			
Topic	Description	Timescale	
1. GMP Indexation	In March 2016, the Government announced that those reaching State Pension age (SPA) between 6 April 2016 and 6 December 2018 would receive a fully-indexed public service pension for life. In January 2018, it extended	The Government has issued its response to the consultation ‘Public Service Pensions: Guaranteed Minimum Pension (GMP) indexation’ and has decided to	LBB will keep a watching brief and, through consultation with the Pensions Committee, respond to further developments, guidance

	<p>these arrangements for those reaching State Pension age by April 2021. In March 2021, the Government said it would make full indexation the permanent solution. This is discussed in more detail in Public Service Pensions Increases</p>	<p>discount conversion as a long-term policy solution and make full Guaranteed Minimum Pension (GMP) indexation the permanent solution for all public service pension schemes, including the LGPS.</p> <p>This means that the LGPS will provide full indexation to the GMP element of a member's pension for those members with a GMP reaching State Pension age from 6 April 2021.</p>	<p>and regulations as and when they are published.</p>
2. GMP Equalisation	<p>Following the original Lloyd Banking Group judgement in October 2018 to equalise GMP accrued between 17 May 1990 and 5 April 1997 between male and female members.</p>	<p>The impact of the ruling in the LGPS is expected to be muted however the position is currently under further consideration with Treasury.</p>	<p>LBB will keep a watching brief and, through consultation with the Pensions Committee, respond to further developments, guidance and regulations as and when they are published.</p> <p>Note: LBB has completed the GMP reconciliation project (Fund's GMP data vs HMRC). We are now in the process of starting the GMP rectification project.</p>
3. Goodwin (click here for details)	<p>On 20 July 2020, HMT issued a note confirming that, following a successful case against the Teachers' Pension Scheme (TPS), historical widowers' pensions in the public sector pension schemes discriminated against male members.</p>	<p>Departments responsible for the administration of affected schemes will consult on and take forward changes as soon as possible.</p>	<p>LBB will keep a watching brief and, through consultation with the Pensions Committee, respond to further developments, guidance and regulations as and when they are published.</p>
4. RPI reform (click here for details)	<p>The Government's intention is to bring the new methods and data sources of the Consumer Prices Index including owner occupiers' housing costs into RPI. However, this proposal requires the consent of the Chancellor to be implemented before 2030,</p>	<p>The UK Statistics Authority has confirmed that it intends to implement the proposed changes at the earliest date that it is legally and practically possible to do so from February 2030.</p>	<p>LBB will keep a watching brief and, through consultation with the Pensions Committee, respond to further developments, guidance and regulations as and when they are published.</p>

	<p>owing to the use of R P I in two specific index-linked gilts.</p> <p>The Chancellor has announced that he is unable to offer his consent to the changes before the final specific index-linked gilt matures in 2030.</p>		
5. Increase to the minimum pension age	<p>On 11 February 2021, HMT published Increasing the normal minimum pension age consultation.</p> <p>In 2014, the Coalition Government consulted on increasing the normal minimum pension age (N M P A) from 55 to 57 from 6 April 2028 as part of the Freedom and choice in pensions consultation.</p> <p>The consultation re-confirms the Government's commitment to increasing the NMPA. The increase will not apply to members of the firefighters', police and armed forces pension schemes.</p>	<p>The closing date was 22 April 2021.</p> <p>HM Treasury has responded to its consultation on the proposed protections framework and implementing an increase of the normal minimum pension age (NMPA) from 55 to 57 in 2028, which will increase the age at which pension savers can access their pensions without an unauthorised payments tax charge. The government concludes it will legislate the proposed increase of the NMPA in the next Finance Bill with a protection regime.</p> <p>The legislation will now protect members of registered pension schemes who before 4 November 2021 have a right to take their entitlement to benefit under those schemes at or before the existing NMPA.</p>	<p>LBB will keep a watching brief and, through consultation with the Pensions Committee, respond to further developments, guidance and regulations as and when they are published.</p>
6. Pensions Dashboards Programme (click here for details)	<p>In 2020, the PDP carried out a discovery phase for the identity service, which will verify that dashboard users really are who they say they are. As part of the discovery, they undertook a market engagement exercise with identity providers. The resulting insight informed the approach and the upcoming procurement for the identity service</p>	<p>DWP is planning to consult on secondary legislation in 2022 on data requirements, staged onboarding, the compliance regime and consumer protection.</p>	<p>LBB complied with the LGA pensions dashboard consultation and call for input on design standards on 30 August 2022.</p> <p>There will be costs associated with this DWP / Money & Pensions Service project which</p>

		<p>Voluntary onboarding is proposed to start in 2022.</p> <p>The latest guidance suggests a go live date of Sept 2024 (with potential fines for non-compliance).</p>	<p>will be borne by the Pension Fund.</p> <p>LBB will brief members on these developments in due course, respond to further developments, guidance and regulations as and when they are published. We plan to report these developments at the February 2023 meeting.</p> <p>Please see link to YouTube introduction video:</p> <p>Pensions Dashboard Introduction</p>
7. Discount Rate methodology	<p>The Government has developed a process for determining the level of contributions that should be paid into the schemes, called 'Superannuation Contributions Adjusted for Past Experience' (SCAPE). An essential element of SCAPE is the discount rate used to express schemes' future pension payments as a present-day cost, which is known as the SCAPE discount rate.</p> <p>The SCAPE discount rate is used in a limited way in the LGPS to set actuarial factors relating to member benefits; and is also used in the LGPS cost control mechanism process so can affect scheme costs, and therefore employer contribution rates, in an indirect way</p>	<p>This consultation ran from 24 June 2021 to 19 August 2021. The Government is still reviewing stakeholders' feedback.</p>	<p>LBB will keep a watching brief and, through consultation with the Pensions Committee, respond to further developments, guidance and regulations as and when they are published.</p>
8. Stronger nudge to pensions guidance	<p>Consultation to seek views on the draft Regulations for delivering a "Stronger Nudge to pensions guidance" when individuals seek to access, or transfer for the purpose of accessing, their pension flexibilities applying to occupational pension schemes.</p>	<p>Following the consultation, the Government are proceeding with regulations to ensure that individuals in scope are made aware of Pension Wise guidance when they seek to access their DC pension savings, and that trustees</p>	<p>LBB will keep a watching brief and, through consultation with the Pensions Committee, respond to further developments, guidance and regulations as and when they are published.</p>

	<p>The draft regulations appear to have been drafted with standalone occupational DC schemes only in mind. Because of this, some of the proposed changes have unintended consequences for members of the LGPS with both DB and DC benefits.</p> <p>For example, if an LGPS member with an AVC plan wishes to take payment of, or transfer, only their main scheme (DB) benefits, the administering authority will still be required to provide the nudge. In relation to a transfer, this applies even if the transfer is going to a scheme which does not provide flexible benefits.</p>	<p>and managers of occupational pension schemes facilitate the booking of a Pension Wise appointment as part of the application process.</p>	
<p>9. Task Force on Climate Related Financial Disclosures (TCFD)</p>	<p>TCFD reporting is already mandatory for large private pension schemes, other asset owners and asset managers. The first Local Government Pension Scheme climate risk reports will be completed by December 2024, with which administering authorities will set out their strategies and metrics for managing climate-related risks and opportunities, according to a new government consultation</p>	<p>Bromley PF submitted a response to the consultation before the 24 November 2022 deadline, which included the Chairman's comments on pooling and concerns over the additional resources required to comply with more statutory reporting requirements. The consultation response was emailed to the Pensions Committee and Board on 17 November. TCFD reporting is likely to be in force by March 2023 with first TCFD reports by December 2024.</p>	<p>DLUHC is yet to confirm whether TCFD will be mandatory for LGPS funds. Officers will report on this subject at the December meeting subject to further developments.</p>

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Summary of consultation questions

Question 1: Do you agree with our proposed requirements in relation to governance?

[The proposal is that in administering the fund, authorities should have ongoing oversight of climate related risks and opportunities and ensure that those undertaking this work and the professional advisors assisting them are acting effectively.]

The basis of the requirement is funds should undertake good governance of climate related investment matters in the same way that they should do all other investment decisions and actions. We therefore agree with the substance of the requirements. However, additional work will be required to assess the risks and opportunities and as this is not a developed field this will require significant resources to evaluate the data available.

While we are not asking for additional regulation, some clarity on issues such as accreditation or membership of relevant professional bodies which give assurance that advisors have the knowledge and skills to advise in this new area would be welcome.

Question 2: Do you agree with our proposed requirements in relation to strategy?

[The proposal is that funds identify and assess, on an ongoing basis the short, medium and long term impact of climate risks and opportunities on the fund. Statutory guidance will be provided to assist in identification of risks and opportunities and impact assessment.]

We agree that this assessment should occur. However, this is likely to involve additional costs as the assessment will need specialist knowledge which funds will not have in house.

We have concerns that any guidance should not be overly prescriptive as different funds will have different investment objectives related to their funding level and different time horizons depending on their maturity.



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Question 3: Do you agree with our suggested requirements in relation to scenario analysis?

[The proposal is that 2 sets of scenario analysis should be undertaken at least once per valuation period. One should be Paris aligned and one of the fund's own choice. Statutory guidance will be given, including how to deal with missing or poor-quality data and other barriers to effective analysis.]

We agree that any scenario analysis should be undertaken as part of the valuation cycle to allow the use of this data in the post-valuation review of the Investment Strategy Statement. However, this will increase the costs of valuation as this analysis will need to be undertaken by experts which means the use of consultants.

We do not agree that the Paris aligned scenario should be analysed. LGPS funds should need to include the UK government target which is currently net zero by 2050. The guidance should reference the current UK government target to prevent the need for new guidance if this target is changed.

The requirement should be for funds to analyse the UK government target and their own target scenario only if this is different.

Question 4: Do you agree with our proposed requirements in relation to risk management?

[The proposal is that funds integrate the identification and management of climate related risks and opportunities in their existing risk management process. Statutory guidance will be provided.]

We agree with these proposals. Any guidance should allow funds to merge climate risk management into existing processes where these are demonstrated to be effective and fit for purpose. Climate risk is one of many risks faces by LGPS funds and funds should be allowed to consider this risk and the prioritisation of resources to address it.



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Question 5: Do you agree with our proposed requirements in relation to metrics?

[The proposal specifies 4 different metrics for funds to measure and report on annually.]

Overall, the proposal asks funds to undertake a great deal of work to produce metrics. This includes time spent estimating data as well as collating existing data. We do not agree that estimation is useful and it is outside the core work of the Administration Authority and would therefore require additional resources and expertise to achieve valid estimates. The focus should be on pushing fund managers to produce standardised, verifiable data in all asset classes and in all scopes. There is a known lack of data on Scope 3 in particular, due to issues with calculation. Scope 3 is a very wide area requiring detailed knowledge of the company to estimate, and this is therefore best done by the company itself or those deciding to invest in it, which is the fund manager. Data is constantly improving and it is therefore a better use of staff time to engage with managers to improve their data than to incur additional costs in attempting to fill the reporting gaps.

We propose that the only metrics required should be:

- Emissions metric to allow measurement of the UK government target (see response to Question 3)
- Metric required to measure the fund's target (if different from the UK government target)
- Data quality metric – modified from the proposal to include a list of fund managers who have not provided complete, verifiable data for scope 1, 2 and 3.

Question 6: Do you agree with our proposed requirements in relation to targets?

[The proposal is to set a target against 1 metric which may be one of the 4 we are required to calculate or any other TCFD accepted metric. Progress should be assessed annually and the target revised as needed.]

We agree that a target should be set, and it should relate to a measurable metric which will drive real world change. We agree that progress should be measured regularly.

We do not agree that annual measurement is appropriate as progress is likely to come through step change and not in a straight line so annual measurement and reporting would not give a fair indication of progress and lead to unhelpful discussions.

Having undertaken scenario analysis recently, we are aware that much of the scientific data required is most readily available from subscription services, which would add to the costs of



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administering the fund. Once obtained, work would be required to collate the data relevant to the fund's investments and present this in reports. This is a costly and time intensive process and should only be required where a minimum amount of verified data is available as reporting without sufficient data could give misleading results.

We propose that funds should set milestone targets (aligned to the triennial valuation) within the longer-term objective and that these should be measured at valuation.

We propose that it is recommended that the fund's long-term target should match the UK government target, and that funds should be required to justify an alternative target if they set one.

Question 7: Do you agree with our approach to reporting?

[The proposal is to publish an annual Climate Risk report, aligned to (or part of if preferred) the Annual Report process. The contents of the report would be prescribed.]

While we agree that climate risk is a key risk, we do not agree that it's more important than all other risks, particularly cyber risk which is at least equally important. We feel that risk reporting should cover all major risks to ensure that areas like cyber security, which has resulted in significant real losses in recent years, continue to receive sufficient attention. Pension Funds are required to produce audited accounts and with the recognised pressures already existing in this area this is not the right time to be increasing statutory reporting requirements. There is the potential for any climate or enhanced risk reporting to be subject to audit in its own right, or to be used by auditors in verifying going concern assumptions for the fund and potentially lead to work ensuring the triennial valuation and IAS19 reporting assumptions include these risks. This will not assist in addressing delays in final accounts publication and external audit sign off.

We suggest that the required content of the Annual Report should include a section on Risk, to include where readers can find detailed risk reports and any specific risks reported on to Pensions Committee or Local Pensions Board during the year.

Question 8: Do you agree with our proposals on the Scheme Climate Risk Report?

[The proposal is that the SAB should amalgamate all funds reports and publish an annual Scheme Climate Risk Report, with links to each fund's report.]



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We do not agree, based on our answer to Question 7. A requirement for wider, key risk reporting with a whole scheme report by SAB would give a more rounded view of the risks faced by the scheme.

Question 9: Do you have any comments on the role of the LGPS asset pools in delivering the requirements?

We have very considerable concerns around Pooling generally, and the effect this can have on any part of LGPS. This is as a result of our (unique) commissioned independent reviews. Our concerns extend to TCFD where there is clear evidence of Political interference, that some Pools feel is part of their brief. This can be a considerable disadvantage to the central rationale of lower fund fees and improved investment performance. TCFD does not address these rationale and Pools should therefore concentrate on their core goals and not expend precious resources on other initiatives, unless there is clear evidence that they can save on fees and improve investment returns.

Question 10: Do you agree with our proposed approach to guidance?

[The proposal is for the reporting requirements to be set in regulations and for the metrics to be reported on to be set in statutory guidance, to facilitate future changes to metrics as this new area of measurement matures and potentially better metrics become available. A template report will also be provided.]

We agree in principal that guidance and a template should be issued to ensure minimum requirements are met and that reporting is in a consistent format as well as on a consistent basis to allow a consolidated scheme report to be produced by SAB.

The template should be flexible enough to allow funds to report in a manner best suited to the needs of their local stakeholders.

Guidance should make it clear whether requirements are mandatory, best practice or general recommendations.

The guidance and first template should be published as early as possible to give officers sufficient time to produce or reformat the information required and avoid abortive work as officers try to prepare for the new requirements.



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Question 11: Do you agree with our proposed approach to knowledge, skills and advice?

[The proposal is that, in line with existing knowledge and skills requirements, those involved in decision making on climate related matters should be able to demonstrate they have the skills and knowledge to do so. This would involve decision makers having sufficient knowledge to understand the decision and information they are considering, while taking more expert advice to supplement this where required.]

We agree that those making decisions should be required to have the necessary skills and knowledge to do this effectively.

However, this proposal is unenforceable and not in line with current legislation. Decision makers for the Fund (Committee Members) are not statutorily required to undertake training unlike Local Pension Board Members. This should be rectified to enable the proposals to be delivered.

Question 12: Do you have any comments on the impact of our proposals on protected groups and on how any negative impacts may be mitigated?

No, we do not see how these proposals could have a detrimental impact on any particular protected group.



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Pension Fund Discretionary Policies

Abatement Policy

Introduction

The Local Government Pension Scheme (LGPS) Regulations require that each Pension Fund Administering Authority must formulate and keep under review a policy on pension abatement [LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014: regulation 3(13); LGPS (Administration) Regulations 2008 regulations 70(1) and 71(4)(c)].

Pension abatement is the extent, if any, to which a Scheme member's pension is payment is reduced or suspended where the member re-enters a new employment under which they are again eligible for membership of the LGPS.

Until 31 March 1998 (under the 1995 LGPS regulations) abatement was mandatory but between 1 April 1998 and 31 March 2014 it became discretionary. When the LGPS changed from a final salary to a career average (CARE) pension scheme in 2014, pension abatement was not applied to CARE pensions. However, under former Regulations still in force, abatement can still be applied to pre-2014 pensions.

When formulating an abatement policy, the Pension Regulations require that the Administering Authority has regard to:

- the level of potential financial gain at which it wishes abatement to apply;
- the administrative costs which are likely to be incurred as a result of abatement in the different circumstances in which it may occur;
- the extent to which a policy not to apply abatement could lead to a serious loss of confidence in the public service.



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The policy

All pensioners who retire with membership before 1 April 2014 will be subject to abatement. Where a Scheme member is in receipt of a pension, with membership before 1st April 2014, and proposes to enter a new local government employment, the member must inform the Administering Authority of this.

Abatement rules will continue to be applied using the methodology set out in the 1995 LGPS regulations so that a pension in payment is reduced or suspended where a pensioner takes up further employment with any employer who contributes to the LGPS if the new salary plus pension would be greater than the old salary. Adjustments are made for inflation since retirement. The pension payment is only reduced or suspended during the period of the new employment.

Abatement will be applied unless the appropriate committee considers on a case by case basis, having regard to the advice of the prospective employing director, that the prospective employee is essential to complete a specific function and that other resources are inadequate.

Report No.
CSD23026

London Borough of Bromley

PART ONE - PUBLIC

Decision Maker: LOCAL PENSION BOARD

Date: 7 February 2023

Decision Type: Non-Urgent Non-Executive Non-Key

Title: PENSION FUND ANNUAL REPORT 2021/22

Contact Officer: Martin Doyle – Head of Pensions Shared Service
Tel No: 020 8871 6522
E-mail: martin.doyle@richmondandwandsworth.gov.uk

Chief Officer: Director of Finance

Ward: Borough Wide

1. Reason for report

- 1.1 This report is prepared by the Head of Pensions Shared Service to provide the Local Pension Board with the draft annual report for the Bromley Council Pension Fund for the year ended 31 March 2022, which was approved by the Pensions Committee on 1 December 2022.
- 1.2 The Annual Report and Accounts are subject to external audit and therefore it is possible that some revisions may be required prior to finalisation.

2. **RECOMMENDATIONS**

2.1 **Members of the Local Pension Board are asked to note:**

- 2.1.1 The draft annual report and accounts for the year ended 31 March 2022;
- 2.1.2 That the board will notified of the completion of the external audit for both the pension fund and the Council; and,
- 2.1.3 That the board will be notified when the annual report and accounts is published in final form.

Impact on Vulnerable Adults and Children

1. Summary of Impact: N/A
-

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 for the purpose of providing pension benefits for its employees.
 2. BBB Priority: Excellent Council
-

Financial

1. Cost of proposal: Total administration costs estimated at £5.9m (includes fund manager/actuary/adviser fees, Liberata charge and officer time)
 2. Ongoing costs: TBC
 3. Budget head/performance centre: Pension Fund
 4. Total current budget for this head: £49.6m expenditure (pensions, lump sums, etc); £57.6m income (contributions, investment income, etc); £1,330m total fund market value at 31st March 2022
 5. Source of funding: Contributions to Pension Fund
-

Personnel

1. Number of staff (current and additional): N/A
 2. If from existing staff resources, number of staff hours: N/A
-

Legal

1. Legal Requirement: Statutory Requirement Local Government Pension Scheme Regulations 2013 (as amended).
 2. Call-in: Not Applicable: No Executive Decision.
-

Procurement

1. Summary of Procurement Implications: N/A
-

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,137 current active members, 7,469 deferred pensioners and 5,911 pensioner members (for all employers in the Fund) as at 30th September 2022.
-

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

- 3.1 The Pension Fund is required by the Local Government Pension Scheme Regulations 2013 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 Current guidance from the LGA is that funds should publish their draft, unaudited annual report and accounts as soon as it was available; funds should publish an updated version once the external audit of the relevant administering authority's accounts have been completed.
- 3.3 The draft 2021/22 Pension Fund Annual Report and Accounts are attached to this report as appendices.
- 3.4 The Pensions Committee approved the draft Annual Report and Accounts, and the key governance documents contained within the Annual Report and required by regulation, namely:
- Governance Policy Statement
 - Funding Strategy Statement
 - Investment Strategy Statement
 - Communications Policy Statement
- 3.5 A timetable for the external audit has yet to be agreed with EY

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 for the purpose of providing pension benefits for its employees.

5. FINANCIAL IMPLICATIONS

- 5.1 None arising from directly from this report.

6. LEGAL IMPLICATIONS

- 6.1 The Public Service Pensions Act 2013 provides primary legislation for all public service schemes including the LGPS 2014.

Non-Applicable Sections:	Procurement/Personnel Implications Impact on Vulnerable Adults and Children
Background Documents: (Access via Contact Officer)	Public Service Pensions Act 2013; Local Government Pension Scheme Regulations 2013 (as amended); Code of Practice 'Governance and Administration of Public Service Pension Schemes' The Pensions Regulator Engagement Report "Governance and administration risks in public service pension schemes"

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LONDON BOROUGH OF BROMLEY PENSION FUND

ANNUAL REPORT 2021/22



**LONDON BOROUGH OF BROMLEY PENSION FUND
ANNUAL REPORT 2021/22
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FOREWORD

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

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

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

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

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

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

Service pre 1st April 2008:

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

Service post 31st March 2008:

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

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

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

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

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

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

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

The Pensions Committee has delegated the management of the Fund's active investments to professional investment managers, whose activities are specified in detailed investment management agreements and whose performance is monitored quarterly. The investment managers of the Fund are appointed by the Committee and, as at 31st March 2022, comprise Baillie Gifford, Fidelity, MFS International, Morgan Stanley and Schroders. They are regulated by the Financial Conduct Authority (FCA). The Fund's investment managers are set individual performance targets marked against relevant market benchmarks.

2021/22 saw strong performance in the first and third quarters of the year and poor performance in the second and final quarter. In terms of overall market returns, the total fund value decreased slightly from £1,330.0m as at 1st April 2021 to £1,332.3m at 31st March 2022. The Fund return for the year of 0.69% was below the benchmark of 8.69%. The Fund's medium and long-term returns have remained strong overall, with returns of -34.07% for 2020/21, 2.75% for 2019/20, 7.98% for 2018/19 and 6.7% for 2017/18 and 26.8% for 2016/17 against the benchmarks of 23.59%, -1.98%, 8.17%, 3.1% and 24.6% respectively. The overall Fund ranked 60th against the 62 funds in the PIRC LGPS universe for the year to 31st March 2022, 52nd over 3 years, third over 5 years, second over 10 years and first over 20 and 30 years. Further details about the Fund's performance can be found on pages 15 to 22.

The Fund's investment policy is summarised on pages 15 to 16 and further details are set out in the Investment Strategy Statement on pages 94 to 100.

LONDON BOROUGH OF BROMLEY PENSION FUND

MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

The Fund

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

As well as for its own employees, the Fund provides for employees who transferred from the Council or the Bromley's schools to Clarion Housing Group (formerly Affinity Sutton), Bromley Mytime, Liberata, Certitude, The Landscape Group, Amey, Cushman & Wakefield, Creative Support, Mears, Greenwich Leisure Ltd, British Telecom, Birkin Cleaning Services, Lewis and Graves, Ecoclean Services Ltd, Lodestar Cleaning Contracts Ltd, Ridge Crest Cleaning Ltd and Footh Cray Out of School Club. These bodies are permitted under the regulations to contribute to the Fund and are termed Admission Bodies. It also provides for non-teaching staff in Ravensbourne College of further education within the borough which is termed a Scheduled Body. As at 31st March 2022, the Fund also provided for 109 school academies, which are also termed Scheduled Bodies. The Council is responsible for administering the Fund in accordance with various statutory regulations, the principal regulations being the Local Government Pension Scheme Regulations 2013, as amended by any subsequent regulations and enactments. Day-to-day administration of the Fund, such as the collection of contributions and the payment of pensions, is contracted out to Liberata UK Ltd.

Fund management and advisers

Any decisions on discretionary matters, most of which are prescribed by the Regulations, are either taken by officers under delegated authority (generally by the Director of Finance) or referred to the General Purposes and Licensing Committee. The Pensions Committee oversees the investment of the Fund and has a general responsibility to monitor the Fund's financial position. The Governance Policy Statement (pages 37 to 42) sets out the responsibilities of the various parties involved in managing the Fund. Meetings are held quarterly and the Committee's membership for the year 1st April 2021 to 31st March 2022 comprised:

Membership of Pensions Committee (1 April 2021-19 May 2021)

Cllr Keith Onslow (Chairman)
Cllr Gareth Allatt (Vice-Chairman)
Cllr Simon Fawthrop
Cllr Simon Jeal
Cllr David Jefferys
Cllr Christopher Marlow
Cllr Gary Stevens

Membership of Pensions Committee (19 May 2021-31 March 2022)

Cllr Keith Onslow (Chairman)
 Cllr Gary Stevens (Vice-Chairman)
 Cllr Simon Fawthrop
 Cllr Kira Gabbert
 Cllr Simon Jeal
 Cllr Christopher Marlow
 Cllr Tony Owen

Member attendance at Pensions Committee meetings in 2021/22

Councillor	29/4/21	COMMITTEE APPOINTMENTS MADE BY COUNCIL ON 19/5/21 FOR 2021/22	Councillor	14/7/21	29/9/21	15/11/21 (Special)	02/12/21	22/2/22	17/3/21 (Special)
Keith Onslow (Ch)	Y		Keith Onslow (Ch)	Y	Y	Y	Y	N	Y
Gareth Allatt (V Ch)	Y		Gary Stevens (V Ch)	Y	Y	Y	y	Y	Y
Simon Fawthrop	Y		Simon Fawthrop	Y	Y	Y	Y	N	Y
Simon Jeal	Y		Kira Gabbert	Y	Y	N	Y	Y	Y
David Jefferys	Y		Simon Jeal	Y	Y	N	Y	N	Y
Christopher Marlow	Y		Christopher Marlow	Y	Y	Y	Y	Y	Y
Gary Stevens	Y		Tony Owen	Y	Y	Y	Y	Y	Y

In 2021/22, the Council used the services of a number of professional advisers, including:

Scheme Actuary

Mercer Ltd, No 4, St Paul's Square, Old Hall Street, Liverpool, L2 9SJ

Scheme adviser

MJ Hudson, 8 Old Jewry, London, EC2R 8DN

Auditor

Ernst & Young LLP, 1 More London Place, London, SE1 2AF

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

MFS International, Paternoster House, 65 St Paul's Churchyard, London, EC4M 8AB

Schroders, 1 London Wall Place, London, EC2Y 5AU

Legal adviser

Director of Corporate Services, Civic Centre, Stockwell Close, BR1 3UH

Administrator of scheme benefits

Liberata UK Ltd, PO Box 1598, Croydon, Surrey, CR0 0ZW

Custodians of scheme assets

Bank of New York Mellon, 160 Queen Victoria Street, London, EC4V 4LA

Banker

HSBC plc, 71 Queen Victoria Street, London, EC4V 4AY

Secretary to the trustees

Director of Corporate Services, Civic Centre, Stockwell Close, BR1 3UH

AVC providers

Aviva, Rose Lane Business Centre, PO Box 520, Norwich, NR1 3WG

Equitable Life, PO Box 177, Walton Street, Aylesbury, Bucks, HP21 7YH

Performance monitoring

Pensions & Investment Research Consultants Limited (PIRC Ltd), Exchange Tower, 2 Harbour Exchange Square, London, E14 9GE

Bank of New York Mellon, 160 Queen Victoria Street, London, EC4V 4LA

Council officers

Peter Turner, Director of Finance

David Dobbs, Head of Corporate Finance and Accounting

Daniel Parsons, Senior Accountant

Local Pension Board

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

Risk Management

There are many factors that could have an adverse impact on achievement of the funding strategy and target funding levels. These can be categorised as administrative, management and investment risks. Some of the key potential risks are listed in a section of the Funding Strategy Statement (pages 72 to 93), together with comments on their materiality, on the procedures for monitoring them and on measures available to mitigate them. The risks listed have been categorised into four main areas, i.e. financial, demographic, regulatory and governance risks.

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

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

Management of Third Party Risk

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

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

Financial Performance

The Council prepares accounts as at 31st March each year, which comply with the CIPFA Code of Practice on local authority accounting 2020/21 and the provisions of Chapter 6, Section 5 "Accounting and Reporting by Pension Funds". The Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2013 for the purpose of providing pension benefits for its employees. In addition to the provision of retirement pensions, the benefits include lump sum retirement grants and widows' pensions.

Day-to-day income and expenditure into and out of the Fund are recorded in the Pension Fund Revenue Account, which showed an overall surplus of £21m in 2021/22. The Fund's investment assets appear in the Council's Annual Statement of Accounts and the total value of the Fund's net assets decreased in 2021/22 from £1,332.3m as at 1st April 2021 to £1,330.0m as at 31st March 2022. The Pension Fund Accounts and Net Assets Statement, together with supporting notes, are attached (pages 43 to 71).

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

As part of the National Fraud Initiative 2021 data matching exercise, the LB Bromley pension data was matched to other data such as the DWP deceased register and payroll data. No evidence of fraud was identified but there were 8 cases of overpayments in respect of pensioners who were deceased. The total amount involved was £20,833.84. The data matching exercise is run every two years; however, management has agreed to join the flexible data matching scheme offered by the National Fraud Team which matches pension data to the latest DWP deceased register. This was recently matched and the results referred to the Pension Manager for investigation.

Annual internal audit

In 2021/22, There was no internal audit work performed on the Pension Fund.

Analysis of pension overpayments, recoveries and amounts written off

During 2021/22 there were:-

- 89 overpayments to pensioners (73 in 2020/21)
- Total Sum £37,848.86 (£26,716.53 in 2020/21)
- Total Outstanding £18,584.20, of which £4,153.06 in relation to death notifications received from January 2022 (£8,390.88 in 2020/21)
- Included in the above is 1 write off (0 in 2020/21)

In addition to the above there were a further 25 overpayments below £50 (39 in 2020/21) and, in such cases, the Council's policy is not to pursue.

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 Fund, we aim to provide you with good quality service and to communicate effectively. Liberata aim to:

- Respond to e-mails and written enquiries within 10 working days of receipt
587 pieces of correspondence responded to in the last year, of which 100% were within the performance standard (99.84% in 2020/21)
- Process each stage of a transfer of pension rights (to or from the Fund) within 10 days of receiving the required information
100% of 148 transfer-in quotations (98.21% in 2020/21) and 98.58 % of 191 transfer-out quotations (98.38% in 2020/21) issued within the performance standard
- Process retirement grants (lump sums) within 10 working days of retirement, provided that Liberata have all the necessary information
97.42% of 334 retirement grants paid within the performance standard (99.00% in 2020/21)
- Issue a benefit statement annually to all active and deferred members
Statements issued to all active and deferred members by August
- Advise pensioners in April of the annual increase to their local government pension
Pensions increase letters issued to all pensioners in April

Five-year analysis of the Fund's membership data

Status	31/03/2022	31/03/2021	31/03/2020	31/03/2019	31/03/2018
	No.	No.	No.	No.	No.
Active Members	6,385	6,205	6,253	6,316	6,198
Pensioners - widow/dependent	722	747	751	740	743
- other	5,068	4,925	4,841	4,630	4,442
Deferred Pensioners	6,275	6,197	5,945	5,746	5,537
	18,450	18,074	17,790	17,432	16,920
Undecided Leavers	732	545	457	375	256
Frozen Refunds	1,050	1,049	968	874	835
Total Membership	20,232	19,668	19,215	18,681	18,011

Administration costs (including fund management fees)

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

	2021/22 Budget £000	2021/22 Actual £000	2020/21 Budget £000	2020/21 Actual £000
Audit fee	21	21	21	21
Bank charges/transaction costs	349	257	349	390
London CIV implementation & service charge	100	110	100	110
Advice & other costs	175	408	175	376
Internal recharges	555	838	555	673
Total administration costs	1,200	1,634	1,200	1,569
Fund Management fees	3,900	5,186	3,900	4,411
Total	5,100	6,820	5,100	5,980

Unit cost of administration per Fund member

	2021/22	2020/21	2019/20	2018/19	2017/18
	£	£	£	£	£
Total administration costs (gross)	6,791,782	5,980,066	5,319,198	4,918,091	4,768,158
Fund Management fees	5,185,856	4,410,719	4,144,193	3,807,004	3,654,648
Total administration costs (net)	1,605,926	1,569,347	1,175,005	1,111,087	1,113,510
Cost per member:					
Net (excluding management fees)	£79.37	£79.79	£61.15	£59.47	£61.82
Gross (including management fees)	£335.69	£304.05	£279.82	£263.22	£264.74

Details of contributions received from each employer in the Fund

A list of contributing employers and details of contributions received is given below. Summary details are provided in the notes to the Pension Fund Accounts (pages 51 and 56). Contributions are required by statute to be paid into the Fund by the 19th day of the following month to that which they relate if paid by cheque or by 22nd if paid by bank transfer. The Pension Regulations allow the Council to charge interest on contributions that are not paid on time, but this power was not exercised in 2021/22.

Employer	Contributions Employee £	2021/22 Employer £	TOTAL £
<u>LB Bromley (inc Community Schools)</u>	3,604,216	9,747,762	13,351,978
<u>Primary Schools/ Academies</u>			
Alexandra Infants	17,379	70,867	88,246
Alexandra Juniors	13,731	56,206	69,937
Balgowan Primary	35,511	145,912	181,423
Bickley Primary	18,993	61,420	80,413
Biggin Hill Primary	34,760	127,795	162,555
Blenheim Primary	18,641	59,508	78,267
Burnt Ash Primary	44,876	126,665	171,451
Castlecombe Primary	26,214	96,176	125,390
Chelsfield Primary	5,084	19,078	24,162
Churchfields Primary	29,230	92,868	122,098
Clare House Primary	26,031	90,187	116,218
Crofton Infants	38,337	154,806	193,143
Crofton Juniors	54,702	208,767	263,469
Cudham CE Primary	9,229	37,465	46,694
Darrick Wood Infants	16,249	68,662	84,911
Darrick Wood Junior	13,281	46,812	60,093
Dorset Road	1,565	5,408	6,972
Downe	5,716	17,298	23,012
Edgedrury	20,958	65,897	86,855
Farnborough	13,569	55,121	68,690
Grays Farm	29,602	119,851	149,453
Green Street Green Primary	28,495	129,265	157,760
Harris Beckenham Green	44,420	90,248	134,670
Harris Crystal Palace	27,662	80,835	108,497
Harris Kent House	29,516	95,171	124,687
Harris Primary Academy Beckenham	21,507	43,910	65,417
Harris Primary Academy Orpington	24,264	77,580	101,844
Harris Shortlands	18,739	69,053	87,792
Hawes Down Primary	33,259	135,513	168,772
Hayes Primary	28,655	118,117	146,772
Highfield Infants	20,650	84,853	105,503
Highfield Juniors	13,526	51,720	65,247
Highway Primary	11,913	44,341	56,254
Holy Innocents	20,999	85,104	106,103
James Dixon Primary	30,604	87,676	118,280
Keston Primary	11,468	51,362	62,684
La Fontaine	8,399	26,026	31,426
Langley Park Primary	18,834	54,119	72,953
Leesons Primary	29,139	116,465	145,604
Manor Oak Primary	15,704	62,728	78,432
Marjorie McClure	76,931	256,461	333,392
Marian Vian	21,010	87,011	108,021
Mead Road	9,061	25,131	34,193
Midfield Primary	35,317	119,512	154,289
Mottingham	18,220	69,357	87,576
Oak Lodge	21,170	88,603	109,773
Oaklands	39,883	158,628	198,511
Parish Primary	30,025	132,298	162,323
Perry Hall	20,258	81,580	101,838
Pickhurst Infants	29,347	100,567	129,914
Pickhurst Juniors	34,390	103,060	137,450
Poverest	50,019	151,858	201,877

Employer	Contributions		TOTAL
	Employee £	Employer £	
<u>Primary Schools / Academies (cont.)</u>			
Raglan Primary	33,492	134,380	170,873
Red Hill Primary	41,117	128,329	169,446
Riversides	185,975	723,835	909,810
Scotts Park Primary	22,927	70,937	93,863
Sola MAT central	22,651	60,460	83,111
Southborough	18,028	54,015	72,044
Spring Partnership Trust	30,660	102,783	133,433
St Anthony's RC Primary	13,785	44,492	58,277
St Georges CE Primary	29,404	111,311	140,716
St James RC School	19,109	58,511	77,620
St John's Primary	14,881	61,114	75,995
St Joseph's Primary	13,940	57,659	71,599
St Marks CE Primary	23,376	98,014	121,390
St Mary Cray	15,063	48,568	63,631
St Mary's R.C Primary	24,036	104,664	128,700
St Nicholas	12,149	50,341	62,832
St Paul's Cray C of E Primary	22,260	81,411	103,671
St Peter & St Paul Primary	23,969	98,146	122,115
St Philomenas Primary	16,695	68,817	85,512
St Vincent	17,904	73,016	90,110
Stewart Fleming Primary	43,956	98,881	142,837
Trinity C of E Primary	36,008	147,187	183,095
Tubbenden Primary	45,026	186,611	229,637
Unicorn	19,763	83,549	103,312
Valley	37,358	148,744	186,102
Warren Road	56,615	243,525	302,140
Wickham Common	12,451	52,082	64,533
Worsley Bridge Juniors	16,828	58,286	65,114

Employer	Employee £	Employer £	TOTAL £
<u>Secondary Schools</u>			
Bishop Justus	109,149	400,906	510,055
Bullers Wood Girls	100,476	399,531	500,007
Charles Darwin	59,864	274,772	334,636
Chislehurst School for Girls	72,972	273,885	346,857
Coopers	66,817	246,083	312,900
Darrick Wood	88,395	360,034	448,429
Eden Park High	12,987	51,666	64,653
Harris Academy Orpington	44,508	262,870	307,378
Harris Beckenham	44,172	171,006	215,178
Harris Bromley	47,743	188,252	235,995
Hayes	70,388	274,648	345,036
Kemnal Technology College	38,027	146,706	184,733
Langley Park Boys	68,244	272,365	340,609
Langley Park Girls	63,685	254,643	318,328
Newstead Wood	55,524	175,762	231,286
Ravensbourne	47,424	182,468	229,892
Ravenswood	69,368	341,458	410,827
St Olaves	51,071	156,935	208,006
<u>Special/AP Schools</u>			
Bromley Beacon	51,862	115,514	167,376
Compass Academy Trust	40,345	132,286	172,631
E21st Century Trust	52,122	110,122	162,244
Harris Aspire	24,876	51,884	76,760
Langley Park Trust Central	31,530	70,055	101,585
LSEC MAT central team	19,633	40,533	60,186
Nexus Multi academy Trust	18,993	61,420	80,413
Ravensbourne College	410,371	774,967	1,185,338
The Bromley Trust Academy	36,949	113,776	150,715
The Glebe	69,935	205,277	275,212
The Kemnal Academies Trust	155,576	316,762	472,338

Employer	Employee £	Employer £	TOTAL £
Ambient Support	1,577	12,255	13,833
Amey	12,529	43,668	56,197
Birkin Cleaning	1,344	6,892	8,236
British Telecom	41,615	111,437	161,052
Busy Bee Cleaning Service Limited	1,337	5,904	7,241
Certitude	5,626	96,288	101,914
City West Support Services	-	-	-
Clarion House	-	74,900	74,900
Creative Support	6,931	10,401	17,332
Cushman and Wakefield	989	3,014	3,913
Diagrama Healthcare	16,021	60,541	76,562
Ecocleen Service Ltd	218	904	1,122
Eleanor Nursing and Social Care	9,510	29,803	39,333
Footscray Out of School Club	671	3,026	3,697
Greenwich Leisure Limited	88,723	380,437	369,160
Liberata	39,978	150,336	190,314
Mears Care	12,987	51,666	64,653
MyTime Active	-	1,771,319	1,771,319
Ridge Crest Cleaning	3,160	13,506	16,666
The Landscape Group	5,729	19,511	25,240
	8,103,112	26,847,077	34,950,189

INVESTMENT POLICY AND PERFORMANCE REPORT

Investment Principles

In accordance with the requirements of regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”), as amended, the Council has produced an Investment Strategy Statement (ISS). The ISS was originally approved by the Pensions Committee on 22nd February 2017 and subsequent amendments (to reflect the revised asset allocation strategy) were approved on 19th September 2017 and 13th February 2020. This is published on the Council's website (see pages 94 to 100).

Investment Managers

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

The Council currently employs four investment managers:

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

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

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

The investment managers have to operate within the investment powers set out in the regulations and in accordance with their benchmarks. These determine the broad allocation of investments over different asset classes and the extent to which they can diverge from that allocation. Details are included in the Fund's Investment Strategy Statement (pages 94 - 100). The Pensions Committee is responsible for determining and reviewing the asset allocation strategy of the Fund and this is reviewed on a regular basis. The asset allocation strategy agreed in 2006 (two balanced portfolios managed by Fidelity and Baillie Gifford with benchmarks based on a broad 80:20 ratio of equities to bonds) remained in place until the comprehensive strategy review that took place during 2011/12 (see below), following relatively poor performance in 2011/12.

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

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

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

The asset allocation strategy is as follows: Equities (58%), Multi Asset Income Funds (20%), Fixed Income (13%), UK Real Estate (4%) and International Property (5%).

Fees paid to the investment managers are charged to the Fund. In 2021/22, these were calculated on the following bases:

Baillie Gifford (global equities) - Base fee (quarterly) 0.65% of first £30m of Fund, 0.50% of next £30m and 0.35% of remainder

Baillie Gifford (fixed income) - Base fee (quarterly) 0.30% of total Fund value

Fidelity (fixed income) - Base fee (quarterly) 0.35% of first £10m of Fund value, 0.30% of next £10m, 0.21% of next £30m and 0.18% of remainder. From 1st January 2018 a reduction of 20% has been applied

Fidelity (MAI) - Base fee (quarterly) 0.40% of first £20m of Fund value, 0.30% of next £30m, 0.25% of next £100m and 0.20% of remainder

Fidelity (Property) - Base fee (quarterly) 0.75%

MFS (global equities) - Base fee (quarterly) 0.60% of first £25m of Fund value, 0.45% of next £25m and 0.40% of remainder. From 1st January 2022 a reduced fee rate of 0.40% of first £100m of Fund value, 0.36% of next £150m and 0.34% of remainder applies.

Schroders (MAI) – 0.35% of Fund value.

Review of Investment Performance

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

Performance data for 2021/22

Fund Value

The total market value of the Fund has fluctuated considerably in the last few years. Since 2002, however, increases in the good years (most notably 2005/06, 2009/10, 2012/13, 2014/15, 2016/17, 2017/18, 2018/19 and 2020/21) have far exceeded decreases in the bad years (2002/03, 2008/09, 2019/20, and 2021/22)). As a result, the total value of Fund investments has increased from £180.3m as at 31st March 2003 to £1,330.0m as at 31st March 2022. In 2021/22, the value decreased by 0.17% from £1,332.3m to £1,330.0m.

MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002

Date	Baillie Gifford					Fidelity							Blackrock	MFS		Schroder	CAAM	GRAND TOTAL
	Balanced Mandate	DGF	Fixed Income	Global Equities	Total	Balanced Mandate	Fixed Income	MAI	Property	Sterling Bond	USD ILF	Total	Global Equities	Global Equities	DGF	MAI	LDI	
31/03/02	113.3				113.3	112.9						112.9						226.2
31/03/03	90.2				90.2	90.1						90.1						180.3
31/03/04	113.1				113.1	112.9						112.9						226
31/03/05	128.5				128.5	126.7						126.7						255.2
31/03/06	172.2				172.2	164.1						164.1						336.3
31/03/07	156				156	150.1						150.1					43.5	349.6
31/03/08	162				162	151.3						151.3					44	357.3
31/03/09	154.4				154.4	143						143						297.4
31/03/10	235.4				235.4	210.9						210.9						446.3
31/03/11	262.6				262.6	227						227						489.6
31/03/12	269.7				269.7	229.6						229.6						499.3
31/03/13#	315.3	26.5			341.8	215.4						215.4			26.1			583.3
31/03/14@	15.1	26.8	45.2	207.8	294.9		58.4					58.4	122.1	123.1	27			625.5
31/03/15		45.5	51.6	248.2	345.3		66.6					66.6	150.5	150.8	29.7			742.9
31/03/16		44.8	51.8	247.9	344.5		67.4					67.4	145.5	159.2	28.3			744.9
31/03/17		49.3	56.8	335.3	441.4		74.3					74.3	193.2	206.4	28.5			943.8
31/03/18\$&			58	380	438		75.6	79.2	15.9			170.7	155.2	206.8				970.7
31/03/19			59.2	416.5	475.7		78.7	78.8	48.6			206.1	11.4	230.2		115.8		1,039.20
31/03/20			60.9	411.85	472.7		83.5	80.6	47			211.1		220.3		96.1		1,000.30
31/03/21				597.7	597.7		85.7	131.4	46.3	64.8		328.2		293.1		110.9		1,329.90
30/06/21				621.2	621.2		87.4	134.8	69.5	66.2		357.9		311.2		114.5		1,404.80
31/09/21				614.6	614.6		86.5	134	71.6	65.4		357.5		319.5		113.3		1,404.90
31/12/21				602.3	602.3		87.4	132.1	75.5	65.8	14.1	374.9		340		114.2		1,431.40
31/03/22				527.8	527.8		81.2	125.5	77.9	61.2	14.8	360.6		332.9		108.7		1,330.09

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

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

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

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

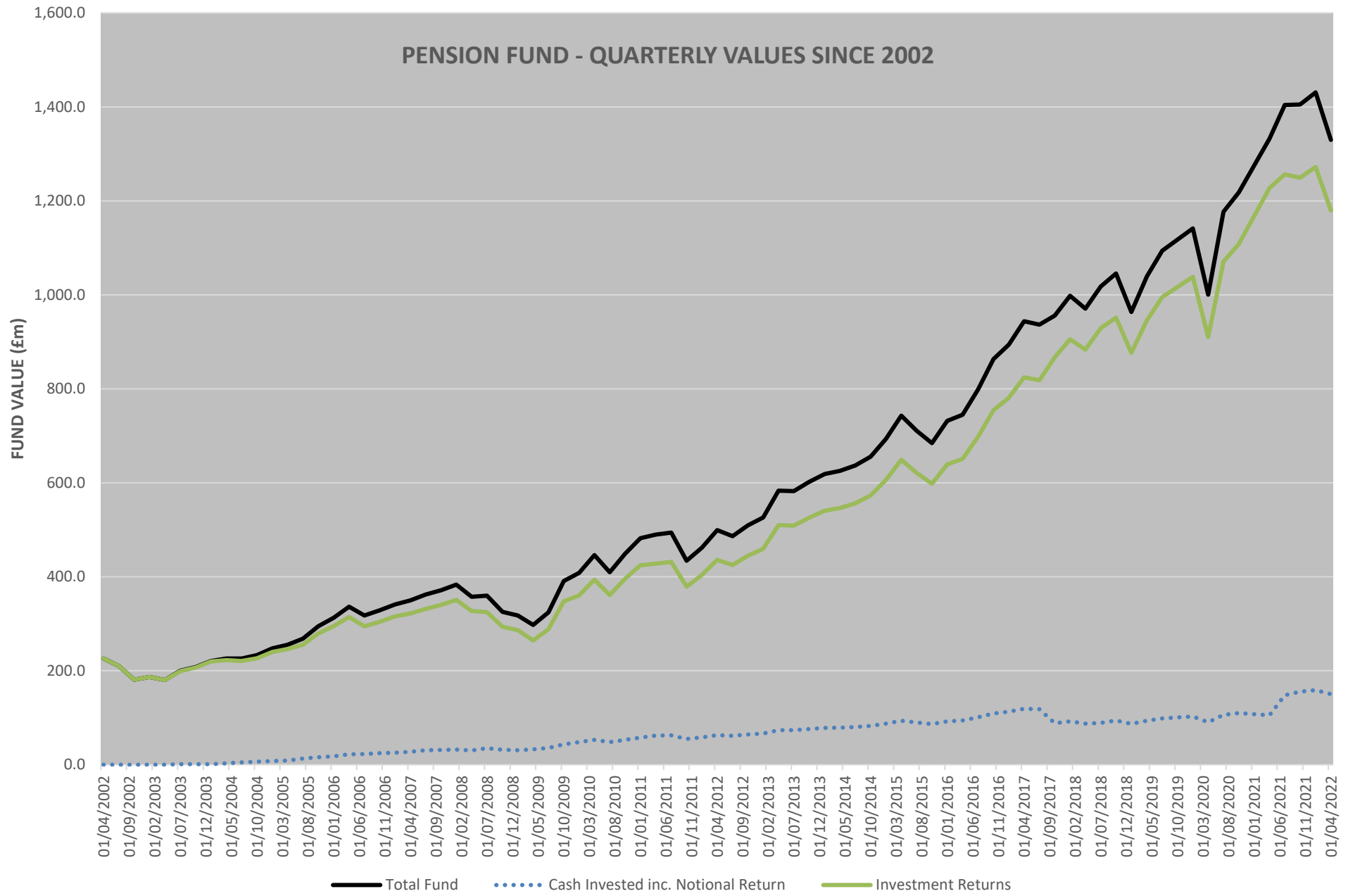
£ Assets sold by Blackrock (£120m) in May 2018 to fund Schroder MAI fund.

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

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

" Assets sold by Blackrock (£11.6m) in May 2019 to fund Fidelity MAI.

Note: This data is from our Custodian The Bank of New York Mellon. Any differences between these figures and the draft accounts are due to timing differences.



Note: This data is from our Custodian The Bank of New York Mellon. Any differences between these figures and the draft accounts are due to timing differences

Investment Performance

The Fund's medium and long-term returns have remained strong overall, with weak equity performance in the current year. The return in 2021/22 was 0.69% against a benchmark of 8.69%. In 2020/21 the return was 34.07% against a benchmark of 23.59%. Although due to the Covid-19 pandemic the total return in 2019/20 was -2.75% against a benchmark of -1.98%, the returns for 2018/19 was 7.98% against the benchmark of 8.17%, ranking 22nd and 11th in the LGPS Universe of 62 funds maintained by PIRC.

For 2017/18, the return was 6.7% against the benchmark of 3.1%, in 2016/17, the total return was 26.8% against the benchmark of 24.6% (ranking 1st). In 2015/16, the total return was 0.1% against the benchmark return of 0.5% (ranking in the 39th percentile (the lowest rank being 100%). In 2014/15, the fund returned 18.5% compared to the benchmark return of 16.4% (overall ranking in the 7th percentile).

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

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

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

The Bank of New York Mellon measures their results against these benchmarks and, at total Fund level, PIRC maintains the local authority universe for comparator information. The following tables show total Fund performance and the performance returns of the individual managers in periods ended 31st March 2022.

PENSION FUND MANAGER PERFORMANCE TO MARCH 2022

Portfolio	1 Year %	3 Years %	5 Years %	Since Inception %
Baillie Gifford Global Equity	(6.76)	13.09	12.45	9.21
Benchmark	12.89	13.90	11.05	8.47
Excess Return	(19.65)	(0.81)	1.40	0.74
Fidelity Fixed Income	(5.44)	1.21	1.81	5.88
Benchmark	(5.24)	0.32	1.12	5.08
Excess Return	(0.20)	0.89	0.69	0.80
Fidelity MAI	(0.39)	2.07		2.06
Benchmark	4.00	4.00		4.00
Excess Return	(4.39)	(1.93)		(1.94)
Fidelity Property	22.92	8.50		6.62
Benchmark	23.14	8.05		7.23
Excess Return	(0.22)	0.45		(0.61)
MFS Global Equity	13.28	13.03	10.07	12.98
Benchmark	12.42	13.36	10.50	12.20
Excess Return	0.86	(0.33)	(0.43)	0.77
Schroder MAI	1.08	1.81		1.46
Benchmark	5.00	5.00		5.00
Excess Return	(3.92)	(3.19)		(3.54)
Total Fund	0.69	9.50	8.62	8.91
Benchmark	8.69	9.58	7.97	
Excess Return	(8.00)	(0.08)	0.65	

Medium and long-term performance data

The Fund's medium and long-term returns have remained strong overall, with the Fund ranking 60th, 52nd, 3rd, 2nd, 1st, and 1st over 1, 3, 5, 10, 20 and 30 years respectively to 31st March 2022*, and underlines the fact that the Fund's performance has been consistently strong over a long period. Whole Fund returns and rankings for individual years are shown in the following table:

Year	Whole Fund Return	Benchmark Return	Local Authority Average*	Whole Fund Ranking*
	%	%	%	
Financial year figures				
2021/22	0.7	8.7	8.6	60
2020/21	34.1	23.6	22.8	2
2019/20	-2.75	-1.98	-4.8	22
2018/19	8.0	8.2	6.6	11
2017/18	6.7	3.1	4.5	3
2016/17	26.8	24.6	21.4	1
2015/16	0.1	0.5	0.2	39
2014/15	18.5	16.4	13.2	7
2013/14	7.6	6.2	6.4	29
2012/13	16.8	14.0	13.8	4

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

*The most recent LA averages and rankings as at 31/03/22 are based on the PIRC LA universe containing 62 of the 89 funds.

Custodial arrangements

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

FUND ADMINISTRATION REPORT

Pension Fund Governance Policy and Compliance Statement

In accordance with regulation 73A of the Local Government Pension Scheme Regulations 1997, the Council has produced a Pension Fund Governance Policy Statement. This is attached at pages 37 to 42. In addition, the Local Government Pension Scheme Regulations 2013 require administering authorities to report the extent of compliance against a set of best practice principles published by the government. The Governance Compliance Statement was reported to the General Purposes and Licensing Committee in July 2008 and is attached at pages 39 to 42.

Fund Administration

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

Details of administration costs, including investment management fees, adviser fees and fees paid to Liberata are shown on pages 8 - 11 and in the supporting notes to the Pension Fund accounts (page 55).

Liberata UK Ltd

As administrators of the Fund, Liberata aim to provide Members with good quality service and to communicate effectively. They undertake the administration of the LGPS Regulations and associated legislation for over 15,000 Fund members, including LB Bromley staff, non-teaching staff employed by LB Bromley, Affinity Sutton (formerly Broomleigh Housing Association), Bromley MyTime, Liberata UK, Landscape Group, Certitude, Churchill Cleaning Services, Birkin Cleaning Services, Amey, Cushman and Wakefield, Bromley & Lewisham MIND, Certitude, Creative Support, Mears Care, British Telecom, Greenwich Leisure, Lewis & Graves, Lodestar Cleaning Services, EcoCleen Services, Ridge Crest Cleaning, Footscray Out of School Club, Busy Bee Cleaning, City West, Ambient Support, Diagrama Healthcare, Caterlink Bleheim, Caterlink Eden park, Caterlink Mottingham, Caterlink Scotts Park, Caterlink Ravensbourne School, Eleanor Nursing and social care and the Council's colleges - Ravensbourne University, academies and elected Members of the Council.

Administrator functions include:

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

to join the Fund.

- Provision of data to the Council's actuary for the annual IAS19 exercise and for triennial full valuations of the Fund.
- Submission of statutory returns to government bodies as required.
- Maintenance of Pensions IT system, with updated versions and revisions to tables as advised by the actuary or the Government's Actuary Department.
- Advice and assistance on pension issues where members' employment is being transferred to a contractor under TUPE. Arranging terms for admission agreements to the Fund for new employers.

Key activity in 2021/22 included:

- Eight new admitted bodies set up for Eleanor Nursing, Caterlink Scotts Park, Caterlink Mottingham, Caterlink Blenheim, Caterlink Ravensbourne, Caterlink Eden Park, Diagrama Healthcare AND Ambient Support
- Monthly Mortality screening introduced from April 2021
- Data Accuracy Reports, Common data 2021 96.1% improvement to 96.9% and specific data 2020 93.80% to 95.3%
- Update to the system in relation to McCloud
- Reconciliation of all transfer in/out payments and retirement grants and death grants for 2021/22 completed.

Enquiries and Complaints

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

Contacts for further information

Liberata UK Ltd,
PO Box 1598,
Croydon,
CR0 0ZW

Tel: 020 8603 3429
E-mail: pensions@bromley.gov.uk
Website: www.liberata.com

London Borough of Bromley,
Director of Finance,
Civic Centre,
Stockwell Close,
Bromley,
BR1 3UH

Tel: 020 8464 3333
Website: www.bromley.gov.uk

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

The Pension Service,
The Pension Service 9,
Mail Handling Site A,
Wolverhampton,
WV98 1LU

Tel: 0345 600 2537

The former Pensions Advisory Service (TPAS) has now merged with

The Pensions Ombudsman (TPO)

to provide a service to assist members with any difficulties that they cannot resolve with their pension schemes, and to investigate and determine any complaint or dispute involving maladministration of the Scheme, or matters of fact or law.

The Pensions Ombudsman
10 South Colonnade
Canary Wharf
London E14 4PU

Tel: 0800 917 4487
Website www.pensions-ombudsman.org.uk

The Fund's Internal Dispute Resolution Procedure.

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

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

The IDRP has two stages:

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

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

There were no new formal complaints raised through the IDRP in 2021/22.

Membership of Bodies

The Fund is a member of the following bodies:

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

ACTUARIAL REPORT

The regulations require an actuarial valuation of the Fund's assets and liabilities every three years and the Pensions Committee is responsible for considering the actuary's report. In the report on the most recent valuation as at 31st March 2019, the Fund's actuary, Mercer Ltd, determined the level of employers' contributions for the three years 2020/21 to 2022/23. Employers' contributions have to provide both for the ongoing cost of pensions in respect of employees' future service and for the eventual elimination of the shortfall in respect of past service. Contribution rates for the years 2017/18 to 2019/20 were set by the 2016 valuation. The next full valuation of the Fund (as at 31st March 2022) will be carried out during 2022/23.

In the 2019 valuation, the actuary found that the value of the Fund's assets represented 110% of the value of its liabilities, up from 91% in 2016. The actuarially assessed positions at 31st March 2016 and 2019 are summarised in the table below:

Valuation	31 st March 2016	31 st March 2019	Change
	£m	£m	%
Liabilities	818	945	+15.5
Assets	748	1,039	+38.9
Surplus	(70)	94	-234.3
Funding level	91%	110%	+19

The key actuarial assumptions as at 31st March 2016 and 2019 are shown below:

Financial Assumptions	2016	2019
	% p.a.	% p.a.
<i>Discount Rate</i>	4.2	3.65
<i>Pay increases – long term</i>	3.7	3.9
<i>Pay increases – short term (3 years)</i>	n/a	n/a
<i>General inflation</i>	2.2	2.4
<i>Pension increases</i>	2.2	2.4

In the 2016 Valuation, the primary employer contribution rate in respect of future service with effect from 1st April 2017 to 31st March 2020 was set at 17.0% for all Fund employers. The 2019 Valuation increased this to a weighted average of 17.6% for the three years 1st April 2020 to 31st March 2023, and for the Council, the rate is 16.7%. In addition to the primary contributions in respect of Fund members, employers are also required to make contributions to eliminate the Fund deficit, the secondary contribution rate. For the Council, this was fixed in the 2016 valuation at £2.1m per annum in 2017/18, 2018/19 and 2019/20 with the aim of recovering the deficit over a period of 12 years. For the 2019 valuation, the secondary contribution rate also included an allowance for the estimated cost of the McCloud judgment. For the Council, the secondary contribution rate was set as a variable rate at 1% of Pensionable Pay per annum for 2020/21 to 2022/23.

The 2019 valuation report also contained contribution rates for the other employers in the Fund, including Ravensbourne College, Clarion Housing (formerly Affinity Sutton), Liberata UK, Birkin Cleaning Services, The Landscape Group, Certitude, Amey, Cushman & Wakefield, Creative Support, Mears Care, BT, Greenwich Leisure Ltd, Ecocleen Service Ltd, Footscray Out of School Club, Ridge Crest Cleaning and as well as for schools. Separate contribution rates were also set for those schools that had adopted academy status. A deficit recovery period of no more than 12 years was set for all these employers, in line with the period set for the Council. The Contribution Schedule set by the actuary is shown on pages 32 to 35.

The Fund income from employer contributions by the Council has increased steadily over the years, principally because there has been a funding shortfall in the Fund since the early nineties. Since then, a programme of annual increases in employer contributions has been implemented with the aim of eliminating the shortfall over an extended period. At the 2016 valuation, the Fund's strategy was to achieve a funding level of 100% by 2028, this was achieved at the 31st March 2019 valuation where the funding level was 110%. However, since the valuation date, However, since the valuation date it is likely that the assessed funding level of 110% has changed due to the impact of Covid-19. The funding level will be reassessed in the next full valuation (as at 31st March 2022), the results of which will be known towards the end of 2022/23.

The latest Fund valuation report (as at 31st March 2019) can be found at: [Pension Fund Actuarial Valuation Report](#). No interim valuations were carried out between that date and the previous full valuation as at 31st March 2016.

The actuary's Summary Funding Statement and Rates and Adjustments certificate are attached at pages 26 to 27 and 28 to 31 respectively.

LONDON BOROUGH OF BROMLEY PENSION FUND
ACTUARIAL VALUATION 31st MARCH 2019 – KEY RESULTS OF THE
FUNDING ASSESSMENT
(Section 3 of the Actuarial Valuation as at 31st March 2019)

SOLVENCY FUNDING POSITION

The table below compares the assets and liabilities of the Fund at 31st March 2019. Figures are also shown for the last valuation as at 31st March 2016 for comparison.

	31st March 2019	£m 31st March 2016
Total assets	1,039	748
Liabilities:		
Active Members	277	258
Deferred Pensioners	205	167
Pensioners	463	393
Total Liabilities	945	818
Past Service Surplus / (Shortfall)	94	(70)
Funding Level	110%	91%

The liability value at 31st March 2019 shown in the table above is known as the Fund's solvency funding target. The solvency funding target is calculated using assumptions that the Administering Authority has determined are appropriate having consulted with the actuary and are also set out in the Administering Authority's Funding Strategy Statement (FSS).

The table shows that at 31st March 2019 there was a surplus of £94m against the Fund's solvency funding target. An alternative way of expressing the position is that the Fund's assets were sufficient to cover 110% of its liabilities – this percentage is known as the solvency funding level of the Fund.

At the previous valuation at 31st March 2016 the shortfall was £70m, equivalent to a solvency funding level of 90%. The key reasons for the changes between the two valuations are considered in Section 3 of the full valuation report. Further details of the way in which the solvency funding target has been calculated are set out in Appendix A of the full valuation report.

PRIMARY CONTRIBUTION RATE

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

The table below gives a breakdown of the Primary Contribution Rate at 31st March 2019 and shows the corresponding rate at 31st March 2016 for comparison. In calculating the average Primary Contribution Rate, we have not made any allowance for future members to opt for the 50:50 scheme.

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

	% of pensionable pay	
	31 st March 2019	31 st March 2016
Normal contribution rate for retirement and death	23.4	22.8
Allowance for administrative expenses	0.7	0.7
Total normal contribution rate	24.1	23.5
Average member contribution rate	6.5	6.5
Common Contribution rate	17.6	17.0

** In line with updated CIPFA guidance, the 2019 Primary Contribution Rate is the weighted average of the individual employer Primary Contribution Rates as derived based on their individual circumstances (e.g. whether or not they are closed to new entrants).*

CORRECTING THE IMBALANCE – SECONDARY CONTRIBUTION RATE

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

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period adopted is 12 years, and the total initial recovery payment (the "Secondary rate" for 2020/21) is an addition of approximately £0.1m plus 2.4% of pensionable pay (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), including the estimated costs in relation to the McCloud judgement where appropriate.

The Solvency Funding Position and Primary Contribution Rate figures do not include an allowance for the estimated cost of the McCloud judgement. However, at the overall Fund level it was estimated that the cost of the judgement could be an increase in past service liabilities of broadly £7 million and an increase in the Primary Contribution rate of 0.7% of Pensionable Pay per annum.

To the extent that employers have opted to pay additional contribution over 2022/23 in relation to the McCloud judgement, these emerge the Second Contribution Rate figures above.

**LONDON BOROUGH OF BROMLEY PENSION FUND
ACTUARIAL VALUATION 31st MARCH 2019
RATES AND ADJUSTMENTS CERTIFICATE ISSUED IN ACCORDANCE
WITH REGULATION 62**

(Appendix G of the Funding Report of the Actuarial Valuation as at 31st March 2019)

PRIMARY CONTRIBUTION RATE

I hereby certify that, in my opinion, the primary rate of the employers' contribution for the whole Fund for each of the three years beginning 1st April 2020 is 17.6% of pensionable pay.

The primary rate of contribution for each employer for the three-year period beginning 1st April 2020 is set out in the attached schedule.

SECONDARY CONTRIBUTION RATE

I hereby certify that, in my opinion, the secondary rate of the employer's contribution for the whole Fund for each of the three years beginning 1st April 2020 is as follows:

2020/21 £0.1 million plus 2.4% of pensionable pay

2021/22 £0.1 million plus 2.4% of pensionable pay

2022/23 £0.1 million plus 2.4% of pensionable pay

The secondary rate of contribution for each employer for each of the three years beginning 1st April 2017 is set out in the attached schedule. The above secondary rates, and the secondary rates for each employer, where appropriate include a provision for the costs of the McCloud judgement as set out in the notes to Appendix H.

CONTRIBUTION AMOUNTS PAYABLE

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

FURTHER ADJUSTMENTS

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

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

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

In cases where an element of an existing Scheme employer's surplus or deficit is transferred to a new employer on its inception, the Scheme employer's secondary contributions, as

shown on the schedule to this Certificate in Appendix H, may be reallocated between the Scheme employer and the new employer to reflect this, on advice of the Actuary and as agreed with the Administering Authority so that the total payments remain the same overall.

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

REGULATION 6 2(8)

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

Leanne Johnston
Fellow of the Institute and Faculty
of Actuaries
31st March 2020

James Hunter
Fellow of the Institute and Faculty
of Actuaries

Schedule to the Rates and Adjustment Certificate dated 31st March 2020

Er No.	Employer	Notes	Primary rate 2020/21 to 2022/23	Secondary rates			Total Contribution rates		
				2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
Major Employer									
1	London Borough of Bromley		16.7%	1.0%	1.0%	1.0%	17.7%	17.7%	17.7%
Scheduled Bodies									
27	Ravensbourne College		13.7%	0.5%	0.5%	0.5%	14.2%	14.2%	14.2%
31	St Olaves		18.5%	Nil	Nil	Nil	18.5%	18.5%	18.5%
Academies / Free Schools									
602	Darrick Wood Academy		20.1%	4.5%	4.5%	4.5%	24.6%	24.6%	24.6%
603	Chislehurst School for Girls		18.6%	4.7%	4.7%	4.7%	23.3%	23.3%	23.3%
604	Bishop Justus Academy		19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
605	Coopers Technology Academy		16.8%	6.5%	6.5%	6.5%	23.3%	23.3%	23.3%
606	Bullers Wood School		19.1%	5.3%	5.3%	5.3%	24.4%	24.4%	24.4%
607	Charles Darwin Academy		21.5%	6.6%	6.6%	6.6%	28.1%	28.1%	28.1%
608	Hayes Secondary School		19.7%	3.6%	3.6%	3.6%	23.3%	23.3%	23.3%
609	Langley Park Boys Academy		18.8%	5.2%	5.2%	5.2%	24.0%	24.0%	24.0%
610	Newstead Wood School		18.2%	6.2%	6.2%	6.2%	24.4%	24.4%	24.4%
611	Ravens Wood School		18.7%	11.2%	11.2%	11.2%	29.9%	29.9%	29.9%
612	Ravensbourne Academy		17.5%	5.8%	5.8%	5.8%	23.3%	23.3%	23.3%
613	Langley Park Girls School		18.5%	5.5%	5.5%	5.5%	23.3%	23.3%	23.3%
614	Hayes Primary School		17.8%	5.5%	5.5%	5.5%	23.3%	23.3%	23.3%
615	Warren Road School		19.6%	4.1%	4.1%	4.1%	23.7%	23.7%	23.7%
616	Balgowan Primary School		20.2%	3.3%	3.3%	3.3%	23.5%	23.5%	23.5%
617	Biggin Hill Primary		18.8%	3.0%	3.0%	3.0%	21.8%	21.8%	21.8%
618	Darrick Wood Infants School		22.2%	2.4%	2.4%	2.4%	24.6%	24.6%	24.6%
619	Green Street Green Primary		20.4%	6.0%	6.0%	6.0%	26.4%	26.4%	26.4%
620	Pickhurst Infants School		19.4%	0.2%	0.2%	0.2%	19.6%	19.6%	19.6%
621	Pickhurst Junior Academy		18.4%	0.3%	0.3%	0.3%	18.7%	18.7%	18.7%
622	Stewart Fleming Academy		17.5%	0.4%	0.4%	0.4%	17.9%	17.9%	17.9%
623	Valley Primary School		19.1%	3.8%	3.8%	3.8%	22.9%	22.9%	22.9%
624	Crofton Junior School		18.5%	4.5%	4.5%	4.5%	23.0%	23.0%	23.0%

626	Harris Academy Bromley		18.7%	6.8%	6.8%	6.8%	25.5%	25.5%	25.5%
627	Harris Academy Beckenham		15.9%	8.0%	8.0%	8.0%	23.9%	23.9%	23.9%
628	Tubbenden Primary School		18.7%	4.6%	4.6%	4.6%	23.3%	23.3%	23.3%
629	St James' RC School		20.9%	4.6%	4.6%	4.6%	23.3%	23.3%	23.3%
631	Harris Primary Academy Orpington		18.0%	5.3%	5.3%	5.3%	23.3%	23.3%	23.3%
632	Crofton Infants School		18.7%	4.6%	4.6%	4.6%	23.3%	23.3%	23.3%
633	Parish Academy		18.3%	5.0%	5.0%	5.0%	23.3%	23.3%	23.3%
634	Raglan Primary		18.8%	4.5%	4.5%	4.5%	23.3%	23.3%	23.3%
635	Alexandra Junior		19.2%	4.1%	4.1%	4.1%	23.3%	23.3%	23.3%
636	Harris Kent House		17.4%	5.9%	5.9%	5.9%	23.3%	23.3%	23.3%
637	Harris Crystal Palace		16.1%	6.2%	6.2%	6.2%	22.3%	22.3%	22.3%
638	Highfield Infants		19.3%	4.0%	4.0%	4.0%	23.3%	23.3%	23.3%
639	Gray's Farm Primary		18.9%	4.4%	4.4%	4.4%	23.3%	23.3%	23.3%
640	Highfield Junior		18.0%	3.3%	3.3%	3.3%	21.3%	21.3%	21.3%
641	Harris Aspire		12.8%	Nil	Nil	Nil	12.8%	12.8%	12.8%
642	Perry Hall Primary		18.8%	4.5%	4.5%	4.5%	23.3%	23.3%	23.3%
643	Farnborough Primary		19.4%	3.9%	3.9%	3.9%	23.3%	23.3%	23.3%
644	Manor Oak Primary		16.6%	6.6%	6.6%	6.6%	23.2%	23.2%	23.2%
645	Alexandra Infants		19.0%	4.4%	4.4%	4.4%	23.4%	23.4%	23.4%
646	St John's CE Primary		19.7%	3.6%	3.6%	3.6%	23.3%	23.3%	23.3%
647	Castlecombe Primary		16.6%	4.5%	4.5%	4.5%	21.1%	21.1%	21.1%
648	St Joseph's RC Primary		18.5%	4.8%	4.8%	4.8%	23.3%	23.3%	23.3%
649	St Philomena's RC Primary		18.6%	4.7%	4.7%	4.7%	23.3%	23.3%	23.3%
650	Scotts Park Primary		17.5%	0.2%	0.2%	0.2%	17.7%	17.7%	17.7%
651	St Peter & St Paul RC Primary		17.0%	6.3%	6.3%	6.3%	23.3%	23.3%	23.3%
652	Keston C of E Primary School		22.4%	3.6%	3.6%	3.6%	26.0%	26.0%	26.0%
653	St Mary's RC Primary		21.2%	4.4%	4.4%	4.4%	25.6%	25.6%	25.6%
654	St Anthony's RC Primary		18.1%	0.1%	0.1%	0.1%	18.2%	18.2%	18.2%
655	La Fontaine Academy		14.8%	1.1%	1.1%	1.1%	15.9%	15.9%	15.9%
656	Bromley Trust Academy		17.7%	1.1%	1.1%	1.1%	18.8%	18.8%	18.8%
657	Leesons Primary		14.5%	8.8%	8.8%	8.8%	23.3%	23.3%	23.3%
658	Harris Shortlands		20.0%	1.9%	1.9%	1.9%	21.9%	21.9%	21.9%
659	St Mary Cray Primary		16.1%	2.2%	2.2%	2.2%	18.3%	18.3%	18.3%
660	St Vincent's RC Primary		22.1%	2.6%	2.6%	2.6%	24.7%	24.7%	24.7%
661	Trinity C of E Primary School		18.3%	5.0%	5.0%	5.0%	23.3%	23.3%	23.3%
662	St Nicholas		20.3%	3.2%	3.2%	3.2%	23.5%	23.5%	23.5%

663	St Mark's CE Primary		19.5%	3.8%	3.8%	3.8%	23.3%	23.3%	23.3%
664	Midfield Primary		16.5%	2.8%	2.8%	2.8%	19.3%	19.3%	19.3%
665	Holy Innocents RC Primary		19.5%	3.8%	3.8%	3.8%	23.3%	23.3%	23.3%
668	Cudham CE Primary		20.1%	3.2%	3.2%	3.2%	23.3%	23.3%	23.3%
669	Oak Lodge Primary		20.0%	3.3%	3.3%	3.3%	23.3%	23.3%	23.3%
670	Wickham Common Primary		19.0%	4.3%	4.3%	4.3%	23.3%	23.3%	23.3%
671	Unicorn Primary		19.2%	4.1%	4.1%	4.1%	23.3%	23.3%	23.3%
672	Marian Vian Primary		20.3%	3.1%	3.1%	3.1%	23.4%	23.4%	23.4%
673	Oaklands Primary		18.2%	5.1%	5.1%	5.1%	23.3%	23.3%	23.3%
674	Mead Road Infants		15.9%	0.2%	0.2%	0.2%	16.1%	16.1%	16.1%
675	Mottingham Primary		18.8%	3.0%	3.0%	3.0%	21.8%	21.8%	21.8%
676	Bromley Beacon Academy		13.7%	Nil	Nil	Nil	13.7%	13.7%	13.7%
677	Harris Primary Academy Beckenham		11.8%	2.6%	2.6%	2.6%	14.4%	14.4%	14.4%
678	Worsley Bridge Primary		18.0%	1.5%	1.5%	1.5%	19.5%	19.5%	19.5%
679	Burnt Ash Primary		16.4%	0.2%	0.2%	0.2%	16.6%	16.6%	16.6%
680	Chelsfield Primary School		20.4%	0.8%	0.8%	0.8%	21.2%	21.2%	21.2%
681	Pratts Bottom Primary School		18.4%	Nil	Nil	Nil	18.4%	18.4%	18.4%
682	Highway Primary		20.6%	0.5%	0.5%	0.5%	21.1%	21.1%	21.1%
683	Darrick Wood Junior School		19.6%	0.3%	0.3%	0.3%	19.9%	19.9%	19.9%
684	Clare House Primary School		19.2%	0.3%	0.3%	0.3%	19.5%	19.5%	19.5%
685	Dorset Road Infant School		19.0%	Nil	Nil	Nil	19.0%	19.0%	19.0%
686	Red Hill Primary School		18.2%	0.1%	0.1%	0.1%	18.3%	18.3%	18.3%
687	St George's Primary School		18.3%	3.9%	3.9%	3.9%	22.2%	22.2%	22.2%
688	Langley Park Primary School		15.7%	0.8%	0.8%	0.8%	16.5%	16.5%	16.5%
689	James Dixon Primary School		14.8%	0.5%	0.5%	0.5%	15.3%	15.3%	15.3%
690	Kemnal Academies Trust		14.1%	15.9%	1.8%	1.8%	15.9%	15.9%	15.9%
691	Kemnal Technology College		17.6%	5.7%	5.7%	5.7%	23.3%	23.3%	23.3%
692	Harris Academy Orpington		19.0%	16.8%	16.8%	16.8%	35.8%	35.8%	35.8%
693	Blenheim Primary School		18.4%	0.5%	0.5%	0.5%	18.9%	18.9%	18.9%
694	Eden Park High School		12.5%	Nil	Nil	Nil	12.5%	12.5%	12.5%
695	Harris Academy Beckenham Green		16.5%	0.3%	0.3%	0.3%	16.8%	16.8%	16.8%
696	Churchfields Primary School		17.9%	0.6%	0.6%	0.6%	18.5%	18.5%	18.5%
697	Spring Partnership Trust		17.2%	6.1%	6.1%	6.1%	23.3%	23.3%	23.3%
698	Glebe School		17.6%	0.6%	0.6%	0.6%	18.2%	18.2%	18.2%

699	Hawes Down Primary School		18.6%	4.7%	4.7%	4.7%	23.3%	23.3%	23.3%
700	Nexus Multi Academy Trust		18.2%	5.1%	5.1%	5.1%	23.3%	23.3%	23.3%
701	St Pauls Cary C of E Primary		19.8%	1.3%	1.3%	1.3%	21.1%	21.1%	21.1%

Admitted Bodies - Transferee

35	Liberata		21.4%	1.0%	1.0%	1.0%	22.4%	22.4%	22.4%
36	Birkin Cleaning Services		28.2%	Nil	Nil	Nil	28.2%	28.2%	28.2%
38	The Landscape Group		21.6%	Nil	Nil	Nil	21.6%	21.6%	21.6%
39	Certitude		22.3%	0.4%	0.4%	0.4%	22.7%	22.7%	22.7%
40	Amey		22.3%	0.6%	0.6%	0.6%	22.9%	22.9%	22.9%
42	Cushman and Wakefield		21.1%	1.2%	1.2%	1.2%	22.3%	22.3%	22.3%
43	Creative Support		20.9%	Nil	Nil	Nil	20.9%	20.9%	20.9%
44	Mears Care		22.1%	2.0%	2.0%	2.0%	24.1%	24.1%	24.1%
45	BT		17.0%	3.1%	3.1%	3.1%	20.1%	20.1%	20.1%
47	Greenwich Leisure Ltd		21.3%	4.2%	4.2%	4.2%	25.5%	25.5%	25.5%
49	Ecoclean Service Ltd (for Spring Partnership Trust)	3	23.7%	0.3%	0.3%	0.3%	24.0%	24.0%	24.0%
TBA	Footscray Out of School Club (for Gray Farm Primary)	3	23.8%	Nil	Nil	Nil	23.8%	23.8%	23.8%
50	Ridge Crest Cleaning (for Hayes School)	3	23.9%	Nil	Nil	Nil	23.9%	23.9%	23.9%

Admitted Bodies - Other

6	Clarion Housing (was Affinity Sutton)		0.0%	£72,200	£74,900	£77,600	£72,200	£74,900	£77,600
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Post 31 March 2019 Scheduled Bodies - Other

600	E21st Century Trust		18.7%	0.3%	0.3%	0.3%	19.0%	19.0%	19.0%
702	Bickley Primary School		18.4%	Nil	Nil	Nil	18.5%	18.5%	18.5%
703	Compass Academy Trust		20.2%	0.3%	0.3%	0.3%	20.5%	20.5%	20.5%
704	Langley Park Trust Central		19.4%	Nil	Nil	Nil	19.4%	19.4%	19.4%
705	SOLA MAT Central Team		18.1%	Nil	Nil	Nil	18.1%	18.1%	18.1%
706	LSEC MAT Central Team		15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%

Important notes to the Certificate:

1. The percentages shown are percentage of pensionable pay and apply to all members, including those who are members under the 50:50 option under the LGPS

2. Employers were given the option of whether to pay additional contribution over 2020/23 in respect of the potential additional McCloud costs or any other factors. The above secondary contributions include provision for the estimated effect of the McCloud judgement. Once the final remedy for McCloud is known, the position will be reviewed. Whilst it is possible that the Fund may require additional contributions from employers at that point in time if the McCloud remedy is substantially different from that currently anticipated, based on the Administering Authority's current knowledge and understanding of the likely outcome it believes that requiring such additional contributions is an unlikely outcome. In the event that additional contributions are required, this certificate will then be updated to reflect these changes

Any contribution changes will take effect from a date to be determined by the Administering Authority.

3. These employers were admitted to the Fund prior to 31 March 2019 but admission agreements were not signed until after 31 March 2019.

LONDON BOROUGH OF BROMLEY PENSION FUND GOVERNANCE POLICY STATEMENT

1. This statement has been published in accordance with regulation 55 of the Local Government Pension Scheme Regulations 2013.
2. It was published after consultation with the other employers in the Fund, namely Bromley & Orpington College, Ravensbourne College, Clarion Housing (formerly Affinity Sutton), Bromley Mytime and Bromley & Lewisham MIND. The Council also consulted its employees through their departmental representatives and trade unions.
3. Before publishing the statement, the Council took into account guidance issued by the CIPFA Pensions Panel under the title "Local Government Pension Scheme: Pension Fund Decision Making – Guidance Notes (2006)".
4. Under Schedule 1, paragraph H1 of The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (SI 2000 No. 2853), functions relating to local government pensions are not to be the responsibility of an authority's Executive.
5. The Council has made the following arrangements for delegation of its functions relating to pensions:
 - (a) Overall responsibility for administration of the Local Government Pension Scheme has been delegated to the General Purposes and Licensing Committee.
 - (b) Responsibility for the following functions has been delegated to the Pensions Committee, which is a sub-committee of the General Purposes and Licensing Committee:
 - (i) Monitoring the financial position of the Pension Fund, including consideration of the triennial actuarial valuations.
 - (ii) Investment of the Pension Fund, including the appointment of investment managers.
 - (iii) Management of the Council's additional voluntary contributions (AVC) scheme.
 - (c) Responsibility for day-to-day administration has been delegated to the Director of Finance. He has issued operational guidelines for internal use by staff, including staff employed by Liberata Pensions, for reference in determining the day-to-day issues that have been delegated to him.
6. The General Purposes and Licensing Committee normally meets six times a year. Its membership comprises 15 elected Councillors, with its political make-up determined according to proportionality rules.
7. The Pensions Committee normally meets five times a year. Its primary function is to review the investment performance of the Fund's external investment managers. Its membership comprises seven elected Councillors, with its political make-up determined in accordance with proportionality rules.

8. Neither the General Purposes and Licensing Committee nor the Pensions Committee includes any representatives of the other Fund employers. The Council does not believe that it would be practicable for these employers to be represented on either committee as this would result in an inappropriate balance of committee membership given that a large proportion of the Fund's members are the financial responsibility of the Council.
9. In addition to both the General Purposes and Licensing Committee and the Pensions Committee, a Local Pension Board (hereinafter referred to as 'the Board') has been established to meet the requirements of The Local Government Pension Scheme Regulations 2013 (as amended). The role of the Local Pension Board is to "assist" administering authorities to secure compliance with the LGPS regulations and other legal and regulatory requirements, and generally to ensure the efficient and effective governance and administration of the LGPS.

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

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

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

GOVERNANCE COMPLIANCE STATEMENT

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

Principle A – Structure

a)	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Fully compliant
b)	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Partly compliant
c)	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Partly compliant
d)	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Partly compliant

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

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

Principle B – Representation

a)	<p>That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-</p> <ul style="list-style-type: none"> 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
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b)	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision- making process, with or without voting rights.	Fully compliant
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Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

The Local Pension Board membership comprises two employer representatives and two member representatives.

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

The two employer representatives and two member representatives on the Local Pension Board receive all papers for, and can attend Committee meetings. Equal access is given to training and they also have a full opportunity to contribute to the decision making process but without voting rights.

Principle C – Selection and role of lay members

a)	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	Fully compliant
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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
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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
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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
<p>Please use this space if you wish to add anything to explain or expand on the ratings given above:</p> <p>The policy is to ensure that there is regular and comprehensive access to training. In-house training sessions for Councillors were held in January 2016, January 2017 and November 2018. Further ongoing training will be arranged.</p>		

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

<p>* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)</p> <p>As stated the two employer representatives and two member representatives on the Local Pensions Board receive all papers for, and can attend all Pensions Committee meetings.</p>	
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<p>Please use this space if you wish to add anything to explain or expand on the ratings given above:</p> <p>The General Purposes and Licensing Committee meets six times per year plus any special meetings. The Pensions Committee meets four times per annum plus any special meetings.</p>	
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Principle G – Access

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

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

The accounts have to be accompanied by a statement of responsibilities signed by the Director of Finance and by the independent auditor's report. These can be found on pages 45 to 48. The Fund Account and Net Assets Statement are on pages 49 and 50, supporting notes are on pages 51 to 70 and details of the Pension Fund Revenue Account are on page 71.

During 2021/22, the total net assets of the Fund decreased from £1,332.3m to £1,330.0m. The Pension Fund Revenue Account showed an overall surplus of £21m in 2021/22 (excluding changes in market value), and total Fund membership numbers increased (excluding frozen refunds) in the year from 18,619 to 19,182.

APPROVAL OF THE ACCOUNTS

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**(THIS PAGE IS NOT USUALLY REQUIRED BUT, AS GP&L ARE APPROVING THE
PENSION FUND ACCOUNTS SEPARATELY, IT IS NEEDED FOR 2021/22)**

STATEMENT OF RESPONSIBILITIES

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**(AS PENSION FUND ACCOUNTS NEED SEPARATE APPROVAL BY GP&L THIS
YEAR THIS PAGE NEEDS TO BE PRESENTED WITH THE PENSION FUND
ACCOUNTS SO DELETED FROM ANNUAL REPORT)**

AUDITOR'S REPORT

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PENSION FUND

NET ASSETS STATEMENT

31st March 2021			31st March 2022	
£000	£000		£000	£000
	150	London Collective Investment Vehicle (CIV)		150
		Investment assets		
57,944		Equities - UK (quoted)	43,337	
819,007		- overseas (quoted)	807,063	
		Pooled investments		
-		- UK unitised insurance policies	-	
392,851		- UK open ended investment companies	376,025	
		Pooled property investments		
46,311		- UK open ended investment companies	77,968	
13,419		Cash deposits held by investment managers	6,558	
2,106		Investment income due	2,550	
-		Other investment balances – sales	-	
-		- purchases	-	
		- USD ILF	14,814	
	1,331,637	Total investment assets		1,328,315
	1,331,787	Total net investments	10	1,328,465
1,520		Long-term debtors	14	1,321
		Current assets and liabilities		
2,808		Short term lending		6,096
3,491		Current assets - debtors	13	4,156
	7,820			11,572
-		Short term borrowing		-
(3,718)		Current liabilities - creditors	13	(981)
	(3,718)			(981)
	1,335,889	Net assets of the fund available to fund benefits at the end of the reporting period		1,339,056

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The Actuarial present value of promised retirement benefits is disclosed in Note 16.

PENSION FUND

Notes to the Accounts

1 Description of Fund

The following description of the Fund is a summary only. For more detail, reference should be made to the London Borough of Bromley Pension Fund Annual Report 2021/22 and the underlying statutory powers underpinning the scheme, which are listed below.

(a) General

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

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

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

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

(b) Membership

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

Organisations participating in the Fund include:

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

The following table shows the total membership of the Fund as at 31st March 2022 and 2021.

	2022	2021
Number of employers	139	130
Number of employees in scheme		
London Borough of Bromley	1,954	1,934
Other employers	4,431	4,271
	6,385	6,205
Number of pensioners		
London Borough of Bromley	4,917	4,881
Other employers	873	791
	5,790	5,672
Deferred pensioners		
London Borough of Bromley	3,992	4,565
Other employers	2,283	1,632
	6,275	6,197
Total number of members in pension scheme	18,450	18,074

PENSION FUND

Notes to the Accounts

1 Description of Fund continued

(c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active scheme members in accordance with the LGPS Regulations 2013 and, in 2021/22, ranged from 2.75% to 12.5% of pensionable pay. Contributions are also made by employers and these are set based on triennial actuarial valuations.

A secondary contribution rate (previously known as deficit amount or past service adjustment) may also be charged. This rate is either paid as a monetary value or as an additional percentage of pensionable pay. In 2021/22, total employer rates ranged from 12.5% to 35.8% of pensionable pay

(d) Benefits

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

Service pre 1st April 2008:

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

Service post 31st March 2008:

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

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

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

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

There is a range of additional benefits for members of the scheme including, but not limited to, early retirement, ill health retirement and death benefits

2 Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2021/22 financial year and its position as at 31st March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector, as well as guidance on Investment Valuations issued by the Pensions Research Accountants Group (PRAG).

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the note to the accounts or by appending an actuarial report prepared for this purpose. The pension fund has opted to disclose this information in Note 16.

The accounts have been prepared on a going concern basis. The London Borough of Bromley Pension Fund is an open scheme with a strong covenant from the participating employers and is therefore able to take a long-term outlook when considering the general funding implications of external events. The Fund was 110% funded at the 31 March 2019 valuation.

PENSION FUND

Notes to the Accounts

2 *Basis of Preparation continued*

Cash flow in the fund is generally provided by the ongoing excess of contributions over payments. Additionally, a portion of investment income generated by the fund is also retained as cash to provide additional liquidity. The overall cash flow position is subject to periodic monitoring and review to ensure that there is sufficient liquidity in fund assets to meet any commitments. The fund can disinvest to ensure that it is able to remain liquid for a period of at least 12 months from the date the financial statements are authorised for issue.

3 *Summary of Significant Accounting Policies*

(a) *Contribution income*

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

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

(b) *Transfers to and from other schemes*

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

(c) *Investment Income*

(i) *Interest income*

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

(ii) *Dividend income*

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

(iii) *Distributions from pooled funds*

Distributions from distributing share class pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset. For accumulating share classes, the change in market value also includes income, net of withholding tax, which is re-invested in the fund.

(iv) *Movement in the net market value of investments*

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

(d) *Benefits payable*

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

(e) *Taxation*

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

PENSION FUND

Notes to the Accounts

3 Summary of Significant Accounting Policies continued

(f) Management expenses

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

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

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

Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 8 and grossed up to increase the change in value of investments. Fees of the external investment manager and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

(g) Investment management expenses

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

(h) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS9 (see Note 10).

(i) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

(j) Cash and cash equivalents

Cash comprises cash investments placed by the Fund managers and cash held internally by the Fund. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

(k) Financial liabilities

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

PENSION FUND

Notes to the Accounts

3 Summary of Significant Accounting Policies continued

(l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed every three years by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As is permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (see Note 16). A summary of the results of the last full actuarial valuation is shown in Note 15

(m) Additional voluntary contributions (AVCs)

The Council provides an AVC scheme for its members, the assets of which are invested separately from those of the Pension Fund. AVCs are managed independently of the fund by specialist provider (Aviva and Equitable Life) and each contributor receives an annual statement showing the amount held in their account and the movements in the year. In accordance with the LGPS (Management and Investment of Funds) Regulations 2016, AVCs are not included in the Pension Fund accounts, but are disclosed in Note 17.

(n) Contingent Assets and Liabilities

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

(o) Events After the Reporting Period End

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Pension Fund accounts are authorised for issue. Two types of events can be identified:

-those that provide evidence of conditions that existed at the end of the reporting period – the accounts are adjusted to reflect such events

-those that are indicative of conditions that arose after the reporting period – the accounts are not

adjusted to reflect such events, but, where a category of events would have a material effect, disclosure is made of the nature of the events and their estimated financial effect.

(p) Basis for Valuation

Investments are shown in the accounts at market value, which has been determined as follows

Level 1 – Baillie Gifford and MFS equities. The majority of listed investments are stated at closing bid price or where not available, the last traded price as at 31 March 2022.

Level 2 - Fidelity and Schroders fixed income, pooled property and multi asset funds (when not subject to a material uncertainty clause). Closing bid price where bid and offer prices are published or closing single price where single price is published

Level 3 – None

Market value as published in the audited chart of accounts.

PENSION FUND

Notes to the Accounts

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

The Pension Fund liability is calculated every three years by the scheme actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 15. The assumptions were determined after taking into account historical experience, current trends and other factors. This estimate is subject to significant variations based on changes to the underlying assumptions. Consequently, actual results may be materially different from estimates.

The actuarial present value of promised retirement benefits is included in Note 16. Estimation of the net liability to pay pensions and the judgements used are carried out by the scheme actuary. The significant judgements relate to the discount rate used, salary increase projections, inflation and demographic assumptions. As for the 31 March 2019 figures, the figure includes the potential impact of the McCloud judgement.

Due to the global economic impact of the lockdown measures put in place by the UK Government on 23rd March 2020 in response to the Covid 19 pandemic, there has been increased volatility in equity and credit markets. This caused a significant reduction in the value of pension fund assets as at 31st March and although equity markets have started to stabilise and recover since then, there remains considerable uncertainty on the financial impact in future years. On this basis, this matter has been treated as a non-adjusting event.

5 Contributions receivable	2020/21	2021/22
	£000	£000
Employer Contributions		
L.B. Bromley part of Fund		
L.B. Bromley - normal	9,632	9,730
- augmentations	22	38
- deficit funding	72	75
Scheduled bodies - Foundation Schools	145	151
	<u>9,868</u>	<u>9,994</u>
Other		
Scheduled bodies - normal - academies	11,998	13,015
- normal - colleges	717	775
Admitted bodies - normal	2,960	2,517
- deficit funding	494	478
	<u>26,037</u>	<u>26,779</u>
Member Contributions		
L.B. Bromley part of Fund		
L.B. Bromley	3,626	3,726
Scheduled bodies - Foundation Schools	53	57
	<u>3,679</u>	<u>3,783</u>
Other		
Scheduled bodies - academies	3,332	3,665
- colleges	381	410
Admitted bodies	325	312
	<u>7,717</u>	<u>8,170</u>

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

PENSION FUND

Notes to the Accounts

6 Benefits Payable	2020/21	2021/22
	£000	£000
Pensions	<u>29,891</u>	<u>30,053</u>
Lump Sum Benefits – retirement		
L.B. Bromley part of fund	3,677	2,641
Scheduled bodies - Foundation Schools	532	1,004
Admitted bodies	329	434
	<u>4,538</u>	<u>4,079</u>
Lump Sum Benefits – death		
L.B. Bromley part of fund	400	325
Scheduled bodies - Foundation Schools	169	20
Admitted bodies	69	-
	<u>638</u>	<u>345</u>

The Pension Fund is unable to present the pensions benefits payable balance per administering authority, scheduled bodies and admitted bodies as the administrator and general ledger coding are not set up to categorised the pensions benefits payable in the same way.

7 Management Expenses	2020/21	2021/22
	£000	£000
Administrative costs	888	1,056
London CIV implementation & service charge	110	82
External audit costs	21	21
Investment management expenses	4,800	5,443
Oversight and governance costs	160	190
	<u>5,979</u>	<u>6,792</u>

8 Investment Management Expenses	2020/21	2021/22
	£000	£000
Management fees	4,409	5,186
Custody fees	158	149
Transaction costs	233	108
	<u>4,800</u>	<u>5,443</u>

9 Investment Income	2020/21	2021/22
	£000	£000
Income from equities	6,505	13,282
Pooled property investments	1,909	2,669
Pooled investments	10,174	9,834
Interest on cash deposits	55	(14)
Interest on long term debtor	-	-
	<u>18,643</u>	<u>25,771</u>

PENSION FUND

Notes to the Accounts

10 Investments

Following a review of the Fund's investment strategy in 2017, to help manage the projected cashflow negative position of the Fund, contracts were awarded for two income distributing Multi-Asset Income Funds (20% of the Fund) and a Property Fund (5% of the Fund) in December 2017, funded by the disinvestment of the two Diversified Growth Funds, and a reduction in the allocations to Global Equities and Fixed Income. The managers as at 31st March 2022 were as follows:

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

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

The bid value of the Fund as at 31st March 2021 and 2022 was divided between Fund managers as follows:

	31st March 2021		31st March 2022	
	£000	%	£000	%
Baillie Gifford - global equities	599,370	45.00%	527,772	39.72%
- fixed income	-	0.00%	-	0.00%
Fidelity - fixed income	150,533	11.30%	142,345	10.71%
- multi-asset income	131,361	9.86%	125,544	9.45%
- pooled property	46,311	3.48%	77,968	5.87%
- USD ILF	-	0.00%	14,814	1.12%
MFS - global equities	293,092	22.01%	331,773	24.97%
Blackrock - global	0	0.00%	0	0.00%
Schroders - multi-asset income	110,970	8.33%	108,149	8.14%
London CIV	150	0.01%	150	0.01%
	<u>1,331,787</u>	<u>100.00%</u>	<u>1,313,651</u>	<u>100.00%</u>

The carrying amounts of financial assets held by Fund managers are held as fair value through profit and loss, with the exception of the London CIV investment which is held at cost.

There is no impact from the adoption of IFRS 9 Financial Instruments.

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

	31st March	31st March
	2021	2022
	£000	£000
Multi-Asset Income Fund (2)	242,330	233,693
Property Fund (1)	46,311	77,968
Global Equity Fund (1)	-	-
Sterling Bond Funds (2)	150,525	142,337
	<u>439,167</u>	<u>453,998</u>

PENSION FUND

Notes to the Accounts

10 Investments continued

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

	Value at 31st March 2021 £000	Purchases £000	Sales £000	Change in value £000	Value at 31st March 2022 £000
Equities	876,951	156,963	(173,522)	(9,992)	850,400
USD ILF	-	14,814	-	-	14,814
Pooled investments	439,167	89,182	-	(59,531)	468,998
		246,145	(173,522)	69,343	1,319,212
	1,316,118				
Cash deposits	13,414			51,603	6,553
Amounts receivable for sales	-				-
Investment income due	2,106				2,550
Amounts payable for purchases	-				-
Net investment assets	<u>1,331,637</u>			<u>(17,740)</u>	<u>1,328,515</u>

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

Transaction costs, comprising costs charged directly to the scheme such as fees, commissions, stamp duty and other fees, are included in the cost of purchases and sale proceeds. Transaction costs incurred during the year totalled £93k, £229k in 2021/22). Indirect costs are also incurred through the bid-offer spread on investments within pooled investment vehicles, but amounts are not separately provided to the scheme.

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

	31st March 2021		31st March 2022	
	£000	% of total	£000	% of total
Baillie Gifford				
- Sterling Aggregate Plus Bond Fund	-	-	-	-
Blackrock - Ascent Life Global Equities Fund	-	-	-	-
Fidelity				
- Institutional Aggregate Bond Fund	150,525	11.27	142,337	10.63
- Diversified Income Fund	131,361	9.83	125,544	9.38
- UK Real Estate Fund	46,311	3.47	77,968	5.82
Schroders - Global Multi Asset Income	110,970	8.31	108,149	8.08

PENSION FUND

Notes to the Accounts

11 Fair Value Hierarchy

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1 - where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities (quoted equities, quoted fixed securities and unit trusts).

Listed investments are shown at bid prices. The bid price is based on the market quotation of the relevant stock exchange. Valuation of the Fund's equities falls into this category.

Level 2 - where market prices are not available, for example where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

The valuation of the Fund's pooled investments fall into this category.

Level 3 - where at least one input that could have significant effect on the instrument's valuation is not based on observable market data. These types of valuation are common to the valuation of alternative investments. The London CIV falls into this category.

The following table provides an analysis of the financial assets of the Fund grouped into the level at which fair value is observable.

Determination of the fair value of assets

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

	<i>As at 31st March 2022</i>			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Baillie Gifford				
- Global Equities	527,722	-	-	-
- Fixed Income	-	-	-	-
Fidelity				
- Fixed Income	-	142,345	-	-
- Multi Asset Income	-	125,544	-	-
- Pooled Property	-	77,968	-	-
- USD ILF	14,814	-	-	-
Schroders				
- Multi Asset Income	-	108,149	-	-
MFS				
- Global Equities	331,773	-	-	-
London CIV	-	-	150	-
Cash deposits held by investment managers	6,558	-	-	-
Investment income due	2,550	-	-	-
	<u>883,417</u>	<u>454,006</u>	<u>150</u>	<u>1,337,573</u>

Transfers between Level 2 and Level 3

The Pension Fund transfers the fair value hierarchy of pooled property fund that were previously held under Level 3 to Level 2. The decision was made as all of the property funds that had a material uncertainty clause included in their valuations last year were removed. The clause was included as a result of the significantly reduced property market activity stemming from the COVID-19 pandemic.

PENSION FUND

Notes to the Accounts

12 Classification of Financial Instruments

2020/21			2021/212		
Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost
£000	£000	£000	£000	£000	£000
Financial Assets					
392,851			Pooled investment vehicles	376,025	
876,951			Equities	850,400	
-			Fixed income	-	
46,311			Pooled property investments	77,968	
13,419			Cash deposits held by investment managers	6,558	
2,106			Investment income due	2,550	
150			London Collective Investment Vehicle	150	
-			Other investment balance	14,814	
	1,549		Current assets Debtor		2,214
	2,808		Short term lending		6,096
	153		Long term Debtor		506
1,331,787	4,585	-	Total Financial Assets	1,328,465	8,816
Financial Liabilities					
		(3,718)	Current assets liabilities		(981)
		(3,718)	Total Financial Liabilities		(981)
1,331,787	4,585	(3,718)	Net Financial Assets	1,328,465	8,816

13 Current assets and liabilities

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

	2020/21	2021/22
	£000	£000
<u>Short term debtors</u>		
Contributions due from employers and employees	1,941	1,940
Dividend income due	1,547	2,213
Other	3	2
	<u>3,491</u>	<u>3,491</u>
<u>Current liabilities</u>		
Fund management fees	934	953
Transfers out (group)	2,667	-
Other	26	27
	<u>3,627</u>	<u>3,627</u>

14 Long term debtors

	2020/21	2021/22
<u>Long term debtors</u>	£000	£000
Repayment of Exit Agreement	1,293	815
Reimbursement of lifetime tax allowances	152	506
	<u>1,520</u>	<u>1,321</u>

PENSION FUND

Notes to the Accounts

15 Funding Arrangements

The Fund is valued triennially in accordance with the provisions of the Local Government Pension Scheme Regulations 2013.

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

The most recent full valuation of the Fund (as at 31st March 2019) was carried out by the actuary during 2019/20. This calculated a new solvency funding level of 110%. For those employers where a shortfall exists, additional contributions will be required to correct this shortfall over an average recovery period of 12 years.

From 1st April 2020 until March 2023 the actuary has certified a Primary Contribution rate (i.e. the average contribution towards future service benefits across all employers) of 17.6% of pay. Secondary rate contributions of £0.1m plus 2.4% of pay per annum (totalling approximately £2.9m per annum on average across all employers) will also be payable to recover any shortfalls identified. The Secondary Rate payable also includes contributions towards the potential impact of the McCloud judgement as agreed with employers. For any schools adopting academy status from 1 April 2020, a contribution rate calculation will be carried out individually by the actuary.

The following assumptions were employed in the 2016 and 2019 valuations.

	2016	2019
<u>Economic assumptions</u>	% p.a.	% p.a.
Increases in earnings - long term	3.7	3.9
- short term (3 years)	n/a	n/a
General Inflation	2.2	2.4
Increases in pensions	2.2	2.4
Investment return - Overall discount rate	4.2	3.65
<u>Mortality assumptions</u>	Years	Years
Life expectancy - male aged 65 now	23.2	22.7
- at 65 for male aged 45 now	25.8	24.6
- female aged 65 now	25.9	25.1
- at 65 for female aged 45 now	28.2	27.1

Commutation assumption - It has been assumed that, on average, retiring members will take 80% of the maximum tax-free cash available at retirement. This is broadly equivalent to the assumption at the 2016 actuarial valuation.

16 Actuarial Present Value of Promised Retirement Benefits

The net liability of the London Borough of Bromley part of the Fund in relation to the actuarial promised retirement benefits and the net assets available to fund these benefits (both based on IAS 19 information available as at 31st March) is shown in detail in Note 44 to the main financial statements. The figures shown in the Net Assets Statement are in respect of the Whole Fund. The Fund is also required to disclose the actuarial present value of future benefits for the Fund as a whole. This was assessed by the Council's actuary under IAS 26 as £1,451m as at 31st March 2022 (£1,401m as at 31st March 2021).

When the LGPS benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme, by effectively giving them the better of the benefits from the old and new schemes.

In December 2018 the Court of Appeal upheld a ruling ("McCloud/Sargeant") that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well. The UK Government requested leave to appeal to the Supreme Court, but this was denied at the end of June 2019.

PENSION FUND

Notes to the Accounts

16 Actuarial Present Value of Promised Retirement Benefits continued

It has since been confirmed that the implications of the ruling also apply to the LGPS (and other public service schemes) and a consultation took place in July 2020 with regard to the proposed remedies to remove the discrimination in the LGPS. Since then, the Public Service Pensions and Judicial Offices Bill has passed through the House of Lords and House of Commons and received Royal Assent in March 2022. Final details of how the remedy will be implemented by LGPS Funds are now awaited.

The key feature of the proposed remedy is to extend the final salary “underpin” to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2014. In preparing the 2019 actuarial valuation of the London Borough of Bromley Pension Fund, the Fund’s actuary assessed, at the overall Fund level that the potential cost of the judgment could be an increase in past service liabilities of broadly £7 million and an increase in the Primary Contribution rate of 0.7% of Pensionable Pay per annum for the period to 31 March 2022. As part of the valuation, employers in the Fund were given the option to pay additional contributions to meet these potential costs.

A similar allowance of the potential costs of the Judgment has been incorporated into the IAS26 figures above based on the calculations undertaken by the Actuary as part of the 2019 valuation i.e. namely an increase of c£8m in liabilities as at 31 March 2019 (assessed on the IAS26 assumptions).

These numbers are high level estimates based on scheme level calculations and depend on several key assumptions.

The demographic assumptions used in the IAS 26 report were the same as those used for the 2019 full valuation (see Note 15) and the following financial assumptions were used:

	2021	2022
	% p.a.	% p.a.
Increases in earnings	4.2	4.9
Increases in pensions	2.8	3.5
Inflation	2.7	3.4
Investment return - Overall discount rate	2.1	2.8

PENSION FUND

Notes to the Accounts

17 Additional Voluntary Contributions

Contributing members have the right to make AVCs to enhance their pensions. In accordance with the LGPS (Management and Investment of Funds) Regulations 2016, AVCs are not included in the Pension Fund accounts. A summary of contributions made by members in 2020/21 and 2021/22 and the total value of AVC Funds as at 31st March 2021 and 2022 is shown below.

	2020/21	2021/22
	£000	£000
AVC contributions		
- to Aviva	12	12
Total contributions	12	12

	2020/21	2021/22
	£000	£000
Market Value		
- Aviva	605	606
- Equitable Life	-	-
- Utmost Life and Pensions	59	61
Total Market Value	664	665

18 Related Parties

One member of the Pensions Committee during the year were in receipt of a pension, and one is a deferred pensioner.

A special responsibility allowance of £2,064 was paid to the Chairman of the Committee in 2021/22 (also £2,064 in 2021/21). No other payments were made for meeting attendance.

The Council incurred costs of £1.246m (£1.047m in 2020/21) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses.

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

	2020/21	2021/22
	£000	£000
Short-term benefits	14	15
Post-employment benefits	2	3
	16	18

19 Nature and extent of risks arising from financial instruments

The Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 requires disclosure of the nature and extent of risks arising from financial instruments. This requirement extends to the specific risks related to Pension Fund investments. Detailed disclosures concerning these risks are included in this note on the next two pages.

PENSION FUND

Notes to the Accounts

19 Nature and extent of risks arising from financial instruments continued

Risk and Risk Management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk, price risk, currency risk and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure that there is sufficient liquidity to meet its forecast cash-flows. The Authority manages these investment risks as part of its overall Pension Fund risk management programme.

Market Risk

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

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

Other price risk

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

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

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

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

In consultation with its investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for 2021/22, assuming that all other variables, in particular foreign exchange rates and interest rates remain the same.

PENSION FUND

Notes to the Accounts

19 Nature and extent of risks arising from financial instruments continued

Other Price Risk - Sensitivity Analysis

Asset Type	Value as at 31.03.22 £000	Market Movements (+/-)	Value on increase £000	Value on decrease £000
UK bonds	142,524	-5.24%	135,056	149,992
Overseas bonds	(186,983)	-5.24%	(177,185)	(196,781)
UK quoted equities	43,341	12.66%	48,828	37,854
UK unquoted equities	150	-	150	150
Overseas equities	807,904	12.66%	909,272	704,916
Pooled investments - OIECs	233,688	4.50%	244,204	223,172
Pooled property investments - OIECs	77,968	23.14%	96,010	59,926
Total	1,117,783	-	1,256,335	979,230

Asset Type	Value as at 31.03.21 £000	Market Movements (+/-)	Value on increase £000	Value on decrease £000
UK bonds	150,384	0.46%	151,528	150,140
Overseas bonds	(309)	0.46%	(310)	(308)
UK quoted equities	57,949	39.26%	80,700	35,198
UK unquoted equities	150	-	150	150
Overseas equities	819,002	39.26%	1,140,542	497,462
Pooled investments - OIECs	241,883	4.50%	252,768	230,999
Pooled property investments - OIECs	46,311	2.44%	47,441	45,181
Total	1,315,821	-	1,672,819	958,823

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the base currency of the Fund, i.e. £Sterling.

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

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

The Fund considers the likely volatility associated with foreign exchange rate movements to be not more than 10%. A 10% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows.

PENSION FUND

Notes to the Accounts

19 Nature and extent of risks arising from financial instruments continued

Currency Risk - Sensitivity Analysis

	Asset value as at 31.03.22	Potential market movement	Value on increase	Value on decrease
Assets exposed to currency risk	£000		£000	£000
Overseas bonds	(186,983)	(18,698)	(205,681)	(168,285)
Overseas equities	807,094	80,709	887,803	726,385
Cash and cash equivalents	2,316	232	2,547	2,084
Total change in assets available to pay benefits	622,427	62,243	684,670	560,183

	Asset value as at 31.03.21	Potential market movement	Value on increase	Value on decrease
Assets exposed to currency risk	£000		£000	£000
Overseas bonds	(309)	(19)	(327)	(291)
Overseas equities	819,002	49,140	868,142	769,862
Cash and cash equivalents	3,184	191	3,375	2,993
Total change in assets available to pay benefits	821,877	49,313	871,190	772,563

Credit Risk

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

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

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

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund held £6.1m of Pension Fund cash under its treasury management arrangements at 31st March 2022 (£2.8m of temporary lending to the Council at 31st March 2021, £4.2m of temporary lending to the Council at 31st March 2020, £2.7m of temporary borrowing at 31st March 2019). In practice, the Pension Fund Revenue Account was broadly cash neutral for most of the year, and as a result, it was not considered viable to separate out Pension Fund cash from Council cash. The Council reviews exposure to different classes of credit ratings for fixed-interest securities and these results are reviewed quarterly by the Director of Finance.

PENSION FUND

Notes to the Accounts

19 Nature and extent of risks arising from financial instruments continued

Liquidity Risk

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

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

The Fund has illiquid assets through the Fidelity Property Fund, which had a value of £77.9m as at 31st March 2022, representing 5.8% of investment assets (£46.3m (3.5%) as at 31st March 2021).

Interest rate risk

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

Changes in interest rates principally affect investments held in cash or fixed interest securities.

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

The fund recognises that interest rates can vary and can affect both income to the fund and the carrying value of fund assets, both of which affect the value of net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points (1%) from one year to the next and experience suggests that such movements are likely.

Interest rate - risk sensitivity analysis

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates. The analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and visa versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances.

PENSION FUND

Notes to the Accounts

19 Nature and extent of risks arising from financial instruments continued

Assets exposed to interest rate risk:

Exposure to interest rate risk	Asset value as at 31.03.22 £000	Impact of 1% decrease £000	Impact of 1% increase £000
Cash and cash equivalents	6,558	6,492	6,623
Fixed interest bonds	(44,458)	(44,014)	(44,903)
Total	(37,901)	(37,522)	38,280

Exposure to interest rate risk	Asset value as at 31.03.21 £000	Impact of 1% decrease £000	Impact of 1% increase £000
Cash and cash equivalents	13,419	13,285	13,553
Fixed interest bonds	150,525	149,020	152,030
Total	163,944	162,305	165,583

20 Contingent Assets

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

21 Events After the Reporting Period

Due to the global economic impact of the measures put in place by the UK and other Governments in March 2022 in response to the conflict in Ukraine, there has been increased volatility in equity and credit markets. The Fund has limited investments in Russia of less than £880k as at March 2022. This is less than 0.1% of the total fund value. There remains considerable uncertainty on the financial impact in future years. On this basis, and due to the low value of investments in Russia, this matter has been treated as a non-adjusting event.

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Draft Final Outturn 2020/21 £'000	Estimate 2021/22 £'000	Actuals for 2021/22 £'000
INCOME			
Employee Contributions	7,666	7,559	8,103
Employer Contributions			
- Normal	25,684	23,380	26,779
- Past-deficit	72	-	67
Transfer Values Receivable	2,408	3,192	4,566
Investment Income			
- Re-invested	10,500	13,028	11,057
- Distributed to Fund	12,083	13,032	14,169
Total Income	<u>58,695</u>	<u>60,191</u>	<u>64,741</u>
EXPENDITURE			
Pensions	29,890	30,207	30,053
Lump Sums	5,227	5,121	4,425
Transfer Values Paid	4,855	5,603	2,541
Administration			
- Manager fees	4,411	4,181	5,185
- Other (incl. pooling costs)	1,569	672	1,605
Refund of Contributions	95	71	271
Total Expenditure	<u>46,047</u>	<u>45,855</u>	<u>44,080</u>
Surplus/Deficit (-)	<u>12,648</u>	<u>14,336</u>	<u>20,661</u>
MEMBERSHIP			
	31/03/2021		31/03/2022
Employees	6,205		6,385
Pensioners	5,672		5,790
Deferred Pensioners	<u>6,197</u>		<u>6,275</u>
	<u>18,074</u>		<u>18,450</u>
*Distributed to Fund	2020/21		2021/22
Fidelity MAI & FI rebate	5,389		6,111
Fidelity Property	1,909		2,669
Schroders MAI, BG, Fidelity Bonds	<u>4,785</u>		<u>5,389</u>
	<u>12,083</u>		<u>14,169</u>

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

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

1. EXECUTIVE SUMMARY

Ensuring that the London Borough of Bromley Pension Fund (the "Fund") has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (London Borough of Bromley). The Funding Strategy adopted by the London Borough of Bromley Pension Fund will therefore be critical in achieving this. The purpose of this Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward.

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

THE FUND'S OBJECTIVE

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

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next to meet the primary objective. This in turn means that contributions will be subject to change from one valuation to another.

The objective is considered on an employer specific level where appropriate, including when setting individual contribution rates so each employer has the same fundamental objective in relation to their liabilities.

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

The funding strategy set out in this document has been developed alongside the Fund's investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would normally lead to volatility of contribution rates at future valuations if these margins were not included.

This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long term cost efficiency objectives.

SOLVENCY AND LONG TERM COST EFFICIENCY

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

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

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

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

The solvency level of the Fund is 110% at the valuation date (i.e. the assets of the Fund are more than the liabilities). At an individual employer level, there will be instances where the assets allocated are lower than the liabilities and therefore a shortfall will exist. In such cases, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

For those employers where a shortfall exists, deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) or as a % of pay, as deemed appropriate by the Administering Authority, and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish.

Subject to affordability considerations (and any changes emerging in the Primary Rate) a key principle will be to maintain contributions at least at the expected monetary levels from the preceding valuation. Full details are set out in this FSS.

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

The target recovery period for the Fund as a whole is 12 years at this valuation which is the same as the corresponding target for the 2016 valuation. Individual employer recovery periods will be considered depending on their own circumstances. The average recovery period emerging from this valuation is 12 years.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. Therefore, the Fund has considered its policy in relation to costs that could emerge from the McCloud judgment in line with the guidance from the Scheme Advisory Board in conjunction with the Actuary.

Whilst the remedy is not known and may not be known for some time, for the purpose of this valuation, when considering the appropriate contribution provision, we have assumed that the

judgment would have the effect of removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1st April 2012. The relevant estimated costs have been quantified and notified to employers on this basis but also highlighting that the final costs may be significantly different. All employers in the Fund as at 31st March 2019 have chosen to include these estimated costs over 2020/23 in their certified contributions.

ACTUARIAL ASSUMPTIONS

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

When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). The discount rate in excess of CPI inflation (the “real discount rate”) has been derived based on the expected return on the Fund’s assets based on the long term strategy set out in its Investment Strategy Statement (ISS).

The assumption for long term expected future real returns has reduced since the last valuation. This is due to a combination of a fall in the total expectation of the return on the Fund’s assets and the higher expected level of inflation in the long term. Taking this into account, and the improvements in funding level, the discount rate has been adjusted from the previous valuation so that, in the Actuary’s opinion, when allowing for the resultant employer contributions emerging from the valuation, the Fund can still be reasonably be expected to meet the Solvency and Long Term Cost Efficiency objectives.

The Fund Actuary is proposing that the real discount rate assumption for determining the baseline past service liabilities should be 1.25% per annum, and for determining the future service (“primary”) contribution rate 2.25% per annum. This compares to 2% per annum and 2.65% per annum respectively at the last valuation.

Where warranted by an employer’s circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole. Such cases will be determined by the Section 151 Officer and reported to the Committee.

The demographic assumptions are based on the Fund Actuary’s bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant. For those employers terminating participation in the Fund, a more prudent mortality assumption will apply (see further comments below).

EMPLOYER ASSET SHARES

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

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset share may be restated for changes in data or other policies.

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

FUND POLICIES

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

Covenant assessment and monitoring

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

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

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

Admitting employers to the Fund

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

- Mandatory Scheme Employers - for example new academies (see later section);
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.

The key objective for the Fund is to only admit employers where the risk to the Fund is mitigated as far as possible. The different employers pose different risks to the Fund.

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

Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

Where there is no guarantor who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to government bond yields and a more prudent longevity assumption will be used for assessing liabilities on termination. Any resulting exit

payments due should normally be paid immediately, although instalment plans will be considered by the Administering Authority on a case by case basis. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

Any exit credits (surplus assets over liabilities) will be paid from the Fund to the exiting employer within 6 months of completion of the cessation assessment by the Actuary. The Administering Authority may seek to modify this approach on a case by case basis if circumstances warrant it (for example, it may work with the outsourcing scheme employer to adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers).

This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it based on the advice of the Actuary.

Where there is a guarantor who would subsume the assets and liabilities of the outgoing employer, the default policy is that any deficit or surplus would be subsumed into the guarantor and taken into account at the following valuation. In some instances, an exit debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No exit credit would be payable in these circumstances.

In line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Administering Authority will provide details of the information required to make their determination for each case when the need arises.

The Administering Authority can modify this approach on a case by case basis if circumstances warrant it and the parties make representation. For example, if the parties make representation it may be appropriate to adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and the outsourcing scheme employer.

In the event of parties unreasonably seeking to crystallise an exit credit on termination, the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities the basis of assessment on termination will assume the liabilities are orphaned and thus the minimum risk basis will apply.

2. INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) (“the 2013 Regulations”) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively; “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- Following consultation with such persons as it considers appropriate to the London Borough of Bromley Pension Fund (the “Fund”), the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
 - the guidance issued by CIPFA for this purpose; and
 - the Investment Strategy Statement (ISS) for the Fund published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

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

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

EMPLOYER CONTRIBUTIONS

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

PRIMARY RATE

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

The Primary rate for each employer is specified in the rates and adjustments certificate.

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

SECONDARY RATE

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

The Secondary rate for each employer is specified in the rates and adjustments certificate.

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

For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

3. PURPOSE OF FSS IN POLICY TERMS

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

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

The purpose of this Funding Strategy Statement is therefore:

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

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

4. AIMS AND PURPOSE OF THE FUND

The aims of the fund are to:

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

The purpose of the fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of Fund benefits, transfer values, costs, exit credits, charges and expenses as defined in the Regulations.

5. RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and in particular the Pensions Committee), the individual employers and the Fund Actuary and details of their roles are set out below.

Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

Key parties to the FSS:

The **Administering Authority** should:

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

The **Individual Employer** should:

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

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc.
- provide advice and valuations on the termination of admission agreements including in relation to exit credit payments
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

6. SOLVENCY FUNDING TARGET

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

SOLVENCY AND LONG TERM EFFICIENCY

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

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

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

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

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

Underlying these assumptions are the following two tenets:

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

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

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31st March 2020 at the latest.

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

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation:

- Individual employer contributions will be expressed and certified as two separate elements:
 - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits and ancillary death in service and ill health benefits (where appropriate).
 -
 - the **Secondary rate**: a schedule of lump sum monetary amounts or contribution rates expressed as a percentage of pensionable payroll over 2020/23 in respect of an employer's surplus or deficit

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from 1 April 2023 based on the results of the 2022 actuarial valuation.

DEFICIT RECOVERY PLAN

Where deficits remain, as a general rule, a maximum recovery period of 12 years will be adopted. The Fund does not believe, where an employer is in deficit, it to be appropriate for contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable on deficit contributions) unless there is a specific reason to do so.

By number, academies form the largest group of employers in the Fund. For those academies in deficit, the target total contribution rate for each academy will be broadly set to be same as the target adopted at the 2016 valuation.

Recovery periods will be adjusted on an individual basis to achieve this, subject to a maximum recovery period of 12 years being applied. Where the maximum recovery period does apply, higher contributions will be payable by those individual academies

For other employers, as a general rule, subject to the consideration of affordability and stabilisation of contribution rates, the deficit recovery period will remain the same for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan over a shorter period if they so wish. Taking into account affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B**).

For those employers assessed to be in surplus at the valuation date, the surplus will be either retained to act as a margin against adverse experience in order to the objective of long-term cost efficiency. For those employers assessed to be in surplus with a limited time period of participation in the Fund, the surplus may be removed over a maximum recovery period of 12 years, subject to the agreement of the Administering Authority (see Deficit Recovery Plan in **Appendix B**).

In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole (see further comment below). Any employer affected will be notified separately.

EMPLOYERS EXITING THE FUND

Employers must notify the Fund as soon as they become aware of their planned exit date. Where appropriate, or at the request of the employer, the Fund will review the employer's certified contribution in order to target a fully funded position at exit. The costs of the contribution rate review will be payable by the employer or the outsourcing scheme employer (where necessary).

On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. In such circumstances:

The policy for employers who have a guarantor participating in the Fund:

The residual assets and liabilities and hence any surplus or deficit will transfer back to the guarantor as a default policy

The interested parties will need to consider any separate agreements that have been put in place between the exiting employer and the guarantor. In some instances an exit credit or debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis.

If there is any dispute, then the following arrangements will apply:

- In the case of a surplus, in line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make formal representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.
- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of completion of the cessation assessment by the Actuary.
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or at the next valuation.

In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate risk sharing agreement. The default is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor unless representation is made by the relevant parties in line with the Regulations (as noted above). For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations, provided that the Fund is aware of the provisions of the risk sharing agreement in any representation made.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not known. Where a surplus or deficit is being subsumed, no allowance will be made for McCloud within the calculations. However, if a representation is made to the Administering Authority then a reasonable estimate for the potential cost of McCloud will need to be included. This will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

In the event of parties unreasonably seeking to crystallise the exit credit on termination, the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities then the basis of assessment on termination will assume the liabilities are orphaned and the minimum risk basis of termination will apply.

The policy for employers who do not have a guarantor participating in the Fund:

In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation assessment by the Actuary). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.

In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not known. As part of any termination assessment, a reasonable estimate for the potential cost of McCloud will be included. This will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary.

Where an employer with no guarantor leaves the Fund and leaves liabilities with the Fund which the Fund must meet without further recourse to that employer, the valuation of the termination payment will be calculated using the minimum risk basis.

Further details are set out in the termination policy is set out in **Appendix C**.

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

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

FUNDING FOR DEATH BENEFITS

The financial impact of the benefits that become payable on the death of a member differ depending on whether the member dies before or after retirement.

The extent of any funding strain/profit which emerges on the death of a pensioner member (typically a profit) will be determined by the age of the pensioner at death and whether or not any dependants' benefits become payable.

In the event of a member dying whilst in active service, it is not certain that a funding profit would emerge. Whilst the Fund would no longer have to pay the accrued benefits at retirement for the deceased member, a lump sum death grant and benefits for eligible dependants would become payable instead. The dependants' benefits would also be based on the pensionable service that the member could have accrued had they remained in service until retirement.

Typically, the death of a young member with low pensionable service and eligible dependants is likely to result in a large funding strain for the employer. However, the death of an older/long serving member with no dependants could result in a funding profit. Any funding strain or profit will emerge at the next actuarial valuation through increased/reduced deficit, except where the employer is in the termination process when it will be taken into account when the Actuary determines the termination position.

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

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

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

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

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for asset returns above those provided by the minimum risk portfolio, resulting in a negative real return in current market conditions. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 73%

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

The current strategy is:

	Benchmark %
Global Equities	58
Multi Asset Income	20
Fixed Income	13
UK Property	4
International Property or US Property	5
Total	100

For the purposes of setting a funding strategy, and taking into account the Regulations and guidance, the Administering Authority believes that it is appropriate to take a margin for prudence on the overall expected return in excess of CPI inflation as at 31 March 2019 that the above strategy is expected to provide taking into account the individual return expectations on the above asset classes (see further comment in Appendix A).

8. IDENTIFICATION OF RISKS AND COUNTER-MEASURES

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

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes quantification of some of the major risk factors.

FINANCIAL

The financial risks are as follows:

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

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

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

DEMOGRAPHIC

The demographic risks are as follows:

- Future changes in life expectancy (longevity) cannot be predicted with any certainty
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health) over and above what is allowed for in the valuation assumptions
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

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

Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the "average" implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are properly controlled, can help control exposure to this demographic risk.

Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

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

INSURANCE OF CERTAIN BENEFITS

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

REGULATORY

The key regulatory risks are as follows:

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

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

GOVERNANCE

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

Governance risks are as follows:

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements;
- Changes in the Pensions Committee membership.

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

LOCAL PENSION BOARD

The Pension Board was established in April 2015 in accordance with the Public Service Pensions Act 2013, the national statutory governance framework delivered through the LGPS Regulations and guidance as issued by the Scheme Advisory Board.

The Board seeks to assist the London Borough of Bromley to maintain effective and efficient administration and governance. The LPB comprises Fund members, both retired and active, together with employer representatives.

It meets on an annual basis (but can meet up to four times a year if required) and all Board Members have undertaken training and have established a work programme that will enable them to meet their obligations to ensure that the Fund complies with the relevant codes of practice and current legislation.

9. MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement and has consulted with the employers participating in the Fund.

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

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

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

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations, but it is unlikely that this power will be invoked other than in exceptional circumstances. Any amendments will be considered in conjunction with the employer affected and any associated guarantor of the employer's liabilities (if relevant).

COST MANAGEMENT AND THE MCLOUD JUDGMENT

The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.

The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to age discrimination cases brought in respect of the firefighters and judges schemes ('the McCloud judgment'), relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other schemes).

It is not known how these cases will affect the LGPS or the cost management process at this time. The Scheme Advisory Board has issued guidance on how the McCloud judgment should be allowed for within the 2019 valuation.

The potential impact of the McCloud judgment (based on the information currently available) has been quantified and communicated to employers as part of the 2019 valuation. This has been assessed by removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. Employers will be able to choose to include these estimated costs over 2020/23 in their certified contributions. Alternatively, if they choose not to do this, they will need to make allowance within their budgets for the potential costs and note that backdated contributions could become payable if the remedy becomes known before the next valuation.

LONDON BOROUGH OF BROMLEY PENSION FUND INVESTMENT STRATEGY STATEMENT (ISS)

INTRODUCTION

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

The ISS has been prepared by the Fund's Pensions Committee (the Committee) having taken advice from Mercers, the Fund's Actuary and the Fund's investment advisor and with such persons as the Committee considers appropriate.

The Regulations provide that an administering authority must prepare, maintain and publish a written statement of the principles governing its decisions about investments. The Regulations specify six issues that must be addressed in the statement. The following sections of this statement address these issues in turn. In addition, an appendix is included which sets out the Committee's Investment Beliefs. This is in line with the recommendations in the Stewardship Code 2020 produced by the Financial Reporting Council (FRC). It is the intention that these beliefs act as broad guidance for the Committee's actions going forward.

This statement was approved by the Committee in February 2020 and will be kept under review and revised from time to time, but at least every three years.

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

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

The Fund's asset allocation strategy of 58% Global Equities; 13% Fixed Income; 20% Multi Asset Income Funds, 4% UK Property and 5% International Property Funds aims to ensure that the Fund's assets are broadly diversified in terms of geography, foreign exchange, sector and asset class exposure to help reduce overall portfolio risk and volatility, whilst aiming to deliver or exceed the target returns on its investments and the cashflow requirements of the Fund. The aim is to periodically rebalance back to the allocations listed above in order to control investment risk as markets move.

The main purpose of the investment in each asset class is as follows:

- Global Equity – long term growth
- Fixed interest – diversification and risk reduction, particularly during periods of market stress
- Multi Asset Income – Income generation, diversification, value protection
- UK/International Property - Income generation, diversification

Through this balance of investment's the Committee are seeking to generate the required level of investment returns to secure the funding of the Fund into the future and control the level of risk taken through diversification whilst generating the required level of cash flow to fund current benefit payments.

The Committee has appointed two asset managers within each of the four asset classes listed above in order to reduce the risk that a single manager underperforms to an extent that it undermines the Funds investment strategy. The Fund employs five managers overall to reduce concentration risk. These asset managers are all authorised to invest in all assets permitted under the Regulations, subject to the provisions of their benchmarks and certain minor restrictions. Details of the Investment Guidelines and Restrictions are included below.

The committee keeps the Fund's investments under review and revised from time to time, but at least every three years, any changes are made only after considering advice from a suitably qualified person or people as required by legislation.

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

The funding strategy adopted for the 2019 valuation is based on an assumption of real investment return of 2.0% per annum above CPI inflation for past service benefits and 2.25% above inflation for future service benefits. The Fund is over 100% funded on a technical provisions basis and the investment strategy is set to maintain this level and thereby maintain as stable as possible a level of employer contributions going forward.

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

A key driver of the asset allocation strategy and investment manager selection is to ensure that the Fund is able to meet its future cashflow and liquidity requirements whilst aiming to meet or exceed the target return and maintain an appropriate balance of risk and volatility. The effectiveness of this strategy in achieving these aims is a major component of the Committees responsibilities and will be kept under review.

The Fund believes in investing over the long-term and will use its influence as a large institutional investor to encourage responsible long-term behaviour in financial markets where possible.

The Committee receive a report from their independent investment adviser at each meeting which reviews the performance of each asset class and manager as well as the Funds current asset allocation to ensure that the returns, risk and volatility are appropriately managed and in line with their overall investment strategy.

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

At the last full valuation of the Fund (as at 31st March 2019), the actuary valued the fund's assets at 110% of the fund's liabilities (91% in the previous valuation as at 31st March 2016). She determined employers' contribution rates with a view to maintaining the current solvency of the Fund and covering future pension accruals going forward, taking into account the investment strategy as set out in this statement.

The Committee is aware that the Fund must take investment risk to generate future returns and achieve its funding objective over the long-term. The Committee believes that a high allocation to growth assets, particularly Equities, is justified as part of this long-term strategy.

The principle Funding risks are as follows:

- Financial – The risk that the Fund fails to grow in line with the developing cost of meeting its liabilities in the long-term.
- Demographics – The risk that demographic factors change in a way which increases the Fund's liabilities.
- Systemic – The possibility of an interlinked financial failure which affects the majority of the Funds' assets simultaneously.

The Committee measures and monitors financial risk through setting the Strategic Asset Allocation in relation to the Fund's actuarial data including future liability accrual and cashflow requirements. It then monitors the variation of the actual asset allocation around this Strategic Benchmark, rebalancing as necessary.

The principle investment risks are as follows:

- Concentration/credit – The risk of underperformance or default from a significant allocation to any single investment or type of investment resulting in difficulties maintaining the funding level
- Illiquidity – The risk that the Fund has insufficient liquid assets to meet its cash flow requirements.
- Currency risk – The risk that the currencies of the Fund's assets underperform relative to Sterling (the currency of the Fund's liabilities).
- Manager underperformance – The failure by the investment managers to achieve their benchmark rate of investment return.
- Environmental, Social and Governance (ESG) – The risk that the relationship between shareholders in a financial asset and stakeholders in society in general alters in a way which reduces the Fund's ability to generate the required investment returns.

The Committee manages these investment risks through maintaining a diverse portfolio invested in multiple asset classes and through multiple fund managers. The Fund rebalances across managers and asset classes when appropriate. This diversification brings currency risk as not all the assets the Fund invest in are Sterling based. The Committee is aware of this risk and will discuss hedging overseas currencies back to Sterling periodically but at least every three years in line with the Actuarial review and ensuing reappraisal of the Strategic Asset Allocation Benchmark.

The Fund's actuary updates the Fund's cashflow requirements every three years as part of their triennial review and this sets the necessary generation of income from the Fund's assets. Whilst the Fund still covers all cashflow requirements from contributions and asset income it is appropriate to invest a proportion of the Fund's assets in less liquid strategies if there is a belief that this will aid the balance between risk and return.

The Committee believes in working with asset managers over the long-term and monitors them on this basis. To date the selected managers have added significantly to the Fund's assets by outperforming their benchmarks over the long-term. The diversification by manager and long-term nature of the relationship with the asset managers reduces the probability of a single asset manager underperforming to the extent that it affects the Fund's ability to meet its liabilities in a significant way.

The management of ESG risks is covered later in this report.

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, these include governance and regulatory risks

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

The Fund formally became a member of the London Collective Investment Vehicle (London CIV) in October 2016 as part of the Government's pooling agenda. The London CIV is now operational and meets the Government's 2015 investment reform and criteria guidance. The London CIV is in the process of opening a range of sub-funds covering liquid and less liquid asset classes. The Committee is aware that the Ministry for Housing, Communities and Local Government is currently engaged in a further consultation regarding the mechanisms for pooling and the Fund will take any updated recommendations and advice into account when it is issued.

The London CIV is a company limited by shares. The London Local Authorities are the only shareholders in the London CIV. A Shareholder Agreement sets out that major decisions, including approval of budget, objectives and business plan are reserved to Shareholders in General Meetings. All shareholders meet twice a year and a Shareholders Committee representing all shareholders meets quarterly. In addition, there are two shareholder nominated directors on the Board of the London CIV as well as a treasury (Section 151) officer as observer. In addition, the Fund would enter into a service level agreement as assets are transferred into the London CIV and monitor the performance of the London CIV against this agreement.

As at 31/12/2019 the Fund has not transferred any assets to the London CIV but the Committee continues to review the availability of funds within the London CIV and their acceptability and fit with the Fund's requirements. Following the outcome of the asset allocation review in February 2020, work will continue to explore options for transferring investments into the London CIV where this is cost effective and the CIV is able to meet the Funds requirements in terms of governance; performance; risk and access to the required asset classes. It remains the assumption that all assets will be transferred to the London CIV when these requirements are met. Assets can be retained outside of the London CIV pool, for example if it is not deemed cost effective in terms of management fees and transition costs to transfer them, or if the CIV does not have a suitable sub-fund which meets the requirements of the Funds asset allocation and investment strategy. The transfer of assets to the London CIV is kept under review by the Committee

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

The authority has been advised that its primary responsibility is to secure the best returns for the Fund in the interests of its council taxpayers and its members. As a Pension Fund, with pension obligations stretching out many years into the future, the Fund, by its nature, is a long-term investor. The Committee recognises that investing responsibly over the long-term must include the consideration of not just financial data but also of the impact of the Fund's investments in terms of the environment, effects on broader society and corporate governance (ESG issues). The Fund has appointed asset managers who invest for the long-term thereby explicitly consider ESG issues as an integral part of their research effort when investing the Fund's assets. The Fund expects to vote, where practical, on all Annual and Extraordinary general meetings held by companies in which it is invested. It has delegated this responsibility to its asset managers and monitors their fulfilment of this obligation.

The Fund will not seek to exclude investments that are not barred by UK law in the belief that engagement is preferable to divestment. Whilst there is obvious risk in investing in companies with material ESG issues, there can be long-term financial gain where such companies are actively attempting to manage and improve these risks and as such the Fund adopts a policy of risk monitoring and engagement in order to positively influence company behaviour and enhance future returns to investors and believes this is more compatible with its fiduciary responsibility and more supportive of its long term investment goals. If a company fails to engage on these issues with the Fund's asset managers or if the asset managers have reason to believe a company is not being honest and open about its intended actions in this area, divestment on a stock by stock basis remains an option.

The Fund will work with like-minded investors to promote best practice in the long-term stewardship of investments.

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

The investment managers have been authorised to exercise voting rights on behalf of the Fund unless specifically instructed to vote in a particular way on any individual resolution by the Committee. In exercising those rights, they will have regard to best practice as set out in the Stewardship Code 2020 produced by the Financial Reporting Council. They have been instructed to report back to the Committee every quarter on any material divergence from the recommendations of the Combined Code by companies in which the Fund is invested and on action taken by them in response to the divergence. They have also been instructed to report to the Committee periodically on their corporate governance activities generally, including their dialogue with companies' management to encourage sound social, environmental and ethical practices in their activities.

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

INVESTMENT GUIDELINES AND RESTRICTIONS

General

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

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

Limits imposed by the Regulations

All investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(d): 5%

Other restrictions imposed by the authority

- Cash held at custodian's bank is not to exceed £2.5m for each individual fund manager, with any excess placed on the money market with the main clearing banks or placed in institutional cash funds approved by the authority
- No sub-underwriting
- Certain limits on use of futures and options are recorded in the relevant investment management agreements and fund prospectuses

Asset Allocation

The current investment strategy comprises the following strategic asset allocations:

	Benchmark %
Global Equities	58
Multi Asset Income	20
Fixed Income	13
UK Property	4
International Property	5
Total	100

The Fund managers have been set the following targets/benchmarks:

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

Statement of Investment Beliefs

The Committee believes that

- It is important that funding related aspects and, in particular, funding level and cash flow profile feed into investment strategy decisions. Given this, actuarial and investment matters, most notably setting investment strategy, are looked at in tandem by the Committee.
- The Committee targets a strong funding level to provide some buffer to the risk of future employer contribution increases. This enables the Committee to adopt a long term investment horizon, and is thereby prepared to accept short term volatility or illiquidity, in order to achieve higher investment returns. In this context, the Committee believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds. The Committee is therefore comfortable that the Fund maintains a significant allocation to equities in order to support the affordability of contributions.
- Strategic asset allocation is a key determinant of investment risk and return, and thus is typically more important than manager or stock selection. In addition, the Committee believes that periodic rebalancing of asset class weightings back to their strategic can add value over the long term.
- Risk can be mitigated through the diversification of the portfolio, by selecting a variety of both asset classes and managers. A balance needs to be struck between the need for diversification and keeping a small enough number of mandates to ensure good governance.
- Markets are dynamic and are not always efficient, and therefore offer opportunities for investors. Active management can add value over time but it is not guaranteed and can be hard to access. Where generating 'alpha' is particularly difficult, passive management may be preferred, but brings some of its own risks. In all cases, managers will be judged on after fees returns.
- Managing fees and costs matter, especially in low-return environments. The Committee believes in considering managers' performance on the basis of returns net of fees/costs and not of fees/costs alone.
- A strong ESG / Responsible Investor policy is required by regulation and should be seen within the context of the Fund's long-term investment and futureproofing its financial security. ESG considerations can help identify superior long-term investments and the Committee requires its managers to include them in their investment processes, provided these considerations do not impact financial returns or risk. The Fund requires managers to report back on them on ESG matters. The Committee believes that a policy of engaging with investee companies to improve their behaviour, rather than exclusion, is more compatible with their fiduciary duty and more supportive of their long term investment goals.
- Effective governance and decision-making structures that promote decisiveness, efficiency and accountability add value to the Fund. The Committee identifies good managers with which to work in partnership, delegates authority to them, and monitors their overall performance, on key matters, regularly.
- The Committee expects to assess the London CIV pool in any future management arrangements of investments on behalf of the Council's fund.
- The Committee also believes that taking independent advice, notably in investment and actuarial matters, which can strengthen governance and add value to the Fund.

LONDON BOROUGH OF BROMLEY PENSION FUND COMMUNICATIONS POLICY STATEMENT

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

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

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

ACTUARIAL METHOD AND ASSUMPTIONS**METHOD**

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

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET AND COST OF FUTURE ACCRUAL**Investment return (discount rate) – Solvency Funding Target**

The discount rate has been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 1.25% per annum above CPI inflation, i.e. a total discount rate of 3.65% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

Investment return (discount rate) – Cost of Future Accrual

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

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

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real discount rate of 2.25% per annum above the long term average assumption for consumer price inflation of 2.4% per annum. This leads to a discount rate of 4.65% per annum.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, but subject to an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index.

The overall reduction to RPI inflation at the valuation date is 1.0% per annum. The CPI inflation assumption at the valuation date is 2.4% per annum. This adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any reform of the RPI index as announced by the Chancellor in the March 2020 budget. Any change will then be implemented for all relevant policies in this Funding Strategy Statement.

Salary increases

In relation to benefits earned prior to 1 April 2014, and to allow for any final salary 'underpin' applying to benefits earned after that date, the assumption for real salary increases (salary increases in excess of price inflation) will be 1.5% p.a. over the CPI inflation assumption as described above. This includes allowance for promotional increases and represents the long term salary increase assumption.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. some Guaranteed Minimum Pensions where the LGPS is not currently required to provide full indexation). For members in pensionable employment, their CARE benefits are also indexed by CPI although this can be less than zero i.e. a reduction in benefits, whereas for pension increases this cannot be negative, as pensions cannot be reduced.

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions are based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the Fund. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. A separate mortality assumption has also been adopted for current members who retire on the grounds of ill health. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections and a long term improvement trend of 1.75% per annum.

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

Commutation

It has been assumed that, on average, retiring members will take 80% of the maximum tax-free cash available at retirement. This is broadly equivalent to the assumption at the 2016 actuarial valuation. The option which members have to commute part of their pension at retirement in return for an additional lump sum is based on a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the proportions married/civil partnership assumption, rates of ill-health retirement (for some employers) and withdrawal from active service assumption have been retained from the last valuation. No allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.7% of pensionable pay to the contributions required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

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

EMPLOYER ASSET SHARES

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

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

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset share may be restated for changes in data or other policies.

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

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2019 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.40% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	3.65% p.a.
CPI price inflation	2.40% p.a.
Long Term Salary increases	3.90 p.a.
Pension increases/indexation of CARE benefits*	2.40% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.65% p.a.
CPI price inflation	2.40% p.a.
Long Term Salary increases	3.90% p.a.
Pension increases/indexation of CARE benefits	2.40% p.a.

* for those members reaching State Pension Age between 6 April 2016 and 5 April 2021, full CPI increases on Guaranteed Minimum Pensions have been assumed once in payment. Otherwise statutory increases on Guaranteed Minimum Pension will apply e.g. nil on Guaranteed Minimum Pensions accrued prior to 6 April 1988 and in line with CPI (subject to a maximum of 3% p.a.) for Guaranteed Minimum Pensions accrued after 5 April 1988.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

-Post retirement mortality tables

Current Status	Retirement Type	Mortality Table
Annuitant	Normal Health	96% S3PMA_CMI_2018 [1.75%]
		88% S3PFA_M_CMI_2018 [1.75%]
	Dependant	143% S3PMA_CMI_2018 [1.75%]
		85% S3DFA_CMI_2018 [1.75%]
	Ill Health	118% S3IMA_CMI_2018 [1.75%]
121% S3IFA_CMI_2018 [1.75%]		
Future Dependant	121% S3PMA_CMI_2018 [1.75%]	
	105% S3DFA_CMI_2018 [1.75%]	
Active	Normal Health	98% S3PMA_CMI_2018 [1.75%]
		89% S3PFA_M_CMI_2018 [1.75%]
	Ill Health	115% S3IMA_CMI_2018 [1.75%]
		138% S3IFA_CMI_2018 [1.75%]
Deferred	All	123% S3PMA_CMI_2018 [1.75%]
		103% S3PFA_M_CMI_2018 [1.75%]
Future Dependant	Dependant	129% S3PMA_CMI_2018 [1.75%]
		111% S3DFA_CMI_2018 [1.75%]

-Life expectancies at age 65

Membership Category	Male Life Expectancy at 65	Female Life Expectancy at 65
Pensioners	22.7	25.1
Actives aged 45 now	24.6	27.1
Deferreds aged 45 now	22.9	26.0

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

EMPLOYER DEFICIT RECOVERY PLANS

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

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

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement with employers free to select any shorter deficit recovery period and higher contributions if they wish.

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

Category	Default Deficit Recovery Period
Fund Employers	Lower of 12 years and period required to target stability of overall contributions.
Open Admitted Bodies	Lower of 12 years and period required to target stability of overall contributions.
Closed Employers	Lower of 12 years and the future working lifetime of the membership
Employers with a limited participation in the Fund	Determined on a case by case basis

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

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

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period) taking into account any changes in the primary rate contribution requirements.

For those admitted bodies assessed to be in surplus at the valuation date, at the discretion of the administering authority, the surplus will be removed over a maximum recovery period of 12 years, unless agreed otherwise with the administering authority.

For other employers assessed to be in surplus at the valuation date, unless agreed otherwise with the administering authority, the surplus will be retained to act as a margin against the impact on past service liabilities of the McCloud judgment, and also as a margin against investment risk and other potential adverse experience over 2020/23. In such cases the employer will pay Primary Contributions only to the Fund over 2020/23.

Other factors affecting the Employer Deficit Recovery Plans

As part of the process of agreeing funding plans with individual employers, the Administering Authority may consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore may in some cases be willing to use its discretion to accept an evidence based affordable level of contributions for such organisations for the three years 2020/23. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and the receipt of appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the ongoing interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, will also consider whether any exceptional arrangements should apply in particular cases.

ADMISSION AND TERMINATION POLICY

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

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

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

ENTRY TO THE FUND

MANDATORY SCHEME EMPLOYERS

Certain employing bodies are required to join the scheme under the Regulations. These bodies include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income). Academies also fall under this category.

DESIGNATING BODIES

Designating bodies are permitted to join the scheme if they pass a resolution to this effect. Designating bodies, other than connected entities, are not required under the Regulations to provide a guarantee. These bodies usually have tax raising powers and include Parish and Town Councils.

ADMISSION BODIES

An admitted body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund. If its application is accepted by the Administering Authority, it will then have an "admission agreement". In accordance with the Regulations, the admission agreement sets out the conditions of participation of the admitted body including which employees (or categories of employees) are eligible to be members of the Fund.

Admitted bodies can join the Fund if:

- They provide a service for a scheme employer as a result of an outsourcing (formerly known as Transferee Admission Bodies);
- They provide some form of public service and their funding in most cases derives primarily from local or central government. In reality they take many different forms but the one common element is that they are "not for profit" organisations (formerly known as Community Admission Bodies).

In general, admitted bodies may only join the Fund if they are guaranteed by a scheme employer. However, there may be exceptional circumstances whereby, subject to the agreement of the Administering Authority, an admitted body joins the Fund with an alternative form of guarantee. When the agreement or service provision ceases, the Fund's policy is that in all cases it will look to recover any outstanding deficit from the outgoing body unless appropriate instruction is received from the outsourcing employer or guaranteeing employer,

in which case the assets and liabilities of the admission body will in revert to the outsourcing scheme employer or guaranteeing employer.

CONNECTED ENTITIES

Connected entities by definition have close ties to a scheme employer given that a connected entity is included in the financial statements of the scheme employer.

Although connected entities are “Designating Bodies” under the Regulations, they have similar characteristics to admitted bodies (in that there is an “outsourcing employer”). However, the Regulations do not strictly require such bodies to have a guarantee from a scheme employer.

To limit the risk to the Fund, the Fund will require that the scheme employer provides a guarantee for their connected entity, in order that the ongoing funding basis will be applied to value the liabilities.

RISK ASSESSMENTS

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

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

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

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

ADMITTED BODIES PROVIDING A SERVICE

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

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

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

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

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

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

PRE-FUNDING FOR TERMINATION

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

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

EXITING THE FUND

Termination of an employer's participation

When an employer's participation in the Fund comes to its end or is prematurely terminated for any reason (e.g. a contract with a local authority comes to an end or the employer chooses to voluntarily cease participation), employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund either as deferred benefits or immediate retirement benefits.

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

Where the Fund obtains advance notice that an employer's participation is coming to an end, the Regulations enable the Fund to commission a funding assessment leading to a revised contribution certificate which is designed to eliminate, as far as possible, any surplus or deficit by the cessation date.

Whether or not an interim contribution adjustment has been initiated once participation in the Fund has ceased, the employer becomes an exiting employer under the Regulations and the Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a revision of the

rates and adjustment certificate showing any contributions due from the admission body.

When an employer exits the Fund, as an alternative to requiring an immediate payment in full, the Regulations give power to the Fund to set a repayment plan to recover the outstanding debt over a period at the sole discretion of the Administering Authority. Whether this will be permitted will depend on the affordability of the repayments and financial strength of the exiting employer. Once any such repayment plan is set the payments would not be reviewed for changes in the funding position due to market or demographic factors.

The Fund's policy for termination payment plans is as follows:

- The default position is for exit payments and exit credits to be paid immediately in full with the relevant parties.
- At the discretion of the Administering Authority, instalment plans over a defined period will only be agreed when there are issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt.
- Any costs associated with the exit valuation will be paid by the employer by either increasing the exit payment or reducing the exit credit by the appropriate amount. In the case of an employer where the exit debit/credit is the responsibility of the original employer through a risk sharing agreement the costs will be charged directly to the employer unless the original employer directs otherwise.

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

BASIS OF TERMINATION

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

Details of the minimum risk funding basis are shown below.

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

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

IMPLEMENTATION

Admission bodies participating by virtue of a contractual arrangement

For employers that are guaranteed by a guarantor (usually the original employer or letting authority), the Fund's policy at the point of cessation is for the guarantor to subsume the residual assets, liabilities and any surplus or deficit under the default policy. In some instances an exit debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No payment of an exit credit will be payable unless representation is made as set out below.

If there is any dispute, then the following arrangements will apply:

- In the case of a surplus, in line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.
- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of completion of the cessation assessment by the Actuary.
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or at the next valuation.

In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate risk sharing agreement. The default is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor unless representation is made by the relevant parties in line with the Regulations as noted above. For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations unless the Fund is aware of the provisions of the risk sharing agreement in any representation made and determines an exit credit should be paid.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not known. Where a surplus or deficit is being subsumed, no allowance will be made for McCloud within the calculations. However, if a representation is made to the Administering Authority then a reasonable estimate for the potential cost of McCloud will need to be included. This will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

In the event of parties unreasonably seeking to crystallise an exit credit on termination the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities then the termination assessment will assume the liabilities are orphaned and the minimum risk basis of termination will be applied.

As the guarantor will absorb the residual assets and liabilities under the default policy above, it is the view of the Actuary that the ongoing valuation basis described above should be adopted for the termination calculations. This is the way the initial admission agreement would typically be structured i.e. the admission would be fully funded based on liabilities assessed on the valuation basis.

If the guarantor refuses to take responsibility, then the residual deferred pensioner and pensioner liabilities should be assessed on the more cautious minimum risk basis. In this situation the size of the termination payment would also depend on what happened to the active members and if they all transferred back to the original Scheme Employer (or elsewhere) and aggregated their previous benefits. As the transfer would normally be effected on a "fully funded" valuation basis the termination payment required would vary depending on the circumstances of the case. Where this occurs, the exiting employer would then be treated as if it had no guarantor as per the policy below.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary, based on representations from the interested parties where appropriate.

Non contract based admission bodies with a guarantor in the Fund

The approach for these will be the same as for contract based admission bodies above and will depend on whether the guarantor is prepared to accept responsibility for residual liabilities. Indeed, it may be that Fund is prepared to accept that no actual termination payment is needed (even if one is calculated) and that all assets/liabilities can simply be absorbed by the guarantor.

Admission bodies with no guarantor in the Fund

These are the cases where the residual liabilities would be orphaned within Fund. It is possible that a bond would be in place. The termination calculation would be on the more cautious "minimum risk" basis.

The actuarial valuation and the revision of any Rates and Adjustments Certificate in respect of the outgoing admission body must be produced by the Actuary at the time when the admission agreement ends; the policy will always be subject to change in the light of changing economic circumstances and legislation.

The policy for such employers will be:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation by the Actuary). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not known. As part of any termination assessment, a reasonable estimate for the potential cost of McCloud will be included. This will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary.

The above funding principles will also impact on the **bond requirements** for certain admitted bodies. The purpose of the bond is that it should cover any unfunded liabilities arising on termination that cannot be reclaimed from the outgoing body.

Connected Entities

In the event of cessation, the connected entity will be required to meet any outstanding liabilities valued in line with the approach outlined above. In the event there is a shortfall, the assets and liabilities will revert to the Fund as a whole (i.e. all current active employers). In the event that a scheme employer provides a guarantee for their connected entity, the assets and liabilities will revert in totality to that scheme employer on termination, including any unrecovered deficit.

RELEVANT REGULATIONS WITHIN THE LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 2013 (AS AMENDED BY THE LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) REGULATIONS 2018)

Regulation 64 sets out special circumstances where revised actuarial valuations and certificates must be obtained including Regulation 64 (2) where an admission agreement ceases to have effect, the Administering Authority who made it must obtain:

- an actuarial valuation as at the date it ceases the liabilities in respect of current and former employees of the admission body which is a party to that admission agreement ("the outgoing admission body");
- a revision of any rates and adjustments certificate for any Pension Fund which is affected, showing the exit payment due from the exiting body or exit credit payable to the exiting body. Where it is not possible for any reason to obtain revised contributions from the exiting body, or from an insurer or any person providing an indemnity or bond on behalf of the body, the Administering Authority may obtain a further revision of any rates and adjustment certificate for the Pension Fund, showing:
 - a) in the case where the exiting body falls within paragraph 1(d) of Part 3 of Schedule 2 the revised contributions due from the body which is the related employer in relation to that admission body; and
 - b) in any other case, the revised contributions due from each employing authority who contributes to the Fund.

If the Administering Authority becomes aware or is of the opinion of a scheme employer becoming an exiting employer, Regulation 64 (4) provides that it may obtain from an actuary a certificate specifying, in the case of an admission body, the percentage or amount by which, in the actuary's opinion:

- the contribution at the primary rate should be adjusted; or
- any prior secondary rate adjusted should be increased or reduced, with a view to providing that assets equivalent to the exit payment that will fall due from the Scheme employer are provided to the Fund by the likely exit date or, where the scheme employer is unable to meet the liability by that date, over such period of time thereafter as the Administering Authority considers reasonable.

Minimum Risk Termination basis

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2019) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Least risk assumptions	31 March 2019
Discount Rate	1.5% p.a.
CPI price inflation	2.4% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.

All demographic assumptions will be the same as those adopted for the 2019 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the long term rate of improvement in mortality rates to 2% p.a. from 1.75% p.a. as used in the 2019 valuation for ongoing funding and contribution purposes. This assumption will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.

In addition, since the valuation date, it has been announced that RPI inflation is likely to be reformed with the reform potentially meaning the index is closer to the CPIH inflation measure. This would need to be reflected when deriving an updated market estimate of CPI inflation. For example when assessing a termination position (at February 2020) we will adjust the market RPI inflation to arrive at the CPI inflation assumption by deducting 0.7% per annum as opposed to the 1.0% per annum at the valuation date when assessing an employer's termination position. This adjustment will be kept under review as more details emerge on the reform of RPI.

COVENANT ASSESSMENT AND MONITORING POLICY

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

An assessment of employer covenant focuses on determining the following:

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

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

RISK CRITERIA

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

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

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

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

ASSESSING EMPLOYER COVENANT

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

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

FREQUENCY OF MONITORING

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

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least annually, unless the Administering Authority determines a more frequent review period will be necessary in the circumstances e.g. bi-annually, quarterly etc.

COVENANT RISK MANAGEMENT

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

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

GLOSSARY

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

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

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

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

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

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

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

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

CPIH: An alternative measure of CPI which includes owner occupiers' housing costs and Council Tax (which are excluded from CPI).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Report No.
CSD23025

London Borough of Bromley

PART ONE - PUBLIC

Decision Maker: LOCAL PENSION BOARD

Date: 7 February 2023

Decision Type: Non-Urgent Non-Executive Non-Key

Title: PERFORMANCE MONITORING REPORT 2022/23

Contact Officer: Martin Doyle – Head of Pensions Shared Service
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Chief Officer: Director of Finance

Ward: Borough Wide

1. Reason for report

- 1.1 This report is prepared by the Head of Pensions Shared Service to provide the Local Pension Board with information to assess whether the Fund is complying with the Pension Regulator's Code of Practice on Governance and Administration of public service pension schemes.

2. **RECOMMENDATIONS**

2.1 **Members of the Local Pension Board are asked to note:**

- a) **The Pensions Regulator Code of practice 'Governance and administration of public service pension schemes' as a guide to good governance;**
- b) **The procedures and policies in place to monitor Liberata's performance; and,**
- c) **Liberata's current performance levels.**

Impact on Vulnerable Adults and Children

1. Summary of Impact: N/A
-

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 for the purpose of providing pension benefits for its employees.
 2. BBB Priority: Excellent Council
-

Financial

1. Cost of proposal: No Cost
 2. Ongoing costs: TBC
 3. Budget head/performance centre: Pension Fund
 4. Total current budget for this head: TBC
 5. Source of funding: Contributions to Pension Fund
-

Personnel

1. Number of staff (current and additional): N/A
 2. If from existing staff resources, number of staff hours: N/A
-

Legal

1. Legal Requirement: Statutory Requirement Local Government Pension Scheme Regulations 2013 (as amended).
 2. Call-in: Not Applicable: No Executive Decision.
-

Procurement

1. Summary of Procurement Implications: N/A
-

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,137 current active members, 7,469 deferred pensioners and 5,911 pensioner members (for all employers in the Fund) as at 30th September 2022.
-

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 The Public Service Pensions Act 2013 (the 2013 Act) introduced the framework for the governance and administration of public service pension schemes and provides an extended regulatory oversight by the regulator. The Pensions Regulator under the requirements of the Pensions Act 2013 issued a Code of Practice on governance and administration of public sector pension schemes. This provides practical guidance and sets the standards of conduct expected of those exercising those functions. The Code of Practice provides practical guidance to the Council, as the administering authority and “scheme manager” and Local Pension Board members in relation to the exercise of functions under relevant pension legislation.

Further detail was provided to the Local Pension Board meeting on 6th November 2018 and to the General Purposes and Licensing Committee on 27th November 2018.

3.2 The Bromley Pension Fund Administration is carried out by Liberata and monitored by the Head of Pensions Shared Service. The following procedures and policies are in place to monitor Liberata’s performance:

- **Monthly Service Review:** a service review meeting is carried every month with Liberata Pensions, Head of Pensions Shared Service and Assistant Director of Exchequer Services.

The review aims to help monitor performance and service quality, and support continuous improvement. A comprehensive Pensions Administration report is produced by Liberata covering the following:

- Monthly summary of regulations and circulars, general updates, training, data backup and reporting
- SLA monitoring and KPIs
- Membership analysis
- Operation plan (continuous improvement plan)
- Complaints and compliments
- Long term costs for retirements
- Monthly contributions schedule

In addition, Liberata also provides a summary of their current work statistics, a breakdown of all cases completed during the month and all cases outstanding at the end of the month.

Depending on the outstanding casework, recommendations will be provided to Liberata, such as clearance of failed cases to improve the overall level of performance moving forward and focus on cases with the highest volume of outstanding work.

- **Quality Checking:** this is a process to assess an individual’s competence in a particular area or if the complexity or risk of the task determines checking is required. It is always completed prior to the issue of any output.

Although Liberata has a quality checking process in place additional review is carried out by the Head of Pensions Shared Service or Head of Corporate Finance and Accounting for the following tasks:

- Flexible retirement
- Payment of Death grants
- Large/ complex transfer value
- Complex queries

Quality checking must be undertaken by a different person than the officer who processed the case.

Quality checking provides an assurance on customer experience, accuracy of processing and ongoing achievement of competency levels. Customer satisfaction is monitored through the volume of repeat enquiries and complaints.

If an error is identified, feedback is provided to the officer who processed the case. As we gather more information, this may provide an opportunity to create a valuable set of training notes.

3.3 The performance monitoring report attached in Appendix 1 provides detailed statistics, prepared based on Liberata’s performance statistics between 1st April 2022 and 31ST December 2022.

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 for the purpose of providing pension benefits for its employees.

5. FINANCIAL IMPLICATIONS

5.1 None arising from directly from this report.

6. LEGAL IMPLICATIONS

6.1 The Public Service Pensions Act 2013 provides primary legislation for all public service schemes including the LGPS 2014.

Non-Applicable Sections:	Procurement/Personnel Implications Impact on Vulnerable Adults and Children
Background Documents: (Access via Contact Officer)	Public Service Pensions Act 2013; Local Government Pension Scheme Regulations 2013 (as amended); Code of Practice ‘Governance and Administration of Public Service Pension Schemes’ The Pensions Regulator Engagement Report “Governance and administration risks in public service pension schemes”



LONDON BOROUGH OF BROMLEY

PERFORMANCE MONITORING REPORT

2022-2023

**LONDON BOROUGH OF BROMLEY - LOCAL PENSION BOARD
PERFORMANCE REPORT
INDEX**

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1. Executive Summary

Appendix 1 provides tables for performance of key work items and customer feedback. The achievements against the performance indicators, customer feedback and the relatively small number of complaints indicate generally that the service standards are strong.

The significant tasks completed by Liberata since 1 April 2022 are:

Valuation – Member Data has been provided to Actuary

FRS 101 - the data for the full year for the Academies has been provided to LBB for submission to the Actuary.

SF3 - the data has been supplied to LBB.

Annual Allowance - all annual allowance calculations have been checked and statements have been issued by the 5th October 2022 deadline.

Annual Benefit Statements were issued to all active and deferred members by the statutory deadline, 31st August 2022.

The pensions increase letters were issued to all pensioners in April 2022.

Pension Webinar - Liberata provided a pension webinar to 300+ employees on 8th December 2022. Providing an overview of the pension scheme, entitlement and explanation of the figures provided in the annual benefit statements. The feedback from the webinar was very positive, but caused large volumes of enquiries from members and for one to one meetings.

2. Performance Monitoring

In order to provide a greater understanding of the key transactions completed in the period, the following tables provide some key performance data.

2.1 Key Performance Indicators (KPI)

A breakdown of the Process Cycle Times for general queries (excluding deaths; retirements and transfers which are covered later) is below:

Correspondence

All Written Correspondence replied to within 10 days

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	22	20	22	43	68	36	47	68	38			
<=10 days	22	20	22	43	68	36	47	68	38			
%<=10 days	100	100	100	100	100	100	100	100	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Deferred Benefits

All Deferred Benefits processed within 15 days

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	26	51	25	33	40	43	36	35	19			
<=15 days	25	46	25	29	38	41	35	34	18			
%<=15 days	96	90	100	88	95	95	97	97	95			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Estimates

All Estimates processed within 10 days

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	32	16	27	31	25	22	14	23	15			
<=10 days	26	15	16	26	23	20	13	22	15			
%<=10 days	81	94	59	84	92	91	93	96	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

AVC / Added Years / ARCs

AVC, Added Years and ARCs Actuals within 10 days

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	0	1	0	0	0	1	0	0	0			
<=10 days	0	1	0	0	0	1	0	0	0			
%<=10 days	100	100	100	100	100	100	100	100	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Starters

Starter Cases within 20 days

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	91	124	75	46	79	102	73	93	99			
<=20 days	91	123	75	28	73	102	73	93	97			
%<=20 days	100	99	100	61	92	100	100	100	98			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Combining

Combining Cases within 10 days

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	8	8	5	14	23	9	10	2	7			
<=10 days	8	8	5	14	23	9	10	2	7			
%<=10 days	100	100	100	100	100	100	100	100	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Opt Out

Process Opt out Cases within 10 days

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	2	3	21	11	7	5	19	13	7			
<=10 days	2	3	21	11	7	5	19	13	7			
%<=10 days	100	100	100	100	100	100	100	100	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Refunds

All Refunds to be processed within 10 days

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	9	17	16	14	22	16	12	16	3			
<=10 days	9	17	16	14	22	16	11	16	3			
%<=10 days	100	100	100	100	100	100	92	100	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Redundancy

All Redundancies to be processed within 5 days

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	0	0	0	0	0	0	0	0	0			
<=5 days	0	0	0	0	0	0	0	0	0			
%<=5 days	100	100	100	100	100	100	100	100	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

2.2 Retirements

In the year to 31 December 2022, there were 247 retirement grants paid, of which 237 were met in the KPI target. This is equivalent to a performance standard level of 96%.

A breakdown of the Process Cycle Times for retirements is overleaf:

Retirement Notification

Issue of Retirement documentation 10 days before retirement or on notification of retirement, whichever is the later.

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	27	32	22	21	30	36	27	40	12			
<=10 days	26	31	22	21	27	36	25	37	12			
%<=10 days	96	97	100	100	90	100	93	92	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Retirement Grants

All Retirement Grants to be paid 10 days from date of retirement or notification of retirement, whichever is the later.

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	27	32	22	21	30	36	27	40	12			
<=10 days	26	31	22	21	27	36	25	37	12			
%<=10 days	96	97	100	100	90	100	93	92	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Retirement Pension Paid

All Retirement Pension Paid to be paid 10 days from date of retirement or notification of retirement, whichever is the later.

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	27	32	22	21	30	36	27	40	12			
<=10 days	26	31	22	21	27	36	25	37	12			
%<=10 days	96	97	100	100	90	100	93	92	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

2.3 Transfers

In the year to 31 December 2022, there were 30 enquiries in relation to transferring in, of which 29 were met in the KPI. This is equivalent to a performance standard level of 97%.

There were 33 enquiries in relation to transferring out, of which 33 were met within the KPI. This is equivalent to a performance standard level of 100%.

A breakdown of the Process Cycle Times for transfers is below:

Transfer-In Quote

All Transfer-in quotations to be processed within 10 days of notification

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	1	8	4	1	7	3	2	1	3			
<=10 days	1	7	4	1	7	3	2	1	3			
%<=10 days	100	88	100	100	100	100	100	100	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Transfer-In Request Payment

Request Transfer in Payments Transfer-in payments within 10 days of notification

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	1	5	3	1	0	4	1	1	2			
<=10 days	1	5	3	1	0	4	1	1	2			
%<=10 days	100	100	100	100	100	100	100	100	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Transfer-In Payment

All Transfer-in payments to be processed within 10 days of notification

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	2	1	0	3	1	3	3	0	0			
<=10 days	2	1	0	3	1	3	3	0	0			
%<=10 days	100	100	100	100	100	100	100	100	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Interfund-In Quote

All Interfund-in quotations to be processed within 10 days of notification

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	13	7	8	5	8	6	7	4	4			
<=10 days	12	7	8	5	8	6	7	4	4			
%<=10 days	92	100	100	100	100	100	100	100	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Interfund-In Request Payment

Request Interfund-in payments within 10 days of notification

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	1	5	2	1	4	2	2	3	2			
<=10 days	1	5	2	1	4	2	2	3	2			
%<=10 days	100	100	100	100	100	100	100	100	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Interfund-In Payment

All Interfund-in payments to be processed within 10 days of notification

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	5	8	6	3	4	6	8	1	1			
<=10 days	5	8	6	3	4	6	8	1	1			
%<=10 days	100	100	100	100	100	100	100	100	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Transfer-Out Quote

All Transfer-out quotes to be processed within 10 days of notification

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	3	3	2	5	5	2	5	7	1			
<=10 days	3	2	2	5	5	2	5	7	1			
%<=10 days	100	67	100	100	100	100	100	100	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Transfer-Out Payment

All Transfer-out payments to be processed within 10 days of notification

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	2	1	0	0	4	0	4	1	0			
<=10 days	1	1	0	0	4	0	4	1	0			
%<=10 days	50	100	100	100	100	100	100	100	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Interfund-Out Quote

All Interfund-out quotations to be processed within 10 days of notification

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	15	22	10	13	9	5	7	16	10			
<=10 days	15	21	10	10	9	5	7	16	10			
%<=10 days	100	95	100	77	100	100	100	100	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Interfund-Out Payment

All Interfund-out payments to be processed within 10 days of notification

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	4	8	5	6	18	5	3	6	7			
<=10 days	4	8	5	5	18	5	3	6	7			
%<=10 days	100	100	100	83	100	100	100	100	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

2.4 Deaths

In the year to 31 December 2022, there were 91 death cases, of which 64 were processed in the KPI. This is equivalent to a performance standard level of 96%.

A breakdown of the Process Cycle Times for deaths is below:

Death - Initial Acknowledgement Letter

All Death benefits notified within 5 days of notification

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	12	6	5	17	6	8	12	18	11			
<=5 days	12	6	5	17	6	8	12	18	11			
%<=5 days	100	100	100	100	100	100	100	100	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Deaths - Processed

All Death benefits processed within 5 days of receipt of necessary information

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	11	10	12	19	11	5	7	10	6			
<=5 days	9	9	11	19	11	5	7	10	6			
%<=5 days	82	90	92	100	100	100	100	100	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

Deaths - Death Grant Payment

All Death Grants processed within 5 days of receipt of necessary information

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Total Processed	2	4	0	0	2	1	1	1	3			
<=5 days	2	4	0	0	1	1	1	1	3			
%<=5 days	100	100	100	100	50	100	100	100	100			
Target 100%	100	100	100	100	100	100	100	100	100	100	100	100

2.5 Complaints

Customer satisfaction is monitored through the volume of repeat enquiries and complaints.

I set out below the complaints recorded since 1st April 2022:

Month	Member Complaint	Justified (Y/N)
April	None	
May	Delay in providing retirement options	Y
June	None	
July	Letter included retirement benefits with next year's pensions increase	Y
August	2X Annual Benefit Statement envelopes unsealed	2X N
September	Delay in payment of pension and lump sum	Y
September	Address change not actioned	N
October	None	
November	Lack of Action	N
December	None	
Total Complaints in YTD		7

3. Analysis of Fund membership data

The table below shows the latest membership data, as at 31st December 2022 and for the preceding months:

(taken from Membership Analysis Report - Excludes Councillors)

Date of Report	09-May-22		10-Jun-22		08-Jul-22		08-Aug-22		07-Sep-22		13-Oct-22	
Status as at	31-Mar-22	30-Apr-22	30-Apr-22	31-May-22	31-May-22	30-Jun-22	30-Jun-22	31-Jul-22	31-Jul-22	31-Aug-22	31-Aug-22	30-Sep-22
1 Active	6385	6425	6425	6454	6454	6472	6472	6339	6339	6087	6087	6137
2 Undecided leaver	732	742	742	738	738	764	764	863	863	1124	1124	1113
4 Deferred pensioner	6275	6290	6290	6296	6296	6301	6301	6324	6324	6341	6341	6356
5 Pensioner	5068	5076	5076	5101	5101	5117	5117	5126	5126	5145	5145	5180
6 Widow/dependant	722	730	730	739	739	738	738	736	736	731	731	731
9 Frozen refund	1050	1049	1049	1056	1056	1050	1050	1054	1054	1056	1056	1061
Total membership	20232	20312	20312	20384	20384	20442	20442	20442	20442	20484	20484	20578
3 Leaver - no liab	9803	9779	9779	9807	9807	9829	9829	9848	9848	9880	9880	9899
7 Death	4722	4739	4739	4748	4748	4755	4755	4777	4777	4786	4786	4795
8 Opt out within 3 mths	3042	3036	3036	3050	3050	3075	3075	3090	3090	3103	3103	3105
Total on stats report	37799	37866	37866	37989	37989	38101	38101	38157	38157	38253	38253	38377

Date of Report	10-Nov-22		05-Dec-22									
Status as at	30-Sep-22	31-Oct-22	31-Oct-22	30-Nov-22	30-Nov-22	31-Dec-22	31-Dec-22	31-Jan-23	31-Jan-23	28-Feb-23	28-Feb-23	31-Mar-23
1 Active	6137	6173	6173	6289	6289	6371						
2 Undecided leaver	1113	1102	1102	1092	1092	1081						
4 Deferred pensioner	6356	6369	6369	6387	6387	6385						
5 Pensioner	5180	5210	5210	5218	5218	5234						
6 Widow/dependant	731	731	731	730	730	732						
9 Frozen refund	1061	1065	1065	1062	1062	1064						
Total membership	20578	20650	20650	20778	20778	20867	0	0	0	0	0	0
Leaver - no liab	9899	9915	9915	9933	9933	9941						
Death	4795	4813	4813	4838	4838	4848						
Opt out within 3 mths	3105	3126	3126	3140	3140	3145						
Total on stats report	38377	38504	38504	38689	38689	38801	0	0	0	0	0	0

4. Regulatory Compliance

There have been no breaches logged since 1st April 2022.

4.1 The Pensions Ombudsman

The Pensions Ombudsman is an independent organisation set up to investigate complaints about pension administration.

When a member has tried to resolve a problem with the London Borough of Bromley regarding their pensions and isn't satisfied with the outcome, they can contact the Pensions Ombudsman for support and advice.

When a complaint is submitted to the Pensions Ombudsman, the London Borough of Bromley will be notified and rigorous procedure has been set up to deal with the complaint.

5. Liberata’s Cyber Security measures

5.1 Disaster Recovery (DR)

This annual DR test is undertaken to comply with Trustmarque’s contractual obligations to Liberata. The test deals with recovery of data via Trustmarque’s Cloud Infrastructure in situ at the Studley Recovery facility. The DR test will include total loss of the Altair Pension Database.

Once the infrastructure in scope has been successfully recovered, network connectivity to the recovered environment will be established to enable remote testing by nominated client end users. Test objectives below have been submitted and testers shall be based in their client service sites as in the live production environment.

Test Objective	Process tested
1	Access to the Altair Pension Database
2	To be able to run calculation within Altair
3	To be able to produce letters via Altair
4	The ability to view scanned documents held on member’s record on Altair
5	Connect to Resourcelink
6	Connect to I-Trent
7	Add a printer and print documents locally
8	Access to Pensions and Windows profiles shared Network Drive or equivalent
9	Able to access the Bromley Pensions, and Bromley Pensions (pensions@bromley.gov.uk)

After testing has been completed, a report is produced to confirm disaster recovery contingency plan was successful.

5.2 Communications

Communications regarding Cyber Security are shared regularly with Liberata’s staff members, including information on GDPR, phishing emails, data protection, and communication. Staff members are required to take a small test every two/four weeks to ensure they are aware of the potential risks and understand what procedure they need to take in the event of a cyberattack or data breach.

Agenda Item 8

Report No.
CSD23027

London Borough of Bromley

PART ONE - PUBLIC

Decision Maker: LOCAL PENSION BOARD

Date: 7 February 2023

Decision Type: Non-Urgent Non-Executive Non-Key

Title: REPORT ON THE REVIEW OF THE FUNDING STRATEGY STATEMENT TO APPLY TO THE PENSION FUND VALUATION

Contact Officer: Martin Doyle – Head of Pensions Shared Service
Tel No: 020 8871 6522
E-mail: martin.doyle@richmondandwandsworth.gov.uk

Chief Officer: Director of Finance

Ward: Borough Wide

1. Reason for report

- 1.1 The Local Pension Board are recommended to review the revised Funding Strategy Statement (FSS) set out in Appendix A to this report. Changes described in this report have been incorporated into the proposed FSS. Any comments or concerns will be reported to the Pensions Committee's next meeting.

2. REVIEW REVISED FUNDING STRATEGY STATEMENT (FSS)

2.1 Members of the Local Pension Board are asked to review:

- 2.11 The revised Funding Strategy Statement (FSS) set out in Appendix A to this report; and,
- 2.12 the draft communication to all scheme employers to consult on the revised FSS attached to this report as Appendix B.

Impact on Vulnerable Adults and Children

1. Summary of Impact: N/A
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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 for the purpose of providing pension benefits for its employees.
 2. BBB Priority: Excellent Council
-

Financial

1. Cost of proposal: No Cost
 2. Ongoing costs: TBC
 3. Budget head/performance centre: Pension Fund
 4. Total current budget for this head: TBC
 5. Source of funding: Contributions to Pension Fund
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Personnel

1. Number of staff (current and additional): The Local Pension Board comprises of 2 Employer Representatives and two Member Representatives. The Board is supported by the Head of Pensions Shared Service.
 2. If from existing staff resources, number of staff hours: N/A
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Legal

1. Legal Requirement: Statutory Requirement Local Government Pension Scheme Regulations 2013 (as amended).
 2. Call-in: Not Applicable: No Executive Decision.
-

Procurement

1. Summary of Procurement Implications: N/A
-

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,137 current active members, 7,469 deferred pensioners and 5,911 pensioner members (for all employers in the Fund) as at 30th September 2022.
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

- 3.1 Reviewing these documents will assist the scheme manager in ensuring the efficient governance and administration of the Scheme. With regard to any comments that the Local Pension Board may have on any other papers on this agenda, it is proposed that these be notified to the next Pensions Committee.
- 3.2 The statutory triennial Pension Fund valuation was last carried out as at 31st March 2019.
- 3.3 Before determining the employers' contribution rates to apply from 1st April 2023, the actuary is required to have regard to the Council's FSS, laying out the approach to handling the risks involved in valuations and to determining the period over which any surplus or shortfall is to be spread.
- 3.4 The revised FSS will be presented later in the year for consideration and approval by the Pensions Committee after a consultation with all scheme employers in the fund for comments.
- 3.5 Life expectancy is a key determinant in the valuation of prospective liabilities. Mortality investigations over the last few years have concluded that the population across the UK is living longer but the recent improvements in life expectancy have been slower than previously predicted.
- 3.6 Investment Performance/Discount Rate - as contributions are being invested now to provide for benefits payable in the future, then part of the cost of providing the benefits can be met from investment returns. The higher the investment return achieved, the less money needs to be set aside now to pay for benefits. The calculations reflect this by placing a lower value on liabilities if the "discount rate" is higher.
- 3.7 Pay growth enhances the future pension benefits of the active members of the Fund. The long-term pay increase assumption adopted as at 31 March 2019 was 3.90% p.a. and now for 31 March 2022 it is 4.60% p.a.
- 3.8 Annual increases in pensioner and deferred pensioner benefits and active members' benefits earned after 31 March 2014 are linked to Consumer Price Inflation (CPI). The CPI assumption adopted as at 31 March 2019 was 2.4% p.a. and now for 31 March 2022 it is 3.10% p.a.
- 3.9 **Employer Flexibilities** - since the last valuation, the legal framework has been introduced to provide additional flexibilities in relation to payments due when LGPS employers leave the scheme or their circumstances change. The FSS was amended in 2021 to incorporate these new discretions.
- 3.10 **Contribution reviews** - the contribution rates payable by employers participating in the fund are normally determined at fund valuations every three years. Since the last valuation, contribution reviews have been introduced whereby an employer with a significant change in liabilities and/or covenant can make a request for a review at any time. The Council must consider when it wishes to review an employer's contribution rate, in between valuation dates, and publish its policy in its FSS.
- 3.11 The Fund's draft Contribution Review Policy is included with the FSS as appendix F.
- 3.12 **Exit payments** - the Council now has a statutory power to recover a departing employer's exit payment over an agreed period of time, rather than as single payment

upon exit. This power will be exercised, at the discretion of the Council, so as not to expose other employers in the fund to additional risks.

- 3.13 This option is particularly attractive to employers who wish to exit an LGPS fund, but also wish to do so with a certainty of cost. Unlike with a deferred debt agreement (overleaf), if spreading an exit payment, the departing employer does not continue to participate in the LGPS fund. Once its final staggered payment is made, its liabilities to the fund will be fully discharged.
- 3.14 **Deferred debt arrangements** - for many employers, the cost of leaving the LGPS, with the associated exit debt, has been prohibitive. This has left some in the difficult position of wishing to reduce their future service pension costs but being unable to afford to do so.
- 3.15 Deferred debt arrangements allows employers to continue to participate in a fund without any active members. These arrangements differ to spreading of exit payments as the value of the debt can be revisited with payments adjusted accordingly and so require more regular monitoring and their existence remains subject to the ongoing agreement of the administering authority.
- 3.16 The Fund's policy on Termination, flexibility for exit payments and Deferred Debt Agreement is included in the FSS as Appendix D.
- 3.17 **Climate risk** - for the first time, the Fund Actuary will consider climate risk in its valuation approach. This is required by GAD under the recommendations of their latest Section 13 review.
- 3.18 As a minimum, all LGPS funds have to look at two different climate scenarios and what impact each has on the funding position over the long term. One of the scenarios is Paris-aligned and assumes good progress towards the Paris ambitions and demonstrates early action in tackling climate risk. The other scenario is based on higher temperature rises due to late action and/or no new climate policies introduced beyond those already agreed. The Fund Actuary analysis also considers two additional scenarios and look at the impact on both assets and liabilities to gain understanding on the potential impact on funding.
- 3.19 Ultimately, the scenario analysis considers whether the funding strategy is resilient to climate change and, alongside this, the Fund Actuary recommends any other actions that the Fund can take in managing climate risk. The output of the analysis will be considered in the context of investment strategy and employer covenant risk in an integrated way.
- 3.19 **Identification of Risks and Counter-Measures** - the funding of defined benefits is by its nature uncertain. Funding is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target. The key risks and the measures that could be taken to counter them are discussed at page 7 of the FSS.

3. 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 for the purpose of providing pension benefits for its employees.

4. FINANCIAL IMPLICATIONS

5.1 None arising from directly from this report.

6. LEGAL IMPLICATIONS

6.1 The Public Service Pensions Act 2013 provides primary legislation for all public service schemes including the LGPS 2014.

Non-Applicable Sections:	Procurement and Personnel Implications Impact on Vulnerable Adults and Children
Background Documents: (Access via Contact Officer)	Public Service Pensions Act 2013; Local Government Pension Scheme Regulations 2013 (as amended); Code of Practice 'Governance and Administration of Public Service Pension Schemes' The Pensions Regulator Engagement Report "Governance and administration risks in public service pension schemes"

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FUNDING STRATEGY STATEMENT

LONDON BOROUGH OF BROMLEY PENSION FUND

The information enclosed in this statement and the accompanying policies have a financial and operational impact on all participating employers in the London Borough of Bromley Pension Fund. It is imperative that all existing and potential employers are aware of the details set out herein.

January 2023

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

1. Guide to the FSS and Policies

The information required by overarching guidance and Regulations is included in [Section 2](#) and [Section 3](#) of the Funding Strategy Statement. This document also sets out the Fund's policies in the following key areas:

1. Actuarial Method and Assumptions (Appendix A)

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, known as the “Primary” contribution rate, and any contribution variations due to underlying surpluses or deficits, known as the “Secondary” rate, together with other factors that may impact an employer's contribution outcomes, are set out [here](#).

2. Deficit Recovery and Surplus Offset Plans (Appendix B)

The key principles when considering deficit recovery and surplus offset plans as part of the valuation are set out [here](#).

3. Employer Types and Admission Policy, (Appendix C)

Various types of employers are permitted to join the LGPS under certain circumstances. The conditions upon which their entry to the Fund is based and the approach taken is set out [here](#)

4. Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements (Appendix D)

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's former employees along with a termination contribution certificate showing any exit debt or exit credit, due from or to the exiting employer. In some circumstances an employer and the Fund can enter a Deferred Debt Agreement. The termination policy can be found [here](#)

5. New Academy Conversions and Multi-Academy Trusts (Appendix E)

Current Fund policy regarding the treatment of local authority maintained schools when converting to academy status is for the new academy to inherit the school's share of the historic local authority deficit at the point of its conversion. Further details on this and multi-academy trusts can be found [here](#).

6. Review of Employer Contributions between Valuations (Appendix F)

In line with the Regulations, the Administering Authority has the discretion to review employer contributions between valuations in prescribed circumstances. The Fund's policy on how the Administering Authority will exercise its discretion is set out [here](#).

7. Covenant Assessment and Monitoring Policy (Appendix G)

The Fund has implemented a policy to regularly monitor the covenant of certain employers in the Fund to ensure they are able to meet their financial responsibilities to the Fund now and in the future. More details are set out [here](#).

8. Glossary (Appendix H)

A glossary of the key terms used throughout is available at the end of this document [here](#).

2. Background

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Ensuring that the London Borough of Bromley Pension Fund (the “Fund”) has sufficient assets to meet its pension liabilities in the long-term is the fiduciary responsibility of the Administering Authority (London Borough of Bromley). The Funding Strategy adopted by the London Borough of Bromley Pension Fund will therefore be critical in achieving this. The Administering Authority has taken advice from the actuary in preparing this Statement.

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

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

It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the London Borough of Bromley Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

Integrated Risk Management Strategy

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund to meet the objective for all employers over different periods. The funding strategy includes appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would result in greater volatility of contribution rates at future valuations if these margins were not included. This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long term cost efficiency objectives. Individual employer results will also have regard to their covenant strength, where deemed appropriate by the Administering Authority.

The Regulations

The Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively; “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

The Solvency Objective

The Administering Authority's long-term objective is for the Fund to achieve and maintain a 100% solvency level over a reasonable time period. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if assumptions are borne out in practice, there would be sufficient assets to pay all benefits earned up to the valuation date as they fall due.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next in order to meet the Fund's objective. This in turn means that contributions will be subject to change from one valuation to another. This objective translates to an employer specific level when setting individual contribution rates so each employer has the same fundamental objective in relation to their liabilities.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen with sufficient prudence for this objective to be reasonably achieved in the long term at each valuation.

Long Term Cost Efficiency

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise. Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

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

Employer Contributions

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

3. Key Funding Principles

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Purpose of the FSS

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

The purpose of this Funding Strategy Statement is therefore:

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

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

The aims of the fund are to:	The purpose of the fund is to:
<ul style="list-style-type: none">• manage employers’ liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due• enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes• maximise the returns from investments within reasonable risk parameters taking into account the above aims.	<ul style="list-style-type: none">• receive monies in respect of contributions, transfer values and investment income, and• pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the Regulations.

Responsibilities of the key parties

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key

parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Sub-Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

Key parties to the FSS

The Administering Authority should:	The Individual Employer should:
<ul style="list-style-type: none"> • operate the pension fund • collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations • pay from the pension fund the relevant entitlements as stipulated in the Regulations • invest surplus monies in accordance the Regulations • ensure that cash is available to meet liabilities as and when they fall due • take measures as set out in the Regulations to safeguard the fund against the consequences of employer default • manage the valuation process in consultation with the Fund’s actuary • prepare and maintain a FSS and an Investment Strategy Statement (“ISS), both after proper consultation with interested parties, and • monitor all aspects of the Fund’s performance and funding, amending the FSS/ISS as necessary • effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and • establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator’s relevant Code of Practice. 	<ul style="list-style-type: none"> • deduct contributions from employees’ pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are a Deferred Employer • pay all contributions, including their own, as determined by the actuary, promptly by the due date • undertake administration duties in accordance with the Pension Administration Strategy. • develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework • make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and • have regard to the Pensions Regulator’s focus on data quality and comply with any requirement set by the Administering Authority in this context, and • notify the Administering Authority promptly of any changes to membership which may affect future funding. • understand the pension impacts of any changes to their organisational structure and service delivery model. • understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data would normally result in the employer paying higher contributions than otherwise would be the case if the data was of high quality.

The Fund Actuary should:	A Guarantor should:
<ul style="list-style-type: none"> • prepare valuations including the setting of employers’ contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to its FSS and the Regulations • prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as such as pension strain costs, ill health retirement costs etc. • provide advice and valuations on the termination of admission agreements • provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default • assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations • advise the Administering Authority on the funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and • ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary’s role in advising the Fund. 	<ul style="list-style-type: none"> • notify the Administering Authority promptly of any changes to its guarantee status, as this may impact on the treatment of the employer in the valuation process or upon termination. • provide details of the agreement, and any changes to the agreement, between the employer and the guarantor to ensure appropriate treatment is applied to any calculations. • be aware of all guarantees that are currently in place • work with the Fund and the employer in the context of the guarantee • receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor.

Solvency Funding Target

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

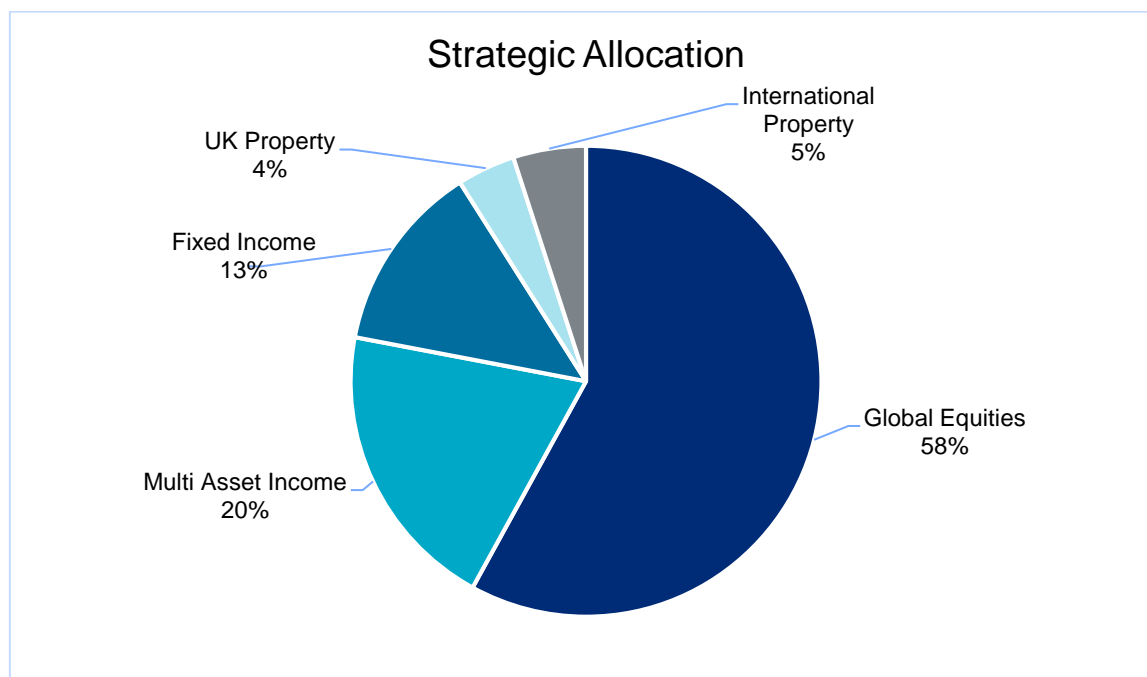
Each employer’s contributions are set at such a level to achieve long-term cost efficiency and full solvency in a reasonable timeframe.

The results of the 2022 valuation show the liabilities to be [112%] covered by the assets, with a funding surplus of [£143m] albeit there will be some instances, at an individual employer level, where a shortfall of assets exist. In such cases, the shortfalls will be covered by future deficit contributions.[Note the final balance sheet will be subject to change depending on employer funding decisions taken.]

Link to Investment Policy and the Investment Strategy Statement (ISS)

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

The overall strategic asset allocation is set out in the ISS. The current strategy is included below.



The investment strategy set out above and individual return expectations on those asset classes equate to an overall best estimate average expected return of 3.6% per annum in excess of CPI inflation as at 31 March 2022 i.e. a 50/50 chance of achieving this real return. For the purposes of setting a long term sustainable funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations (see further comment in **Appendix A**).

Risk Management Strategy

In the context of managing various aspects of the Fund's financial risks, the Administering Authority will consider implementing investment risk management techniques where appropriate. Further details will be set out in the ISS.

Climate Change [Note this section is subject to finalisation once the guidance has been provided]

[An important part of the risk analysis underpinning the funding strategy will be to identify the impact of climate change transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes. In terms of the current valuation there will be an analysis of different climate change scenarios at the Whole Fund level relative to the baseline position (i.e. assuming that the funding assumptions are played out). The output will be used, for example, to test whether the funding strategy is sufficiently robust in the context of the scenario analysis considered and therefore any potential contribution impacts. Where risks to the funding strategy are identified these will be highlighted and a judgement made as to how these risks can be mitigated.

The analysis will consider as a minimum the impact on investment returns and inflation under the scenarios considered. One of the scenarios will be consistent with global temperature increases of between 1.5 and 2 degrees C above pre-industrial levels. Results will be considered over a period of at least 20 years to ensure there is sufficient recognition of the transition and physical risks of climate change. The output of the analysis will be considered in the context of investment strategy and employer covenant risk in an integrated way.]

Identification of Risks and Counter-Measures

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

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes quantification of some of the major risk factors.

Financial	Demographic
<p>The financial risks are as follows:-</p> <ul style="list-style-type: none"> • Investment markets fail to perform in line with expectations • Protection and risk management policies fail to perform in line with expectations • Market outlook moves at variance with assumptions • Investment Fund Managers fail to achieve performance targets over the longer term • Asset re-allocations in volatile markets may lock in past losses • Pay and price inflation significantly more than anticipated • Future underperformance arising as a result of participating in the larger asset pooling vehicle • An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements. <p>Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.</p>	<p>The demographic risks are as follows:-</p> <ul style="list-style-type: none"> • Future changes in life expectancy (longevity) that cannot be predicted with any certainty. Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds. • Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers • Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations. The Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy <p>Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.</p>

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

Governance	Regulatory
<p>The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their representatives on the Local Pension Board) to make their views known to the Fund and to participate in the decision-making process.</p> <p>Governance risks are as follows:-</p> <ul style="list-style-type: none"> • The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated • Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level • Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates • An employer ceasing to exist with insufficient funding or adequacy of a bond. • An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements. • Changes in the Committee membership. <p>For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored but in most cases the employer, rather than the Fund as a whole, bears the risk.</p>	<p>The key regulatory risks are as follows:-</p> <ul style="list-style-type: none"> • Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to the Fund, Typically these would be via the Cost Management Process although in light of the McCloud discrimination case, there can be exceptional circumstances which give rise to unexpected changes in Regulations. • Changes to national pension requirements and/or HMRC Rules • Political risk that the guarantee from the Department for Education for academies is removed or modified along with the operational risks as a consequence of the potential for a large increase in the number of academies in the Fund due to Government policy. <p>Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.</p>

Monitoring and Review

A full review of this Statement will occur no less frequently than every 3 years, to coincide with completion of a full statutory actuarial valuation and every review of employer rates or interim valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

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

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

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employers will be contacted. Further details on the circumstances in which the Administering Authority will review individual employer contribution rates in between actuarial valuations can be found in Appendix F.

Appendix A – Actuarial method and assumptions

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The key whole Fund assumptions used for calculating the funding target and the cost of future accrual for the 2022 actuarial valuation are set out below.

Financial Assumptions		
	2022 valuation assumption	Description
Investment return / discount rate	4.1% p.a. (past) and 5.1% p.a. (future)	<p>Derived from the expected return on the Fund assets based on the long term strategy set out in the ISS, including appropriate margins for prudence. For the 2022 valuation this is based on an assumed return of 1% p.a. above CPI inflation (past) and 2% p.a. above CPI inflation (future). This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.</p> <p>Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole. Such cases will be determined by the Section 151 Officer and reported to the Committee.</p> <p>The assumed real returns quoted above will be periodically reviewed by the administering authority over the period to the next actuarial valuation to ensure that they reflect any significant changes in the Fund's investment strategy or significant changes in market conditions, which impact the appropriate margins for prudence referred to above that were agreed when setting the valuation funding strategy.</p>
Inflation (Retail Prices Index)	3.90% p.a.	The investment market's expectation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date (reflecting the profile and duration of the whole Fund's accrued liabilities).
Inflation (Consumer)	3.10% p.a. (includes an adjustment of 0.80% p.a.)	RPI inflation (above) reduced to reflect the expected long-term difference between RPI and CPI measures of inflation (reflecting the profile and duration of the whole Fund's accrued

Prices Index)		<p>liabilities and 2030 RPI reform) and adjusted to incorporate an Inflation Risk Premium (“IRP”). This IRP will be removed for the minimum risk termination basis, reflecting the degree of inflation hedging inherent in the notional termination basis and will also reflect the duration of an employer’s liabilities in the case of a minimum risk termination calculation.</p> <p>The adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any market factors which affect the estimate of CPI inflation.</p>
Salary increases (long-term)	4.60% p.a.	Pre 1 April 2014 benefits (and 2014 to 2022 McCloud underpin) - the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.50% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.
Pension Increases and Deferred Revaluation	Assumed to be in line with the CPI inflation assumption above (noting that pension increases cannot be negative as pensions cannot be reduced). At the 2022 valuation, an adjustment has been made to the liabilities to allow for the known inflation for the period 30 September 2021 to 31 March 2022, and where material, allowance will continue to be made for inflation as it emerges when assessing funding positions between valuations.	
Indexation of CARE benefits	Assumed to be in line with the CPI inflation assumption above. For members in pensionable employment, indexation of CARE benefits can be less than zero (i.e. a reduction in benefits).	

Demographic Assumptions

Mortality/Life Expectancy

The derivation of the mortality assumption is set out in separate advice as supplied by the Actuary. The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI) including a loading reflecting Fund specific experience and will make allowance for future improvements in longevity and the experience of the scheme. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health.

For all members, it is assumed that the trend in longevity seen over recent time periods (as evidenced in the 2021 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity ‘improvement’ year on year in the future in line with the CMI 2021 projections and a long term improvement trend of 1.75% per annum.

As an indication of impact, we have set out the life expectancies at age 65 based on the 2019 and 2022 assumptions:

	Male Life Expectancy at 65		Female Life Expectancy at 65	
	2019	2022	2019	2022
Pensioners	22.7	22.3	25.1	24.4
Actives aged 45 now	24.6	23.7	27.1	26.5
Deferreds aged 45 now	22.9	23.4	26.0	26.0

For example, a male pensioner, currently aged 65, would be expected to live to age 87.3. Whereas a male active member aged 45 would be expected to live until age 88.7. The difference reflects the expected increase in life expectancy over the next 20 years in the assumptions above.

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

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

Current Status	Retirement Type	Mortality Table
Annuitant	Normal Health	103% S3PMA_CMI_2021 [1.75%] 98% S3PFA_M_CMI_2021 [1.75%]
		121% S3PMA_CMI_2021 [1.75%] 111% S3DFA_CMI_2021 [1.75%]
	Ill Health	121% S3IMA_CMI_2021 [1.75%] 154% S3IFA_CMI_2021 [1.75%]
	Future Dependant	121% S3PMA_CMI_2021 [1.75%] 111% S3DFA_CMI_2021 [1.75%]
Active	Normal Health	111% S3PMA_CMI_2021 [1.75%] 98% S3PFA_M_CMI_2021 [1.75%]
		240% S3IMA_CMI_2021 [1.75%] 315% S3IFA_CMI_2021 [1.75%]

Deferred	All	115% S3PMA_CMI_2021 [1.75%] 105% S3PFA_M_CMI_2021 [1.75%]
Future Dependant	Dependant	126% S3PMA_CMI_2021 [1.75%] 115% S3DFA_CMI_2021 [1.75%]

Other Demographic Assumptions	
Commutation	Following analysis undertaken by the Actuary, it has been assumed that all retiring members will take 75% of the maximum tax-free cash available at retirement. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.
Other Demographics	Alongside commutation, as part of the 31 March 2022 valuation, the Actuary has carried out analysis to review the assumptions relating to: the incidence of ill health retirements, withdrawal rates, the proportions married/civil partnership assumption, and also the probability of member's dying prior to retirement. Following the outcomes of this analysis, the assumptions for proportions married/civil partnerships and the pre-retirement mortality have been updated in line with the recommendations from the Actuary. All other assumptions remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years.
Expenses	Expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 1.0% of pensionable pay to the contributions from participating employers. This is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.
Discretionary Benefits	The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

Further details on the demographic assumptions are set out in the Actuary's formal report.

Method

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or

withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, alternative methods are adopted, which make advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

The assumptions to be used in the calculation of the funding target are set out above. Underlying these assumptions are the following two tenets:

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

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

There will be a funding plan for each employer. In determining contribution requirements the Administering Authority, based on the advice of the Actuary, will consider whether the funding plan adopted for an employer is reasonably likely to be successful having regard to the particular circumstances of that employer (potentially taking into account any material changes after the valuation date up to 31 March 2023).

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

Method and assumptions used in calculating the cost of future accrual (or primary rate)

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

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

Employer asset shares

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

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying

a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset share maybe restated for changes in data or other policies.

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

Other factors affecting employer contribution outcomes

Notwithstanding the policies below, the Administering Authority, in consultation with the actuary where necessary, reserves the right to consider whether any exceptional arrangements should apply in particular cases.

Liability Reserve for uncertain Economic Outlook: Recognising the uncertain economic outlook at the valuation date, with the aim of ensuring contribution stability at the 2025 actuarial valuation and beyond, the administering authority will provide employers with the option of adding a 10% reserve on to their baseline 31 March 2022 liabilities in order to protect the employer from adverse changes in market conditions over the next inter-valuation period. This reserve is not mandatory and will be for the employer to decide whether to apply based on their own circumstances.

Contractors (with partial guarantees): - For those admitted bodies participating in the Fund where any liabilities in relation to post admission date service are not guaranteed by the letting employer, a Primary Rate contribution will be certified only for 2023/26 unless agreed otherwise with the administering authority. The potential unfunded liabilities that may emerge following termination of the admission agreement will be assessed separately by the Actuary as part of a bond review exercise following the valuation and will be communicated to the employer at that time.

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

After the valuation, the Fund may continue to monitor employer's covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer. Further details are set out in Appendix G.

Target Contribution Rate (academies): By number, academies form the largest group of employers in the Fund. For those academies in deficit, the target total contribution rate for each academy will be broadly set to be the same target adopted at the 2019 valuation, namely 23.3% of pay.

Stability: Subject to affordability considerations (and any change emerging to the Primary Rate) a key principle will be to maintain total contributions in line with those scheduled to be payable following the preceding valuation (including any indexation in these monetary payments over the recovery period) unless there is a specific reason not to do so. As set

out in Appendix B, for those employers in surplus, surplus offset secondary contributions will only be permitted in certain circumstances.

Contribution Increases: It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore may in some cases be willing to use its discretion to accept an evidence based affordable level of contributions for such organisations for the three years 2023/2026. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Pooling Where agreed by the Administering Authority, the contribution rate outcomes for certain employers may be pooled together, with a single contribution rate being certified by the Actuary in the Rates and Adjustments Certificate e.g. for Multi-Academy Trusts who have a number of different constituent academies within the Fund (as per Appendix E). It should be noted that contributions will still be allocated to the individual employers by the administration team.

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

Early Retirement Strain Costs: Any “strain” costs generated as a result of redundancy, efficiency or flexible retirements will be recovered by additional capital payments to the Fund by the employer. These will be paid in full at the point of retirement.

Deaths: The extent to which any funding strain/profit emerges on the death of a member will depend on the profile of the member (status / age / whether any dependant’s benefits become payable) and impacts can be material. Any funding strain/profit will typically emerge at the next actuarial valuation through increased/reduced deficit contributions, except where the employer is terminating, when it will be taken into account when the Actuary determines the termination position.

Appendix B – Deficit recovery and surplus offset plans

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Employer Recovery Plans – key principles

If the funding level of an employer is below 100% at the valuation date (i.e. the assets of the employer are less than the liabilities), a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

The target recovery period for the Fund as a whole is [12] years at this valuation which is the same as the corresponding target for the 2019 valuation. Subject to affordability and other considerations individual employer recovery periods would be expected to reduce at this valuation relative to the 2019 valuation albeit in certain circumstances this may not be possible in order to achieve contribution rate stability. In such cases, as agreed with the Administering Authority, a longer recovery period (subject to a maximum of 12 years) may apply. The average recovery period emerging from this valuation is [12] years.

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

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish.

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

Category	Default Deficit Recovery Period
Fund Employers	Lower of 12 years and period required to target stability of overall contributions, subject to a minimum of 3 years.
Open Admitted Bodies	Lower of 12 years and period required to target stability of overall contributions, subject to a minimum of 3 years.
Closed Employers	Lower of 12 years and the future working lifetime of the membership
Employers with a limited participation in the Fund	Determined on a case by case basis

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

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

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain broadly the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period), taking into account any changes in the primary rate contribution requirements.

Other factors affecting the employer deficit recovery plans

As part of the process of agreeing funding plans with individual employers and managing risk in the inter-valuation period, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

Surplus offset plans

For those employers assessed to be in surplus at the valuation date, surplus offsets will be only be available to the extent that total overall contributions do not reduce versus those currently payable following the preceding valuation. Any residual surplus retained will act as a margin against investment risk and other potential adverse experience over 2023/26. Surplus off-sets will be allowed only where there is no deficit on the termination basis.

The exception to this will be employers who have moved from a deficit at the last valuation to a surplus at this valuation. As these employers will no longer need to pay deficit contributions, they may see a reduction in overall total contributions.

For any employers assessed to be in surplus at the valuation date, where surplus offsets will be payable, and who are expected to exit the Fund in the period to 31 March 2026 the Secondary rate payments will be based on the expected length of participation in the Fund. For all other employers assessed to be in surplus at the valuation date, where a surplus offset will be payable the Secondary rate will be based on a default recovery period of 12 years, unless otherwise agreed by the Administering Authority.

Administering Authority Discretion

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases when determining deficit recovery/surplus offset plans.

Appendix C – Employer types and admission policy

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Entry to the Fund

Mandatory Scheme Employers

Certain employing bodies are required to join the scheme under the Regulations. These bodies include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income). Please also refer to Appendix E in relation to academies.

Designating Bodies

Designating bodies are permitted to join the scheme if they pass a resolution to this effect. Designating bodies, other than connected entities, are not required under the Regulations to provide a guarantee. These bodies usually have tax raising powers and include Parish and Town Councils.

Admission Bodies

An admitted body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund. If its application is accepted by the administering authority, it will then have an “admission agreement”. In accordance with the Regulations, the admission agreement sets out the conditions of participation of the admitted body including which employees (or categories of employees) are eligible to be members of the Fund.

Admitted bodies can join the Fund if

- They provide a service for a scheme employer as a result of an outsourcing (formerly known as Transferee Admission Bodies)
- They provide some form of public service and their funding in most cases derives primarily from local or central government. In reality they take many different forms but the one common element is that they are “not for profit” organisations (formerly known as Community Admission Bodies).

In general, admitted bodies may only join the Fund if they are guaranteed by a scheme employer. However, there may be exceptional circumstances whereby, subject to the agreement of the Administering Authority, an admitted body joins the Fund with an alternative form of guarantee. When the agreement or service provision ceases, the Fund’s policy is that in all cases it will look to recover any outstanding deficit from the outgoing body unless appropriate instruction is received from the outsourcing employer or guaranteeing employer, in which case the assets and liabilities of the admission body will in revert to the outsourcing scheme employer or guaranteeing employer.

Connected Entities

Connected entities by definition have close ties to a scheme employer given that a connected entity is included in the financial statements of the scheme employer.

Although connected entities are “Designating Bodies” under the Regulations, they have similar characteristics to admitted bodies (in that there is an “outsourcing employer”).

However, the Regulations do not strictly require such bodies to have a guarantee from a scheme employer.

However, to limit the risk to the Fund, the Fund will require that the scheme employer provides a guarantee for their connected entity, in order that the ongoing funding basis will be applied to value the liabilities.

Risk Assessments

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

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

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

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

Admitted Bodies providing a service

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

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

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

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body may be documented in the admission agreement (alongside the commercial agreement between the two parties).

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

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

Contribution Rate Assessments

In most situations, unless agreed otherwise with the Administering Authority, the Actuary will undertake an assessment of the required contribution rate payable by the new admitted body.

Pre-Funding for termination

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a low or minimum risk methodology and assumptions, subject to the agreement of the Administering Authority. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination due to the use of a notional matching investment strategy (see below). However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the low or minimum risk basis.

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

Appendix D – Termination policy, flexibility for exit payments and Deferred Debt Agreements

Exiting the Fund

Termination of an employer's participation

When an employer's participation in the Fund comes to its end, or is prematurely terminated for any reason (e.g. a contract with a local authority comes to an end or the employer chooses to voluntarily cease participation), employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

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

Where the Fund obtains advance notice that an employer's participation is coming to an end, the Regulations enable the Fund to commission a funding assessment leading to a revised contribution certificate which is designed to eliminate, as far as possible, any surplus or deficit by the cessation date.

Whether or not an interim contribution adjustment has been initiated once participation in the Fund has ceased, the employer becomes an exiting employer under the Regulations and the Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a revision of the rates and adjustment certificate showing any contributions due from the admission body.

When an employer exits the Fund, as an alternative to requiring an immediate payment in full, the Regulations give power to the Fund to set a repayment plan to recover the outstanding debt over a period at its sole discretion and this will depend on the affordability of the repayments and financial strength of the exiting employer. Once this repayment plan is set the payments would not be reviewed for changes in the funding position due to market or demographic factors.

The Fund's policy for termination payment plans is as follows:

- The default position is for exit payments and exit credits to be paid immediately in full unless agreed otherwise with the relevant parties.
- At the discretion of the administering authority, instalment plans over a defined period will only be agreed when there are issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt (see further details below).

- Any costs associated with the exit valuation will be paid by the employer by either increasing the exit payment or reducing the exit credit by the appropriate amount. In the case of an employer where the exit debt/credit is the responsibility of the original employer through a risk sharing agreement the costs will be charged directly to the employer unless the original employer directs otherwise.

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

Basis of Termination

The LBBPF's policy is that a termination assessment will be made based on:

- A low risk basis, with the exception that;
- The Administering Authority retains a discretion to apply the minimum risk funding basis where an employer is not linked to a contract, unless;
- The employing body has a guarantor within the Fund (covering the liabilities associated with service prior to and post the admission date), or a successor body exists to take over the employing body's liabilities (including those for former employees), in which case the ongoing funding assumptions will be used.

This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated).

For all termination cases, the underlying assumptions adopted for individual employers will be based on the approximate duration of that employer's liabilities.

Details of the low risk and minimum risk funding bases are shown below.

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

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

Whether or not the termination liabilities are assessed on the valuation funding basis or the low risk / minimum risk termination basis, the liabilities may also include an allowance for estimated future administrative expenses in relation to any remaining members on termination.

Implementation

Admission bodies participating by virtue of a contractual arrangement

For employers that are guaranteed by a guarantor (usually the original employer or letting authority), the Fund's policy at the point of cessation is for the guarantor to subsume the residual assets, liabilities and any surplus or deficit under the default policy. In some instances an exit debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No payment of an exit credit will be payable unless representation is made as set out below.

If there is any dispute, then the following arrangements will apply:

- In the case of a surplus, in line with the amending Regulations (**The Local Government Pension Scheme (Amendment) Regulations 2020**) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.
- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of completion of the final cessation assessment by the Actuary.
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or at the next valuation.

If requested, the Administering Authority will provide details of the information considered as part of the determination. A determination notice will be provided alongside the termination assessment from the Actuary. The notice will cover the following information and process steps:

1. Details of the employers involved in the process (e.g. the exiting employer and guarantor).
2. Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision making process. The underlying principle will be that if an employer is responsible for a deficit, they will be eligible for any surplus. This is subject to the information provided and any risk sharing arrangements in place.
3. The final termination certification of the exit credit by the Actuary.
4. The Administering Authority's determination based on the information provided.
5. Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate risk sharing agreement. The default is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor unless representation is made by the relevant parties in line with the Regulations as noted above. For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations unless the Fund is aware of the provisions of the risk sharing agreement in any representation made and determines an exit credit should be paid.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. [Final regulations are awaited]. Where a surplus or deficit isn't being subsumed, an allowance will be made for McCloud within the calculations consistent with the allowance made for the 2022 valuation. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the Regulations have been finalised, any calculations will be performed in line with the prevailing regulations these and associated guidance.

In the event of parties unreasonably seeking to crystallise the exit credit on termination, the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities then the termination assessment will assume the liabilities are orphaned and the low risk or minimum risk basis of termination will be applied.

As the guarantor will absorb the residual assets and liabilities under the default policy above, it is the view of the Actuary that the ongoing valuation basis described above should be adopted for the termination calculations. This is the way the initial admission agreement would typically be structured i.e. the admission would be fully funded based on liabilities assessed on the valuation basis.

If the guarantor refuses to take responsibility, then the residual deferred pensioner and pensioner liabilities should be assessed on the more cautious low risk or minimum risk basis. In this situation the size of the termination payment would also depend on what happened to the active members and if they all transferred back to the original Scheme Employer (or elsewhere) and aggregated their previous benefits. As the transfer would normally be effected on a "fully funded" valuation basis the termination payment required would vary depending on the circumstances of the case. Where this occurs the exiting employer would then be treated as if it had no guarantor as per the policy below.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary, based on representations from the interested parties where appropriate.

Non contract-based admission bodies with a guarantor in the Fund.

The approach for these will be the same as that above and will depend on whether the guarantor is prepared to accept responsibility for residual liabilities. Indeed, it may be that Fund is prepared to accept that no actual termination payment is needed (even if one is calculated) and that all assets/liabilities can simply be absorbed by the guarantor.

Admission bodies with no guarantor in the Fund

These are the cases where the residual liabilities would be orphaned within Fund. It is possible that a bond would be in place. The termination calculation would be on the more cautious low risk or minimum risk basis.

The actuarial valuation and the revision of any Rates and Adjustments Certificate in respect of the outgoing admission body must be produced by the Actuary at the time when the admission agreement ends; the policy will always be subject to change in the light of changing economic circumstances and legislation.

The policy for such employers will be:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation assessment by the Actuary). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. **[Final regulations are awaited.]** As part of any termination assessment, allowance will be made for McCloud within the calculations consistent with the allowance made for the 2022 valuation. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. **Once the Regulations have been finalised**, any calculations will be performed in line with these and associated guidance.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary.

The above funding principles will also impact on the **bond requirements** for certain admitted bodies. The purpose of the bond is that it should cover any unfunded liabilities arising on termination that cannot be reclaimed from the outgoing body.

Connected Entities

In the event of cessation, the connected entity will be required to meet any outstanding liabilities valued in line with the approach outlined above. In the event there is a shortfall, the assets and liabilities will revert to the Fund as a whole (i.e. all current active employers).

In the event that a scheme employer provides a guarantee for their connected entity, the assets and liabilities will revert in totality to that scheme employer on termination, including any unrecovered deficit.

Policy in relation to the flexibility for exit debt payments and Deferred Debt Agreements (DDA)

The Fund's policy for termination payment plans is as follows:

1. The default position is for exit payments to be paid immediately in full unless there is a risk sharing arrangement in place with a guaranteeing Scheme employer in the Fund whereby the exiting employer is not responsible for any exit payment. In the case of an exit credit the determination process set out above will be followed.
2. At the discretion of the administering authority, instalment plans over an agreed period or a Deferred Debt Agreement will only be agreed subject to the policy in relation to any flexibility in recovering exit payments.

As set out above, the default position for exit payments is that they are paid in full at the point of exit (adjusted for interest where appropriate). If an employer requests that an exit debt payment is recovered over a fixed period of time or that they wish to enter into a Deferred Debt Agreement with the Fund, they must make a request in writing covering the reasons for such a request. Any deviation from this position will be based on the Administering Authority's assessment of whether the full exit debt is affordable and whether it is in the interests of taxpayers to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and will be charged as an upfront payment to the Fund.

The following policy and processes will be followed in line with the principles set out in the statutory guidance published 2 March 2021.

Policy for Spreading Exit Payments

The following process will determine whether an employer is eligible to spread their exit payment over a defined period.

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided then the default policy of immediate payment will be adopted.
2. Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit debt over a period of time. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payments.
3. This could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.
4. The initial process to determine whether an exit debt should be spread may take up to 6 months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time
5. If it is agreed that the exit payments can be spread then the Administering Authority will engage with the employer regarding the following:
 - a. The spreading period that will be adopted (this will be subject to a maximum of 5 years).
 - b. The initial and annual payments due and how these will change over the period
 - c. The interest rates applicable and the costs associated with the payment plan devised (which will be met by the employer unless agreed otherwise with the Administering Authority)

- d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
 - e. The responsibilities of the employer during the exit spreading period including the supply of updated information and events which would trigger a review of the situation
 - f. The views of the Actuary, covenant, legal and any other specialists necessary
 - g. The covenant information that will be required on a regular basis to allow the payment plan to continue.
 - h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances)
6. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.
 7. The costs associated with the advice sought and drafting of the Debt Spreading Agreement will be passed onto the employer and will be charged as an upfront payment to the Fund.

Employers participating with no contributing members

As opposed to paying the exit debt an employer may participate in the Fund with no contributing members and utilise the “Deferred Debt Agreements” (DDA) at the sole discretion of the Administering Authority. This would be at the request of the employer in writing to the Administering Authority.

The following process will determine whether the Fund and employer will enter into such an arrangement:

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation. If this information is not provided then a DDA will not be entered into by the Administering Authority
2. Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit debt that would be required if the arrangement was not entered into is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).
3. The initial process to determine whether a Deferred Debt Agreement should apply may take up to 6 months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date.
4. If the Administering Authority’s assessment confirms that the potential exit debt is not affordable, the Administering Authority will engage in discussions with the employer about the potential format of a Deferred Debt Agreement using the template Fund agreement which will be based on the principles set out in the Scheme Advisory Board’s separate guide. As part of this, the following will be considered and agreed:

- What security the employer can offer whilst the employer remains in the Fund. In general the Administering Authority won't enter into such an arrangement unless they are confident that the employer can support the arrangement on an ongoing basis. Provision of security may also result in a review of the recovery period and other funding arrangements.
- Whether an upfront cash payment should be made to the Fund initially to reduce the potential debt.
- What the updated secondary rate of contributions would be required up to the next valuation.
- The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
- The advice of the Actuary, covenant, legal and any other specialists necessary.
- The responsibilities that would apply to the employer while they remain in the Fund.
- What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the secondary contributions (e.g. provision of security).
- The circumstances that would trigger a variation in the length of the deferred debt agreement (if appropriate), including a cessation of the arrangement (e.g. where the ability to pay contributions has weakened materially or is likely to weaken in the next 12 months). Where an agreement ceases an exit payment (or credit) could become payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
- Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment or change in security underpinning the agreement.

The Administering Authority will then make a final decision on whether it is in the best interests of the Fund to enter into a Deferred Debt Agreement with the employer and confirm the terms that are required.

5. For employers that are successful in entering into a Deferred Debt Agreement, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the Deferred Debt Agreement in the interim if any of the agreed triggers are met.
6. The costs associated with the advice sought and drafting of the Deferred Debt Agreement will be passed onto the employer and will be charged as an upfront payment to the Fund.

Termination Basis

A lower risk approach will apply on termination where liabilities are not being subsumed, to appropriately reflect the transfer of pension risk from the exiting employer to the Fund.

The discount rate underlying the **low risk** basis is set with reference to the return on corporate bond yields of an appropriate duration for the exiting employer.

The discount rate underlying the **minimum risk** basis is set with reference to the return on fixed interest government bond yields of an appropriate duration for the exiting employer. Derivation of the discount rates will be kept under review over time.

In setting the CPI assumption to apply on the minimum-risk basis, market RPI inflation will be reduced by 0.3% p.a. to reflect the average difference between RPI and CPI indices allowing for RPI reform in 2030, consistent with the ongoing funding approach. However no adjustment will be made for an “inflation risk premium” reflecting the fully hedged nature of the notional minimum-risk portfolio. This adjustment will be kept under review over time.

The low risk / minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2022) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body’s cessation date.

31 March 2022	Low Risk Assumptions	Minimum Risk Assumptions
Discount Rate	2.8% p.a.	1.7% p.a.
CPI price inflation	3.1% p.a.	3.6% p.a.
Pension increases/indexation of CARE benefits	3.1% p.a.	3.6% p.a.

All demographic assumptions will be the same as those adopted for the 2022 actuarial valuation, except in relation to the life expectancy assumption. Given the low risk / minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption. The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2% p.a. from 1.75% used in the 2022 valuation for ongoing funding and contribution purposes. This assumption will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.

Administering Authority discretion on low risk / minimum risk assumptions.

For all terminations, where the low risk / minimum risk basis of termination applies, the Administering Authority reserves the right to review the assumptions applied at the employing body’s cessation date, in times of extreme market conditions and volatility. This is in order to ensure the assumptions adequately reflect the transfer of pension risk from the exiting employer to the Fund. The investment return assumption will be no greater than the prudent expected return on the actual portfolio in which the Fund is reasonably expected to invest the assets of the terminating employer

Appendix E – Academies/Multi Academy Trust Policy

Academy conversions and deficit transfers

The Fund's policy regarding the treatment of schools when converting to academy status is for the new academy to inherit the school's appropriate share of the historic local authority deficit prior to its conversion. This is in accordance with the Department for Education (DfE) guidance issued when the Academy conversion programme was extended to cover all schools.

The local authority has been assessed to have been in surplus at the 2022 actuarial valuation. Therefore, no deficit will be transferred to the new academy and the initial asset share allocated will be at least equal to the value of the liabilities associated with the transferring active members at the conversion date. The extent to which any surplus assets will be transferred to the new academy on conversion will be determined by the administering authority depending on market conditions at the point of conversion and also the approach adopted by the local authority to recovering contributions from pre-conversion schools.

Multi Academy Trusts

Multi-Academy Trusts (MATs) are groups of academies managed and operated by one proprietor. The employer of non-teaching staff in academies is the proprietor of the Academy Trust and not the individual academy within the Trust. It is therefore the proprietor who is the employer for LGPS purposes making the MAT legally responsible for staff across all schools in the pool (see below).

Multi-Academy Trusts are often set up to cover a number of academies across England. The employees of the former schools can be employed directly by the Trust so they can be deployed across different academy schools in the Trust if necessary.

In cases where numerous academies are operated by the same managing Trust, the Fund is willing to allow a combined funding position and average contribution requirements to apply to all constituent academies (i.e. a pool). In such cases, the Actuary will certify a pooled Primary and Secondary contribution rate for the MAT in the Rates and Adjustments Certificate. Notwithstanding this, the Fund will continue to track the constituent academies separately, in the interests of transparency and clarity around entry and exit events.

Approach to setting contribution rates

The Fund must have a separate employer number for each academy for transparency of cashflows, managing risks should an academy need to leave one Trust for another and for accounting where disaggregated disclosure reports are required. It should also be noted that the Department for Education (DfE) have confirmed that the guarantee relates to individual academies and MATs.

Any new academies joining an existing MAT pool in the Fund can contribute at the

employer contribution rate already established for the MAT but an actuarial assessment will still need to be carried out to determine the deficit applicable to the transferring staff.

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Appendix F – Review of employer contributions between valuations

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The Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

1. The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
2. The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.
3. An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them. The employer would be required to pay the costs of any review following completion of the calculations and is only permitted to make one request between actuarial valuation dates (except in exceptional circumstances and at the sole discretion of the Administering Authority).

Where the funding position for an employer significantly changes solely due to a change in assets (and changes in actuarial assumptions), the Regulations do not allow employer contributions to be reviewed outside of a full valuation although changes in assets would be taken into account when considering if an employer can support its obligations to the Fund after a significant covenant change (see 2. above).

The Administering Authority will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt, any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a rate review would not be undertaken close to the next actuarial valuation date unless in exceptional circumstances. For example:

- A contribution review due to a change in membership profile would not be undertaken in the 6 months leading up to the next valuation Rates and Adjustments Certificate.
- However, where there has been a material change in covenant, a review will be considered on a case by case basis which will determine if it should take place and when any contribution change would be implemented. This will take into account the proximity of the actuarial valuation and the implementation of the contributions from that valuation.

Situations where contributions may be reviewed

Contributions may be reviewed if the Administering Authority becomes aware of any of the following scenarios. Employers will be notified if this is the case.

Consideration will also be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

1) Significant changes in the employer's liabilities

This includes but is not limited to the following scenarios:

- a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
 - i. Restructuring of an employer
 - ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
 - iii. A bulk transfer into or out of the employer
 - iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements or a large number of withdrawals
- b) Two or more employers merging including insourcing and transferring of services
- c) The separation of an employer into two or more individual employers

In terms of assessing the triggers under a) above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than 10% of the total liabilities. In some cases this may mean there is also a change in the covenant of the employer.

Any review of the rate will only take into account the impact of the change in liabilities (including any underfunding in relation to pension strain costs) both in terms of the Primary and Secondary rate of contributions.

2) Significant changes in the employer's covenant

This includes but is not limited to the following scenarios:

- a) Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other pension arrangement which may impair the security provided to the Fund.
- b) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.
- c) Where an employer exhibits behaviour that suggests a change in their ability and/or willingness to pay contributions to the Fund.

In some instances, a change in the liabilities will also result in a change in an employer's ability to meet this obligations.

Whilst in most cases the regular covenant updates requested by the Administering Authority will identify some of these changes, in some circumstances employers will be required to agree to notify the Administering Authority of any material changes. Where this applies, employers will be notified separately and the Administering Authority will set out the requirements

Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any specific details of restructure plans. As part of this, the Administering Authority

will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

In this instance, any review of the contribution rate would include consideration of the updated funding position (both on an ongoing and termination basis) and would usually allow for changes in asset values when considering if the employer can meet its obligations on both an ongoing and termination basis (if applicable). This could then lead to the following actions (see further comments below):

- The contributions changing or staying the same depending on the conclusion, and/or;
- Security to improve the covenant to the Fund, and/or;
- Funding for termination

Process and potential outcomes of a contribution review

Where one of the listed events occurs, the Administering Authority will enter into discussion with the employer to clarify details of the event and any intent of the Administering Authority to review contributions. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Actuary, legal or a covenant specialist advisors.

This also applies where an employer notifies the Administering Authority of the event and requests a review of the contributions. The employer will be required to agree to meet any professional and administration costs associated with the review. The employer will be required to outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Administering Authority.

The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in data is expected to have a material effect on the outcome) and whether any supporting information is required from the employer.

As well as revisiting the employer's contribution plan, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- Whether the employer should fund for termination.
- Whether the Primary contribution rate should be adjusted to allow for any profile change and/or move to fund for termination
- Whether the secondary contributions should be adjusted including whether the length of the recovery period adopted at the previous valuation remains appropriate. The remaining recovery period from the valuation would be the maximum period adopted (except in exceptional and justifiable circumstances and at the sole discretion of the Administering Authority on the advice of the Actuary).

The review of contributions may take up to 6 months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment Certificate at the last valuation will be updated for any contribution changes. As part of

the process the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor in the Fund, then the guarantor would be consulted on as part of the contribution review process.

The Administering Authority will agree a proportionate process for periodical ongoing monitoring and review following the implementation of the revised contribution plan. The Employer will be required to provide information to the Fund to support this, which will depend in part of the reasons for triggering the contribution review.

Appendix G – Covenant Assessment and Monitoring Policy

Overview

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

An assessment of employer covenant focuses on determining the following:

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

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital. Where appropriate, covenant assessments will also be carried out on organisations providing a third party guarantee.

Risk criteria

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

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

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

The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow

The relative priority placed on the pension scheme compared to corporate finances

An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

Assessing employer covenant

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publicly available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Green (RAG) rating and other suitable measures.

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

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score e.g. the employer's contributions may potentially be reviewed.

Frequency of monitoring

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly (at least annually) to allow for a thorough assessment of the financial metrics. Where appropriate, the funding position for certain employers may be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

In certain circumstances, some employers may be subject to a more detailed / frequent review when a risk criterion is triggered.

Covenant risk management

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

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

Appendix H – Glossary of terms

Actuarial Valuation

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

Administering Authority

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

Admission bodies

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

Benchmark

A measure against which fund performance is to be judged.

Benefits

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to within the FSS. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

Best Estimate Assumption

An assumption where the outcome has a 50/50 chance of being achieved.

Bonds

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

Career Average Revalued Earnings Scheme (CARE)

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

CPI

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

CPIH

An alternative measure of CPI which includes owner occupiers' housing costs and Council Tax (which are excluded from CPI).

Contingent Assets

Assets held by employers in the Fund that can be called upon by the Fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer

Covenant

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

Deferred Debt Agreement (DDA)

A written agreement between the Administering Authority and an exiting Fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed Secondary rate until the termination of the DDA.

Deferred Employer

An employer that has entered into a DDA with the Fund.

Deficit

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

Deficit recovery period

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

Derivatives

Financial instruments linked to the performance of specific assets which can be used to magnify or reduce exposure to those assets

Discount Rate

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

Early Retirement Strain

The additional cost incurred by a scheme employer as a result of allowing a Scheme Member aged 55 or over to retire before Normal Retirement Age and to receive a full pension based on accrued service at the date of retirement without full actuarial reduction.

Employer's Future Service Contribution Rate ("Primary Rate")

The contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses. See also "Primary Rate" below.

Employing bodies

Any organisation that participates in the LGPS, including admission bodies and Fund employers.

Equities

Shares in a company which are bought and sold on a stock exchange.

Equity Protection

An insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

Exit Credit

The amount payable from the Fund to an exiting employer where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

Fund / Scheme Employers

Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers. For example, these include councils, colleges, universities and academies

Funding or solvency Level

The ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement

This is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

Government Actuary's Department (GAD)

The GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / guarantor

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

Guarantee of Last Resort

For the purposes of the FSS, a guarantee of last resort refers to the situation where an employer has exhausted all alternative options for payment of an exit debt and so the debt is recovered from another employer in the Fund, however the liabilities are not subsumed in this case.

Ill-Health Captive

This is a notional fund designed to protect certain employers against excessive ill health costs in return for an agreed insurance premium.

Investment Strategy

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

Letting employer

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

LGPS

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

Liabilities

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

Long-term cost efficiency

This is a measure of the extent to which the Fund's policies properly address the need to balance immediate budgetary pressures with the undesirability of imposing an excessive debt burden on future generations.

Low risk basis

An approach where the discount rate used to assess the liabilities is determined based on the market yields of Corporate bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund where the employer is linked to a contract.

Maturity

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

McCloud Judgment

This refers to the linked legal cases of Sargeant and McCloud, and which found that the transitional protections (which were afforded to older members when the public service pension schemes were reformed in 2014/15) constituted unlawful age discrimination.

Members

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

Minimum Risk Basis

An approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is may be adopted when an employer is exiting the Fund at the discretion of the Administering Authority depending on the circumstances.

Orphan liabilities

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

Percentiles

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

Phasing/stepping of contributions

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

Pooling

Employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment

The payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present Value

The value of projected benefit payments, discounted back to the valuation date.

Primary Contribution Rate

The contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant. The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates. See also "Employer's future service contribution rate" above.

Profile

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

Prudent Assumption

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

Rates and Adjustments Certificate

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

Real Return or Real Discount Rate

A rate of return or discount rate net of (CPI) inflation.

Recovery Plan

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

SAB Funding Basis or SAB Basis

A set of actuarial assumptions determined by the LGPS Scheme Advisory Board (SAB). Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the “Section 13 review” as carried out by the Government Actuary’s Department. As an example, the real discount rate over and above CPI used in the SAB Basis as at 31 March 2022 was [2.4% p.a.], so it can be substantially different from the actuarial assumptions used to calculate the Fund’s solvency funding position and contribution outcomes for employers

Scheduled bodies

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

Secondary Rate of the Employer’s Contribution

An adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls. The Secondary rate is specified in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

Section 13 Valuation

In accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary’s Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2019 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target

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

Strain Costs

The costs arising when members retire before their normal retirement date and receive their pensions immediately without actuarial reduction. So far as the Fund is concerned, where the retirements are not caused by ill-health, these costs are invoiced directly to the retiring member’s employer at the retirement date and treated by the Fund as additional contributions, unless agreed with the administering authority. The costs are calculated by the Actuary.

Valuation funding basis

The financial and demographic assumptions used to determine the employer’s contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund’s investments, expressed as an expected out-performance over CPI in the long term by the Fund’s assets i.e. the “real rate”.

50/50 Scheme

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

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LOGO

LONDON BOROUGH OF BROMLEY PENSION FUND

2022 ACTUARIAL VALUATION RESULTS AND FUNDING STRATEGY STATEMENT CONSULTATION

Background

You will be no doubt aware that in accordance with the underlying LGPS Regulations, the London Borough of Bromley Pension Fund (“the Fund”) has been undergoing its triennial actuarial valuation as at 31 March 2022 in order to assess its solvency position and set contribution requirements for employers for the 3 years from **1 April 2023 to 31 March 2026**.

The purpose of this letter and the accompanying documents is to advise you of the results for your employer and also to consult with you on changes made to the Fund’s Funding Strategy Statement (FSS) that we are required to maintain and publish as part of the valuation process. Alongside this letter, you will therefore be provided with the following:

- Draft 2022 Funding Strategy Statement
- Preliminary Results Schedule (and explanatory guide / FAQ)

[Section 1](#) below discusses the main changes proposed to the FSS since the previous consultation. [Section 2](#) provides brief commentary on what will be included in the preliminary results schedule provided. [Section 3](#) provides some key areas where we would like feedback from you as part of the consultation process.

The closing date for comments from you on the FSS consultation and valuation results is 24 February 2023.

Section 1 - Funding Strategy Statement

The FSS is a statutory document which has to be consulted upon with interested parties and approved by the Administering Authority before the actuarial valuation can be completed. The FSS is the document which contains the parameters the Fund and its Actuary will use to determine your contribution requirements. It has been updated from the current FSS, by London Borough of Bromley, as administering authority of the Fund, in conjunction with the Fund’s Actuary.

It is strongly recommended that you consider the FSS to understand the key areas and policies as it will have a financial and operational impact on your organisation.

We would be grateful for your comments to consider as part of the consultation. It should be noted that whilst we will take into account all consultation responses from

employers in the Fund, it is ultimately the Administering Authority's responsibility to formulate and implement the FSS as part of the valuation process.

A key objective of the Fund is to set contributions which are as sustainable and as low as possible and the funding strategy along with the investment strategy (which is consulted upon separately to the FSS) are designed to try to achieve this. These objectives can act in opposing directions (for example if contributions are set too low then this is not sustainable and they will need to increase in the future) and therefore the funding strategy needs to deliver a balance. Employers also have a responsibility to manage the sustainability of contributions in the long-term. As a consequence, employers will need to consider the level of contributions payable to balance contribution short-term affordability versus long-term sustainability in the context of their own budgets. This could lead employers to choose to pay higher contributions than the minimum required under the FSS parameters.

The proposed FSS for the 2022 valuation incorporates these main key changes from the current version:

Financial Assumptions - At the valuation date we have modelled the range of expected investment returns (in excess of CPI inflation) that the Fund may achieve in the future based on our investment strategy objectives. This has helped the Fund determine the discount rate used to derive your liabilities (incorporating prudential margins as required by the Regulations).

Recognising the current high level of CPI inflation the Fund has opted to build in an additional allowance for this as part of the 2022 valuation, thereby providing additional protection against the cost of the 2023 pension increase once implemented.

In setting the discount rate / approach to inflation at the 2022 valuation, the Fund has taken into account current uncertain economic outlook alongside the overall objective, as outlined above, of contribution sustainability.

Additional Reserve for Economic Uncertainty – Given the current uncertain economic outlook, as referred to above, the Fund is allowing employers to build in an explicit liability reserve at the 31 March 2022 valuation to provide additional protection against adverse market experience over 2022-25 in order to increase the likelihood of contribution rate stability being achieved at the 31 March 2025 valuation. Whether or not an employer opts for this protection will depend on their overall balance sheet position, contribution outcomes and affordability. The reserve is not mandatory.

Demographic Assumptions - We have updated the demographic assumptions used (e.g. future life expectancy, levels of ill-health retirement etc.) based on the analysis completed by the Fund Actuary.

Treatment of Surplus - For those employers in surplus at the 2022 valuation, surplus offsets will only be permitted (based on a 12 year default period) to the extent that they are used to minimise any increase in contributions relative to those currently being paid (such offsets will also only be permitted if the employer is in surplus on the termination basis).

Recovery Plans - Subject to covenant and affordability considerations of employers, it is proposed to reduce deficit recovery periods by 3 years relative to the period

adopted at the 2019 valuation although in some cases the recovery period maybe adjusted to achieve contribution rate stability where necessary.

Administrative Expenses: - It is proposed to increase the allowance for administrative expenses payable by employers in the Fund from 0.7% of pay to 1.0% of pay, recognising both recent experience and the expected administrative work to be undertaken in the future e.g. implementing the McCloud remedy / Pension Dashboards etc.

Termination Policy / Employer Flexibilities: - Amendments have been made to the Fund's termination policy and assumptions to reflect recent market events, to protect those employers exiting the Fund (and those remaining).

Pooled Contributions: - For certain employers, a request can be submitted to the Fund for a pooled contribution rate to be certified by the Fund Actuary (e.g. Multi-Academy Trusts with a number of constituent academies in the Fund).

Policy Documents: - The FSS also includes a number of other Fund policies that you should be aware of, including the following:

- The assumptions proposed for the 2022 actuarial valuation and the derivation of contribution plans.
- The approach taken when new employers join the Fund.
- The approach adopted when the last active member leaves an employer or the contract ends (e.g. the termination of the employer and the requirement for upfront payment of the debt, or alternatively the implementation of payment plans in certain circumstances at the Fund's discretion).
- The treatment of academies and Multi-Academy Trusts.
- How the Fund may monitor the covenant of employers.
- A glossary of terms in the FSS to help you understand the technical and regulatory terms that must be included in the document.

Layout - we have worked on streamlining the content of the FSS as part of the 2022 valuation and therefore the format of the document has changed considerably and we hope this will help to make the document more user friendly for you.

Section 2 - Your employer preliminary results

Please find attached an individual employer results schedule produced by the Actuary that sets out the preliminary results of the 2022 actuarial valuation for your organisation. This has been completed using the parameters set down in the FSS as described above. The schedule includes a notes section at the end that provides some additional background information. **For this valuation, we have also provided a separate explanatory note / FAQ document that should be read in conjunction with the results schedule and sets out the key parameters on which the figures have been based**

The contributions to emerge from the valuation will be certified by the Actuary for the period 1 April 2023 to 31 March 2026 and will be subject to review as part of the 2025 actuarial valuation, with revised contributions coming into effect from 1 April 2026.

Note that these results should still be viewed as preliminary given the FSS consultation is ongoing. Any changes to the figures in the attached schedule

will be communicated to you (and the reasons for the change) should they arise.

Section 3 - Some key areas where we would like feedback on:

As mentioned above, we will require comments from you on the FSS and the valuation outcomes by **24 February 2023**. Some of the key areas where we'd like feedback on would be as follows:

1. Comments in relation to the affordability of contributions and in particular whether there is any particular year over 2023/2026 which will be more challenging. This will help us form a view on any further flexibility required.
2. The schedule sets out the minimum contributions required. If the minimum contributions result in a reduction in total contributions over 2023/26 (e.g. if the "Total 2023/26 Projected Contributions" on page 3 has fallen from the 2019 plan), do you need to take the full reduction now or could you pay more (e.g. could you pay higher deficit contributions or take a smaller surplus offset back each year or do you wish for the additional liability reserve to be incorporated into your balance sheet)?

The material financial and economic risks we are all currently facing could result in contribution pressures emerging at future valuations. Retaining all or more assets in the Fund will aid the sustainability of your future contributions at the next valuation and beyond, so is a key consideration for employers also.

Alternatively, you can request an explicit liability reserve is incorporated into your valuation results (and subsequent contribution outcomes) given the current economic uncertainty (thus reducing the likelihood of contribution increases in the future).

3. Whether there are any other significant post-valuation date events (e.g. major profile changes that the Fund) that the Actuary should be aware of when setting the final contributions for your employer.

As mentioned above, the results and contribution outcomes provided with this letter should be viewed as preliminary at this stage given that the consultation on the FSS is not yet completed. We will notify you in due course should any changes emerge.

If you wish to discuss any aspects of the proposed strategy or your individual employer results feel free to contact me using the details below. If you wish to have an individual meeting/call with the Fund Actuary then please let us know in order that this can be arranged if necessary.

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**On behalf of London Borough of Bromley, as administering authority of the
London Borough of Bromley Pension Fund**

January 2023

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

Document is Restricted

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