

**DRAFT**

**LONDON  
BOROUGH OF  
BROMLEY  
PENSION FUND**

**ANNUAL  
REPORT 2009/10**

**DRAFT**

**LONDON BOROUGH OF BROMLEY PENSION FUND  
ANNUAL REPORT 2009/10  
INDEX**

<b>Contents</b>	<b>Page No</b>
Foreword	3
Management & Financial Performance Report	4 – 6
Investment Policy & Performance Report	7 – 10
Scheme Administration Report	11 – 12
Actuarial Report	13 – 17
Governance Policy and Compliance Statement	18 – 23
Fund Account and Net Assets Statement	24 – 33
Funding Strategy Statement	34 – 37
Statement of Investment Principles	38 – 45
Communications Policy Statement	46 – 47

## FOREWORD

This Annual Report has been produced to keep pensioners and other interested stakeholders informed about the administration and performance of the London Borough of Bromley Pension Fund, and to comply with regulation 34 of the Local Government Pension Scheme (Administration) Regulations SI2008 No 239.

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

The London Borough of Bromley is a designated administering authority and is responsible for the administration of the scheme for its employees (and certain admitted bodies), excluding teachers who have their own specific scheme. The Council discharges this responsibility through the Investment Sub-Committee (re-named the Pension Investment Sub-Committee from May 2010) consisting of seven councillors appointed by the Council and one staff representative. The Investment Sub-Committee is primarily responsible for Fund investment and monitoring matters and reports to the General Purposes and Licensing Committee, which has overall responsibility for the administration of the scheme.

The Investment Sub-Committee has delegated the management of the Fund's active investments to professional investment managers, whose activities are specified in detailed investment management agreements and monitored quarterly. The Fund's managers are regulated by the Financial Services Authority (FSA). The Fund's investment managers are set individual performance targets marked against relevant market benchmarks.

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

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

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

# LONDON BOROUGH OF BROMLEY PENSION FUND

## MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

### **The Scheme**

The Bromley Pension Fund is part of the national Local Government Pension Scheme (LGPS), which is a statutory final salary scheme set up to provide pensions and retirement benefits for most local government employees including non-teaching staff in schools and for the employees of certain other bodies. It does not provide for teachers, who have a separate national scheme. Councillors are also eligible to join the scheme at the discretion of individual councils, although councillors' pensions are based on career average Members' allowances (in Bromley the Council has decided that all councillors under 70 can elect to join).

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

### **Scheme management and advisers**

Any decisions on discretionary matters, most of which are prescribed by the regulations, are either taken by officers under delegated authority (generally by the Director of Resources) or referred to General Purposes and Licensing Committee. The Investment Sub-Committee oversees the investment of the fund, together with a general responsibility to monitor the fund's financial position. The Governance Policy Statement (pages 18 - 19) sets out the responsibilities of the various parties involved in managing the fund. Meetings are held quarterly and the Sub-Committee's membership as at 31<sup>st</sup> March 2010 comprised:

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

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

#### ***Actuary and scheme advisor***

Barnett Waddingham LLP, 163 West George St, Glasgow, G2 2JJ

#### ***Auditors***

PricewaterhouseCoopers LLP, 80 Strand, London, WC2R 0AF

#### ***Investment managers***

Baillie Gifford & Co, Calton Square, 1 Greenside Row, Edinburgh, EH1 3AN

Fidelity Investment Management Ltd, Beechgate, Millfield Lane, Lower Kingswood,  
Surrey, KT20 6RP

#### ***Legal adviser***

Director of Legal & Democratic Services, Civic Centre, Stockwell Close, BR1 3UH

**Administrator of scheme benefits**

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

**Custodians of scheme assets**

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

**Banker**

HSBC plc, 60 Queen Victoria Street, London, EC4N 4TR

**Secretary to the trustees**

Director of Legal & Democratic Services, LB Bromley

**AVC providers**

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

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

**Performance monitoring**

WM Company, Deutsche Bank House, 525 Ferry Road, Edinburgh, EH5 2AW

**Council officers** – Paul Dale, Director of Resources

Mark Gibson, Assistant Director of Resources

Martin Reeves, Group Accountant (Technical)

**Risk Management**

There are many factors that could have an adverse impact on achievement of the funding strategy and target funding levels. These can be categorised as administrative, management and investment risks. Some of the key potential risks are listed in a section of the Funding Strategy Statement (pages 34 - 37), together with comments on their materiality, on the procedures for monitoring them and on measures available to mitigate them. The risks listed there have been categorised in four main areas, i.e. financial, demographic, regulatory and governance risks.

**Financial Performance**

The Council prepares accounts as at 31<sup>st</sup> March each year, which comply with the recommendations of the CIPFA Code of Practice and the provisions of Chapter 2, Recommended Accounting Practice, of the Pensions SORP (Statement of Recommended Practice) 2007. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2007 for the purpose of providing pension benefits for its employees. In addition to the provision of retirement pensions, the benefits include lump sum retirement grants and widows' pensions.

Day-to-day income and expenditure into and out of the Pension Fund are recorded in the Pension Fund Revenue Account, which showed an overall surplus of £9.4m in 2009/10, compared to the budgeted surplus of £11.5m. The Fund's investment assets appear in the Council's Annual Statement of Accounts and the total value of the fund's net assets increased in 2009/10 from £299.2m as at 1<sup>st</sup> April 2009 to £447.8m as at 31<sup>st</sup> March 2010, primarily due to the recovery of the financial markets during 2009/10 following significant losses in the previous year. The Pension Fund Accounts and Net Assets Statement, together with supporting notes, are attached (pages 24 - 33).

**Management Performance**

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

Liberata's commitment to Scheme members is:

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

- Respond to e-mails and written enquiries within 10 working days of receipt  
*810 pieces of correspondence responded to in the last year, of which 99.51% were within the performance standard*
- Process each stage of a transfer of pension rights (to or from the Scheme) within 10 days of receiving the required information  
*95.03% of 161 transfer-in quotations and 96.08% of transfer-out quotations issued within the performance standard*
- Process retirement grants (lump sums) within 10 working days of retirement, provided that Liberata have all the necessary information  
*97.29% of 258 retirement grants paid within the performance standard*
- Issue a benefit statement annually to all active and deferred members  
*Statements issued to all active members in October and deferred members in August*
- Advise pensioners in April of the annual increase to their local government pension  
*Pensions increase letters issued to all pensioners in March*

### **Scheme membership**

Fund membership as at 31<sup>st</sup> March:

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

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

## **INVESTMENT POLICY AND PERFORMANCE REPORT**

### **Investment Principles**

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

### **Investment Managers**

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

The investment managers have to operate within the investment powers set out in the regulations and in accordance with their benchmarks. These determine the broad allocation of investments over different asset classes and the extent to which they can diverge from that allocation. Details are included in the fund's Statement of Investment Principles (pages 38 - 45). Fidelity and Baillie Gifford operate balanced portfolios with benchmarks based on a broad 80:20 ratio of equities to bonds. These benchmarks were agreed by the Investment Sub-Committee in 2006. Between 2006 and 2008, CAAM managed £40m of the fund's assets on a target return basis, using two proprietary funds with a wide variety of asset classes and derivatives, but the agreement was terminated because of poor performance in May 2008. The Sub-Committee is responsible for determining and reviewing the asset allocation strategy of the fund. The asset allocation agreed in 2006 followed a comprehensive review of the fund's strategy.

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

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

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

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

## Review of Investment Performance

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

### Performance data for 2009/10

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

In 2009/10, the Bromley Fund as a whole returned 48.7% compared to the benchmark return of 41.0%. With regard to the local authority universe, Bromley's Fund achieved an overall ranking of 2% (the lowest rank being 100%). This comprised rankings of 1% in the March quarter, 3% in the December quarter, 1% in the September quarter and 11% in the June quarter. This means that Bromley's Fund was the second best in 2009/10 of all local authorities included in the local authority universe, which is an exceptionally good result. For comparison, the rankings in recent years were 33% in 2008/09, 5% in 2007/08, 100% in 2006/07 (equal worst in the whole local authority universe), 5% in 2005/06, 75% in 2004/05, 52% in 2003/04, 43% in 2002/03 and 12% in 2001/02.

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

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

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

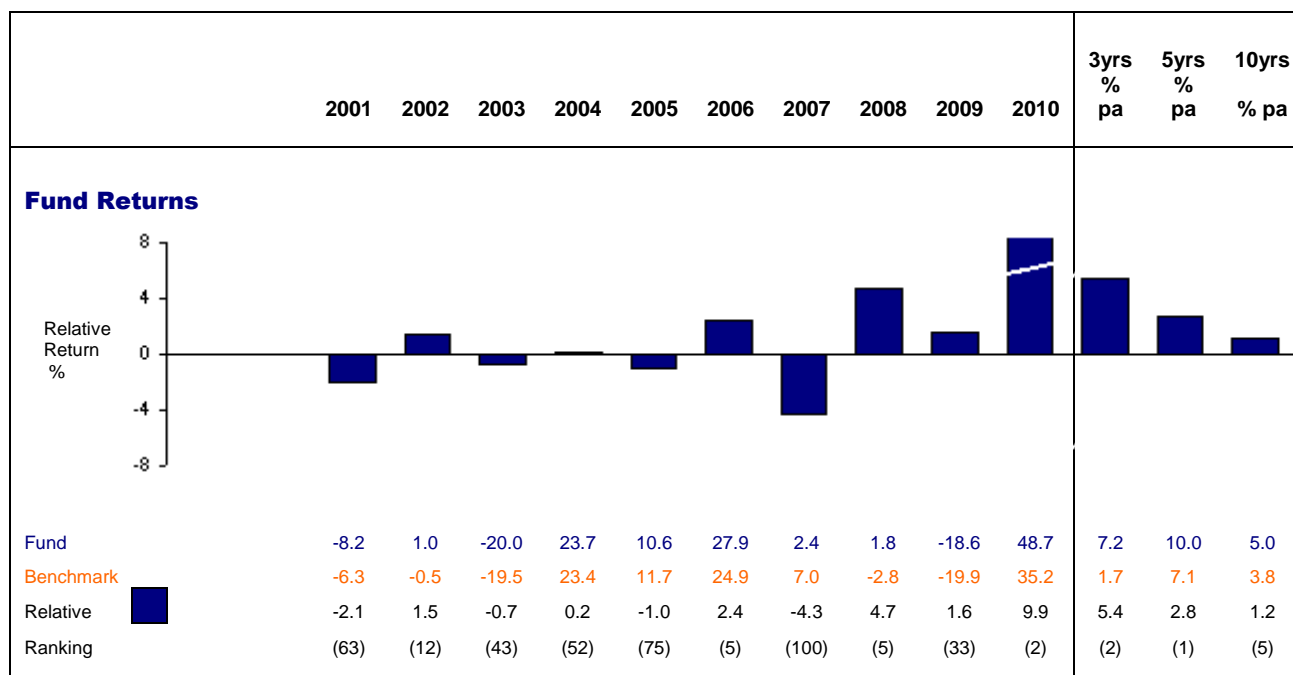
The first three-year period after the fund was restructured in April 2006 was completed on 31<sup>st</sup> March 2009 and Fidelity's annualised return of -4.1% was 2.1% above benchmark (i.e.



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

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

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

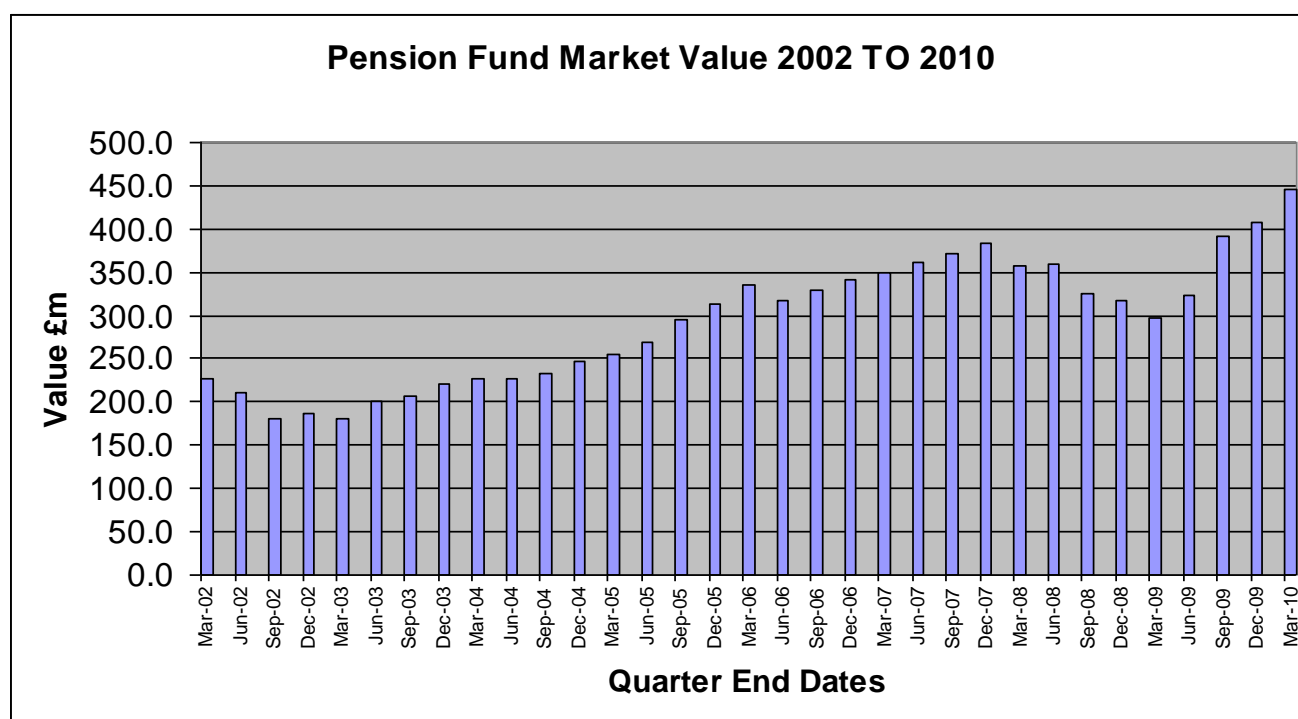


An analysis of the total market value of assets held by the Fund managers is shown in the following table, starting from its previous peak position in December 1999.

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

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

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



### Custodial arrangements

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

## **SCHEME ADMINISTRATION REPORT**

### **Pension Fund Governance Policy and Compliance Statement**

In accordance with regulation 73A of the Local Government Pension Scheme Regulations 1997, the Council has produced a Pension Fund Governance Policy Statement. This is attached at pages 18 - 19. In June 2007, the regulations were amended to require administering authorities to report the extent of compliance against a set of best practice principles published by the government. This Governance Compliance Statement was reported to the General Purposes and Licensing Committee in July 2008 and is attached at pages 20 - 23.

### **Scheme Administration**

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

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

### **Liberata UK Ltd**

As administrators of the Bromley scheme, Liberata aim to provide Members with good quality service and to communicate effectively. They undertake the administration of the LGPS Regulations and associated legislation for in excess of 13,000 scheme members, including LB Bromley staff, non-teaching staff employed by LB Bromley, Broomleigh Housing Association, Bromley MyTime, Beckenham MIND, the Council's 3 colleges (Bromley, Orpington and Ravensbourne) and elected Members of the Council.

Administrator functions include:

- Provision of retirement benefits, life cover and dependants' benefits for current and former staff and their dependants.
- Maintenance of member pension records via interface from the Council payroll.
- Implementation of changes in the regulations affecting benefit (or potential benefit) entitlements and keeping scheme members informed of their options.
- Provision of illustrations for transfer of members' previous pension benefits into the scheme and, where appropriate, affecting the transfer.
- Provision, on request, of illustrations of the benefits of paying additional contributions.
- Provision of details of preserved entitlements for early leavers and transfers out and payment as necessary.
- Provision of forecasts of redundancy and early retirement benefits and payment as necessary.
- Calculation and recovery of employer costs associated with capital impact on pension fund of early payment of benefits – including one-off payments.
- Operation of special provisions of the scheme relating to elected Members who have opted to join the scheme.
- Provision of data to the Council's actuary for the annual FRS17 exercise and for triennial full valuations of the fund.
- Submission of statutory returns to government bodies as required.
- Maintenance of AXISE Pensions IT system with updated versions and revisions to tables as advised by the actuary or the Government's Actuary Department.
- Advice and assistance on pension issues where members' employment is being transferred to a contractor under TUPE. Arranging terms for admission agreements to the scheme for new employers.

Key activity in 2009/10 included:

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

### Enquiries and Complaints

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

### Contacts for further information

<b>Liberata UK Ltd,</b> PO Box 1598, Croydon, Surrey, CR0 0ZW	Tel: 020 8666 9919 E-mail: <a href="mailto:pensions@bromley.gov.uk">pensions@bromley.gov.uk</a> Website: <a href="http://www.liberata.com">www.liberata.com</a>
<b>London Borough of Bromley,</b> Resources Directorate, Civic Centre, Stockwell Close, Bromley, Kent, BR1 3UH	Tel: 020 8464 3333 Website: <a href="http://www.bromley.gov.uk">www.bromley.gov.uk</a>

<b>Pension Tracing Service</b> (for ex-members no longer in touch with former employers) The Pension Service, Tyneview Park, Whitley Road, Newcastle upon Tyne, NE98 1BA	Tel: 0845 600 2537
---	--------------------

<b>The Pensions Advisory Service</b> (if problems can not be resolved with pension schemes) 11 Belgrave Road, London, SW1V 1RB	Tel: 0845 601 2923 Website: <a href="http://www.pensionadvisoryservice.org.uk">www.pensionadvisoryservice.org.uk</a>
---	---

<b>Pensions Ombudsman</b> Tel: 020 7834 9144	Website: <a href="http://www.pensions-ombudsman.org.uk">www.pensions-ombudsman.org.uk</a>
---	---

### Self-Service Pensions

Members of the Pension Fund can access their own pension records online, through the AXISe Internet Member Self Service (AIMSS). This service allows Members to view their own records and carry out their own pension benefits calculations, including deferred benefits, pension predictions, lump sum commutation options and redundancy estimates. Forms can also be downloaded in order to update Members Expression of Wish records. Details of how to use AIMSS are available on the Council’s Intranet or from the Liberata e-mail address [pensions@bromley.gov.uk](mailto:pensions@bromley.gov.uk).

## ACTUARIAL REPORT

The regulations require an actuarial valuation of the fund's assets and liabilities every three years and the Investment Sub-Committee is responsible for considering the actuary's report. In the report on the most recent valuation as at 31 March 2007, Bromley's actuary, a partner of Barnett Waddingham LLP, determined the level of employers' contributions for the three years 2008/09 to 2010/11. Employers' contributions have to provide both for the ongoing cost of pensions in respect of employees' future service and for the eventual elimination of the shortfall in respect of past service.

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

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

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

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

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

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

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

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

The fund income from employer's contributions by the Council has increased steadily in recent years, principally because there has been a funding shortfall in the Bromley fund since the early nineties. Since then there has been a programme of annual increases in employer's contributions with a view to eliminating the shortfall over an extended period. For a variety of reasons, however, the shortfall has persisted and in common with all defined benefit schemes, both public and private, there has been a sharp deterioration since the turn of the century as the result of adverse market conditions and improved longevity. The fund's strategy is to achieve a funding level of 100% by 2019 and the next full valuation (as at 31<sup>st</sup> March 2010) will be carried out during 2010/11.

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

**LONDON BOROUGH OF BROMLEY PENSION FUND  
ACTUARIAL VALUATION 31 MARCH 2007 – SUMMARY FUNDING STATEMENT**

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

**Section 6. Valuation Results**

**6.1 Past Service Position**

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

<b>Past Service Funding Position</b>	<b>£000</b>	<b>£000</b>
<b>Asset Value</b>		354,526
<b>Past Service Liabilities</b>		
Active Members	177,014	
Deferred Pensioners	70,792	
Pensioners	<u>188,847</u>	
<b>Value of Scheme Liabilities</b>		436,653
<b>Surplus (+) / Deficit (-)</b>		<u><b>-82,127</b></u>
<b>Funding Level</b>		<b>81.2%</b>
<b>Contribution Rates</b>		<b>% of payroll</b>
Future Service Total		21.1%
Less: average employee contribution rate		-6.5%
Employer Contribution (normal)		14.6%
Deficit Contribution (12 years)		9.7%
<b>Total Employer Contribution Rate</b>		<b>24.3%</b>
Employer Contribution (% of employee contributions)		370%

**LONDON BOROUGH OF BROMLEY PENSION FUND  
ACTUARIAL VALUATION 31 MARCH 2007 – RATES AND ADJUSTMENTS  
CERTIFICATE**

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

**Appendix F – Rates and Adjustments Certificate**

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

Dear Sirs

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

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

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

Yours faithfully

Graeme D Muir  
Fellow of the Faculty of Actuaries



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

### Statement to the Rates and Adjustments Certificate

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

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

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

### Notes

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

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

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

Barnett Waddingham LLP

## **LONDON BOROUGH OF BROMLEY PENSION FUND GOVERNANCE POLICY STATEMENT**

1. This statement has been published in accordance with regulation 31 of the administration regulations.
2. It has been published after consultation with the other employers in the fund, namely Bromley College, Orpington College, Ravensbourne College, Broomleigh Housing Association, Bromley Mytime and Beckenham Mind. The council also consulted its employees through their departmental representatives and trade unions.
3. Before publishing the statement, the Council took into account guidance issued by the CIPFA Pensions Panel under the title "Local Government Pension Scheme: Pension Fund Decision Making – Guidance Notes (2006)".
4. Under Schedule 1, paragraph H1 of The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (SI 2000 No. 2853), functions relating to local government pensions are not to be the responsibility of an authority's Executive.
5. The Council has made the following arrangements for delegation of its functions relating to pensions:
  - (a) Overall responsibility for administration of the local government pension scheme has been delegated to the General Purposes and Licensing Committee.
  - (b) Responsibility for the following functions has been delegated to the Investment Sub-Committee, which is a sub-committee of the General Purposes and Licensing Committee:
    - (i) Monitoring the financial position of the pension fund, including consideration of the triennial actuarial valuations.
    - (ii) Investment of the pension fund, including the appointment of investment managers.
    - (iii) Management of the Council's additional voluntary contributions (AVC) scheme.
  - (c) Responsibility for day-to-day administration has been delegated to the Director of Resources. He has issued operational guidelines for internal use by staff, including staff employed by Liberata Pensions, for reference in determining the day-to-day issues that have been delegated to him.
6. The General Purposes and Licensing Committee normally meets seven times per year. Its membership comprises 15 elected councillors, with its political make-up determined according to proportionality rules.
7. The Investment Sub-Committee normally meets four times per year about four weeks after the end of each quarter. Its primary function is to review the investment performance of the fund's external investment managers. Its membership comprises seven elected councillors, with its political make-up determined in accordance with proportionality rules, and one non-voting representative of the council's employees.

8. Neither the General Purposes and Licensing Committee nor the Investment Sub-Committee includes any representatives of the other fund employers. The Council does not believe that it would be practicable for these employers to be represented on either committee, as this would result in an inappropriate balance of committee membership given that over 90% of the fund's members are the financial responsibility of the Council. There is a non-voting representative of the Council's employees on the Investment Sub-Committee.

## GOVERNANCE COMPLIANCE STATEMENT

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

### Principle A – Structure

a)	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Fully Compliant
b)	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Partly compliant
c)	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Not applicable
d)	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Not applicable

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

Neither the General Purposes and Licensing Committee nor the Investment Sub-Committee includes any representatives of the other fund employers. The Council does not believe that it would be practicable for these employers to be represented on either committee, as this would result in an inappropriate balance of committee membership given that over 90% of the fund's members are the financial responsibility of the Council. This matter will be kept under review. There is a non-voting representative of the Council's employees on the Investment Sub-Committee.

### Principle B – Representation

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

	committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	
--	---	--

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

Please use this space if you wish to add anything to explain or expand on the ratings given above :-  
The employee representative that currently is a member of Investment Sub Committee receives all non-exempt papers and can attend the Committee other than for exempt matters. Equal access is given to training and also has a full opportunity to contribute to the decision making process but without voting rights.

**Principle C – Selection and role of lay members**

a)	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	Fully compliant
----	--	-----------------

**Principle D – Voting**

a)	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Fully compliant
----	--	-----------------

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

**Principle E – Training, Facility time, Expenses**

a)	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Fully compliant
b)	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Fully compliant

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

The policy is to ensure that there is regular and comprehensive access to training.

**Principle F – Meetings (frequency/quorum)**

a)	That an administering authority’s main committee or committees meet at least quarterly.	Fully compliant
b)	That an administering authority’s secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Not applicable
c)	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	Partly compliant

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

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

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

The General Purposes and Licensing Committee meets 6 times per year plus any special meetings.  
The Investment Sub Committee meets four times per annum plus any special meetings.

**Principle G – Access**

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

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

Equal access is given.

## Principle H – Scope

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

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

Wider scheme issues are also part of the Council's governance arrangements.

## Principle I – Publicity

a)	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Fully compliant
----	--	-----------------

## **FUND ACCOUNT AND NET ASSETS STATEMENT**

Regulation 34(1)(f) requires an administering authority to prepare a pension fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practice. These statements must be included in this annual report and must be drawn up in accordance with the Code of Practice on Local Authority Accounting issued by CIPFA and with the guidelines set out in the Statement of Recommended Practice (SORP): "Financial Reports of Pension Schemes".

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

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



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

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

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

### **Respective responsibilities of the Chief Finance Officer and auditor**

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

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

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

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

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

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

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

### **Basis of audit opinion**

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

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

**Opinion**

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

PricewaterhouseCoopers LLP  
80 Strand  
London  
NW3 2AT

## STATEMENT OF RESPONSIBILITIES

### *The Authority's Responsibilities*

The Authority is required:

- \* to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Resources;
- \* to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- \* to approve the Statement of Accounts.

### *The Director of Resources' Responsibilities*

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

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

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

The Director of Resources has also:

- \* kept proper accounting records which were up to date;
- \* taken reasonable steps for the prevention and detection of fraud and other irregularities.

### *Director of Resources*

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

Paul Dale  
Director of Resources



## PENSION FUND

### Notes to the Accounts

#### 1 General

These accounts comply with the recommendations of the CIPFA Code of Practice and have been prepared in accordance with the provisions of Chapter 2, Recommended Accounting Practice, of the Pensions SORP 2008/09. The Council's Pension Fund is a defined benefit Fund operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2008/09 for the purpose of providing pension benefits for its employees. In addition to the provision of retirement pensions, the benefits include lump sum retirement grants and widows' pensions. A Statement of Investment Principles was approved by the Investment Sub-Committee on 12th May 2009 and is published on the Council's website.

#### 2 Employer and Employee Contributions

##### (a) Contributions - general

Members contribute between 5.5% and 7.5% of pensionable salary. Some members have also made voluntary contributions to secure additional benefits. The employer pays the balance required to fund the benefits and to meet fund administration costs. Normal contributions, both from members and employers, are accounted for on an accruals basis in the payroll period to which they relate.

Employers' augmentation contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, when they are received. The totals of employer and employee contributions in 2008/09 and 2009/10 are shown in the following table:

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

##### (b) Additional Voluntary Contributions (AVCs)

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

## 2 Employer and Employee Contributions (cont)

### (c) Non- London Borough of Bromley contributors

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

#### Scheduled Bodies - Foundation Schools

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

#### Scheduled Bodies - Other

Bromley College  
Orpington College  
Ravensbourne College

#### Admitted Bodies

Beckenham and District Mind  
Bromley Mytime  
Broomleigh Housing Association

## 3 Benefits

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

## 4 Administrative Expenses

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

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

## 5 Returns on Investments

### (a) Investment income

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

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

**5 Returns on Investments (cont)****(b) Investment management fees**

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

**(c) Investments**

All investments are managed by external fund managers. Equities traded through the Stock Exchange Electronic Trading Service are valued at bid price at the close of business on 31st March. Other quoted investments and pooled investment vehicles are also valued at the closing bid price.

The change in bid price value of investments during the year comprises all increases and decreases in the value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles, which are accumulation funds, changes in value also includes income, net of withholding tax, which is re-invested in the Fund.

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

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

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

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

Baillie Gifford - none

Fidelity - Institutional UK Aggregate Bond Fund (value £37,645,558 - 8.44%)

- Institutional Europe Fund (value £25,341,584 - 5.68%)

- Institutional Exempt America Fund (value £24,234,408 - 5.43%)

- Institutional Global Focus Fund (value £25,367,711 - 5.68%)

**6 Current Assets and Current Liabilities**

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

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

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

**7 Value Added Tax**

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

**8 Membership as at 31 March**

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

**9 The Actuarial Position of the Fund**

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

The economic assumptions employed in the 2007 valuation are shown on the following page.

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

**10 Monitoring of Fund Liabilities**

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



**PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP**

	<b>Final Outturn 2008/09 £'000's</b>	<b>Estimate 2009/10 £'000's</b>	<b>Final Outturn 2009/10 £'000's</b>
<b>INCOME</b>			
Employee Contributions	5,850	6,300	6,153
Employer Contributions	21,045	22,300	23,028
Transfer Values Receivable	3,174	3,000	4,457
Investment Income	7,232	8,000	7,141
Total Income	<u>37,301</u>	<u>39,600</u>	<u>40,779</u>
<b>EXPENDITURE</b>			
Pensions	16,848	17,500	18,350
Lump Sums	4,798	5,500	5,858
Transfer Values Paid	1,473	3,000	4,223
Administration	2,266	2,000	2,948
Refund of Contributions	11	100	12
Total Expenditure	<u>25,396</u>	<u>28,100</u>	<u>31,391</u>
Surplus/Deficit (-)	<u>11,905</u>	<u>11,500</u>	<u>9,388</u>
<b>MEMBERSHIP</b>			
	<b>31/03/2009</b>		<b>31/03/2010</b>
Employees	5,179		5,360
Pensioners	4,270		4,413
Deferred Pensioners	3,415		3,607
	<u>12,864</u>		<u>13,380</u>

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

# **LONDON BOROUGH OF BROMLEY PENSION FUND FUNDING STRATEGY STATEMENT**

## **INTRODUCTION**

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

## **PURPOSE OF THE STATEMENT IN POLICY TERMS**

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

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

## **AIMS AND PURPOSE OF THE PENSION FUND**

The aims of the fund are:

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

The purpose of the fund is:

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

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

## **RESPONSIBILITIES OF THE KEY PARTIES**

The administering authority should:

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

The individual employers should

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

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

The fund actuary should:

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

### **SOLVENCY ISSUES AND TARGET FUNDING LEVELS**

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

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

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

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

### **LINKS TO INVESTMENT POLICY IN STATEMENT OF INVESTMENT PRINCIPLES**

In the 2007 Actuarial review, the actuary assumed future investment returns of 7.6% for equities, 4.7% for gilts and 5.4% for corporate bonds, giving an assumed combined return of 6.9% based on the broad 75:25 equity / bond ratio in the fund's asset mix at the valuation date. His assumed rate of liability growth was 6.9%, in line with those assumptions. He determined the fund employers' contributions by reference to this assumed rate of liability growth, to the target funding levels in the table above, and to the other financial and

economic assumptions set out in the Valuation Report. The Council has agreed fund-specific benchmarks for its two balanced investment managers with an 80:20 equity / bond ratio, which is a slightly higher equity ratio than the actuary assumed in the 2007 review, and with targets to exceed the benchmark by between 1% and 1.9% per annum. Overall, therefore, the fund's investment objectives are consistent with exceeding the actuary's assumptions by between 1% and 1.9% per annum, which, if they are achieved, would secure a 100% funding level in advance of 2019.

## **IDENTIFICATION OF KEY RISKS AND COUNTER-MEASURES**

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

### **Key Areas of Risk**

### **Comments on materiality, monitoring and counter-measures**

#### **Financial**

Investment markets fail to perform in line with expectations	)	If actual investment returns are 1% less than assumed discount rate (6.9%) over the three years to next valuation, the funding level will be about 3% lower than planned. Further analysis in the valuation report.
Market yields move at variance with assumptions	)	
Investment managers fail to achieve their targets over the longer term	)	Investment returns to be monitored quarterly
Asset reallocations in volatile markets may lock in past losses	)	
Pay and price inflation significantly more or less than expected	)	On past experience, this is not a material risk in the short term

#### **Demographic**

Longevity horizon continues to expand		Monitor at triennial reviews Support government proposals for increased employee contributions and a normal retirement age of 65
Deterioration in pattern of early retirements		Quarterly review of retirement levels Non-ill-health retirements paid for up front by Council over three years Bromley Mytime required under their admission agreement to pay for non-ill-health retirements in full up front Other employers required under statutory powers to pay for non-ill-health retirements in full up front Ill-health retirements monitored against allowance in basic contribution rates and actuary to determine revised rates if deemed appropriate Support government proposals to tighten up criteria for early retirement

## **Regulatory**

Changes to regulations

Implications of the new regulations have been factored in by the actuary. Uncertainties remain, however, on items such as cost sharing.

Potential new entrants to scheme, e.g. part-time employees

Assessment of impact of successful part-time claimants in hand

No other significant issues likely as a result of new Council entrants

Changes to national pension requirements and/or Inland Revenue rules

Monitor and assess as they arise

Respond to consultation where appropriate

## **Governance**

Administering authority unaware of structural changes in an employer's membership, e.g. large fall in employee members, large number of retirements

Encourage other employers to keep Council informed of changes

Bromley Mytime employer's contribution rate to be reviewed annually towards end of contract

Broomleigh membership levels to be reviewed annually as it is closed to new members

Beckenham & District Mind has only one fund member

Administering authority not advised of an employer closing fund to new members

All other employers apart from the three referred to above are scheduled bodies, for whom this is not an option

An employer ceasing to exist with insufficient funding

Admission Agreement with Bromley Mytime includes measures intended to maintain funding close to 100%, e.g. payment for early retirement up front, annual reviews of contribution rate towards end of contract

Beckenham & District Mind funding level to be maintained at 100%

Change in status of employing body affecting its right to fund membership

Admitted bodies required under their admission agreement not to do anything to prejudice their status

Relocation of scheduled body outside the borough

Implications of planned transfer of Ravensbourne College to Greenwich to be kept under review

# LONDON BOROUGH OF BROMLEY PENSION FUND

## STATEMENT OF INVESTMENT PRINCIPLES

### Introduction

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

#### **(a) The types of investment to be held**

The fund’s investment managers are authorised to invest in all assets permitted under the Regulations, subject to the provisions of their benchmarks and certain minor restrictions. Details of the Investment Guidelines and Restrictions are attached on page 40.

#### **(b) The balance between different types of investments**

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

#### **(c) Risk**

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

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

#### **(d) The expected return on investments**

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

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

#### **(e) The realisation of investments**

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

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

The authority has been advised that its primary responsibility is to secure the best returns for the fund in the interests of its council taxpayers. Having also considered the difficulties involved in identifying companies meeting any ethical investment criteria; the possibility of judicial review in the case of any company included in error; the difficulty and cost of monitoring any policy; the unpredictable impact on investment performance; the complications that would arise in relation to performance measurement; and the lack of support for such a policy from other employers in the fund, the authority has decided to take no action at this time in developing an ethical investment policy.

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

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

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

With regard to other rights such as the taking up of rights issues, this is left for the investment managers to decide in the light of their assessment of market conditions at the time.

**Compliance with CIPFA Pensions Panel Principles**

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

- (a) state the extent to which the administering authority comply with the ten principles of investment practice set out in the document published in April 2002 by the Chartered Institute of Public Finance and Accountancy, and called "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom (Guidance note issue No. 5); and
- (b) give the reasons for not complying where they do not do so.

These requirements are covered on pages 42 - 45.

## **INVESTMENT GUIDELINES AND RESTRICTIONS**

### **General**

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

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

### **Limits imposed by the Regulations**

- All contributions to any single partnership: 2%
- All contributions to partnerships: 5%
- All deposits with any local authority or precepting body which is an exempt person (within the meaning of the Financial Services and Markets Act 2000) in respect of accepting deposits as a result of an order made under section 38(1) of that Act, and all loans: 10%
- All deposits with any single bank, institution or person (other than the National Savings Bank): 10%
- All investments in unlisted securities of companies: 10%
- Any single holding in unlisted securities: 2% (limit imposed by the authority)
- Any other single holding, apart from investments in OEICs and unit trusts: 10% (there is no limit on investment in single OEICs or unit trusts apart from the total limit below)
- All investments in unit trusts and open-ended investment companies (OEICs) managed by any one body: 35% [N.B. In practice, because neither of the investment managers will use unit trusts or OEICs managed by the other, they may invest up to 70% or thereabouts of their own portfolios in their own unit trusts and OEICs]
- Any single insurance contract: 25%
- All securities transferred under stocklending arrangements: 25%

### **Other restrictions imposed by the authority**

- Cash held at custodian's bank is not to exceed £2,500,000, with any excess placed on the money market with the main clearing banks or placed in institutional cash funds approved by the authority
- No sub-underwriting
- Certain limits on use of futures and options are recorded in the relevant investment management agreements and fund prospectuses



## Benchmarks for the Balanced Managers

### (a) Baillie Gifford

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

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

### (b) Fidelity

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

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

## Compliance with Myners Principles

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

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

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

### **Principle 1. Effective decision-making**

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

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

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

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

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

### **Principle 2. Clear objectives**

Trustees should set out an overall investment objective for the fund that:

- Represents their best judgement of what is necessary to meet the fund’s liabilities given their understanding of the contributions likely to be received from employer(s) and employees; and
- takes account of their attitude to risk, specifically their willingness to accept underperformance due to market conditions.

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

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

### **Principle 3. Focus on asset allocation**

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

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

### **Principle 4. Expert advice**

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

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

### **Principle 5. Explicit mandates**

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

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

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

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

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

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

### **Principle 6. Activism**

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

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

### **Principle 7. Appropriate benchmarks**

Trustees should:

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

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

### **Principle 8. Performance measurement**

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

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

### **Principle 9. Transparency**

A strengthened Statement of Investment Principles should set out:

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

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

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

- the fund's investment objective

*This is set out in Annex C, Principle 2.*

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

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

- the mandates given to all advisers and managers

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

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

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

### **Principle 10. Regular reporting**

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

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

**LONDON BOROUGH OF BROMLEY PENSION FUND  
COMMUNICATIONS POLICY STATEMENT**

Regulation 67 of the administration regulations requires administering authorities to prepare, maintain and publish a Communications Policy Statement. This statement sets out the Council's policy concerning communications with members, members' representatives, prospective members and employing authorities.

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

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