

**Decision Maker:** Pensions Investment Sub-Committee

**Date:** 24<sup>th</sup> July 2019

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

**Title:** PENSION FUND DRAFT ANNUAL REPORT 2018/19

**Contact Officer:** Tracey Pearson, Chief Accountant  
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**Chief Officer:** Director of Finance

**Ward:** All

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**1. Reason for report**

- 1.1 This report introduces the draft annual report and accounts of the Bromley Pension Fund for the year ended 31<sup>st</sup> March 2019 which the Council is required to publish under the Local Government Pension Scheme Regulations 2013. In accordance with the regulations, the annual report includes a number of stand-alone documents that require the approval of the Sub-Committee (the Governance Policy Statement, the Funding Strategy Statement, the Investment Strategy Statement and the Communications Policy Statement). The draft annual report (attached at Appendix 1) is subject to audit by the Fund's external auditor, Ernst & Young LLP. In accordance with the regulations, the Council will publish the final Annual Report on its website by 1<sup>st</sup> December 2019.
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**2. RECOMMENDATIONS**

**2.1 The Sub-Committee is asked to:**

- (a) Note and approve the draft Pension Fund Annual Report 2018/19;
- (b) Approve the Governance Policy Statement, Funding Strategy Statement, Investment Strategy Statement and Communications Policy Statement as outlined in paragraph 3.2;
- (c) Note that the final Pension Fund Annual Report 2018/19 will be reported to this Committee on 27<sup>th</sup> August 2019 following conclusion of the audit;
- (d) Agree that arrangements be made to ensure publication by the statutory deadline of 1<sup>st</sup> December 2019.

## Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.
  2. BBB Priority: Excellent Council.
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## Financial

1. Cost of proposal: No cost
  2. Ongoing costs: Recurring cost. Pension Fund audit fee £21k in 2018/19. Total administration cost £4.9m (includes fund manager/actuary/adviser fees, Liberata charge and officer time)
  3. Budget head/performance centre: Pension Fund
  4. Total current budget for this head: £40.7m expenditure (pensions, lump sums, etc); £52.5m income (contributions, investment income, etc); £1,039m total fund market value at 31<sup>st</sup> March 2019)
  5. Source of funding: Contributions to Pension Fund
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## Staff

1. Number of staff (current and additional): 0.4 FTE
  2. If from existing staff resources, number of staff hours: c 14 hours per week
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## Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013 (as amended), LGPS (Management and Investment of Funds) Regulations 2016
  2. Call-in: Call-in is not applicable.
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## Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,319 current employees, 5,370 pensioners, 5,746 deferred pensioners as at 31<sup>st</sup> March 2019
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## Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.
2. Summary of Ward Councillors comments: N/A

### 3. COMMENTARY

3.1 The Pension Fund is required by the Local Government Pension Scheme Regulations 2013 to publish an Annual Report and Statement of Accounts. The Regulations set out what is to be included within the report and require the report to be published by 1<sup>st</sup> December. Furthermore, the Regulations require an administering authority to have regard to guidance given by the Secretary of State and the Fund has complied fully with the Regulations and guidance. The draft Annual Report for 2018/19 is attached at Appendix 1.

3.2 In accordance with the Regulations, the draft Annual Report includes four separate documents that require the approval of the Sub-Committee. These are:

- Governance Policy Statement (published in accordance with Regulation 55 of the Local Government Pension Scheme Regulations 2013). This can be found on pages 33 to 34 of the draft Annual Report;
- Funding Strategy Statement (prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013). This can be found on pages 58 to 68 of the draft Annual Report;
- Investment Strategy Statement (produced in accordance with Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016). This can be found on pages 69 to 73 of the draft Annual Report; and
- Communications Policy Statement (required by Regulation 61 of the Local Government Pension Scheme Regulations 2013). This can be found on pages 74 to 75 of the draft Annual Report.

These statements were approved on 24<sup>th</sup> July 2018 and are kept under review in accordance with the Regulations. No changes are currently being proposed and members are therefore requested to formally re-approve these statements.

3.3 The Bromley Pension Fund had total net assets of £1,039m as at 31<sup>st</sup> March 2019 (£967.0m as at 31<sup>st</sup> March 2018). The Fund Accounts and Net Assets Statement can be found on pages 39 to 57 of the draft Annual Report.

3.4 Fund performance was reported quarterly to the Sub-Committee during 2018/19 and the Fund return for the year, at 7.99%, was slightly below the benchmark of 8.27%. Performance compared to the 64 LGPS funds in the PIRC local authority universe (average return of 6.6%) was good, ranking in the 11th percentile for the year (1% being the best and 100% being the worst). Rankings over the medium and long term were excellent – 1<sup>st</sup> over 3 years, 2<sup>nd</sup> over 5 years and 1<sup>st</sup> over 10, 20 and 30 years to March 2019. Details of investment policy and performance are set out on pages 13 to 19 of the Annual Report.

3.5 Total membership of the fund increased from 16,920 as at 31<sup>st</sup> March 2018 to 17,435 as at 31<sup>st</sup> March 2019, when it comprised 6,319 employees, 5,370 pensioners and 5,746 deferred members. Payments into the Fund from contributions (employee and employer), transfers in and investment income totalled £54.9m in 2018/19 (£41.6m in 2017/18) and payments from the Fund for pensions, lump sums, transfers out and administration totalled £42.8m (£40.9m in 2017/18). Details of this can be found in the Pension Fund Revenue Account statement on page 57 of the draft Annual Report.

3.6 The draft Annual Report and Accounts have been prepared in accordance with officers' understanding of the requirements of both the LGPS Regulations and the Secretary of State's guidance. The accounts are subject to audit by the Council's external auditor, Ernst & Young LLP (EY), and were made available in draft form on the Council's website before the end of May 2019 in accordance with statutory requirements.

3.7 At the time of writing, EY have not yet concluded their audit of the 2018/19 accounts and conclusion of the audit will be delayed beyond the publication deadline of 31<sup>st</sup> July 2019. There are four key factors that have influenced this:

- (i) this is the first year that EY have been the Council's external auditor and 'familiarisation' has taken longer than expected;
- (ii) the interim audit, during which much of the 'familiarisation' work would be done, was originally scheduled for November 2018 but had to be deferred until February 2019 as a result of delays in ensuring EY's internal procedures were completed (primarily ensuring independence issues were addressed) meaning some of this work has had to be carried out during the year-end audit;
- (iii) the impact of the McCloud judgement – this relates to a legal case which ruled that transitional protection offered to older members of the Fire and Judiciary pension schemes when they were reformed were unlawful. This is expected to have an impact for other public sector pension schemes, including the LGPS. On 27<sup>th</sup> June 2019, the Supreme Court denied the Government's request to appeal the ruling. As a result, employers in the LGPS are being required to re-state their 2018/19 accounts to reflect the estimated impact on IAS19 and IAS26 calculations. The Fund's actuary has been requested to provide revised IAS19 and IAS26 reports and, once received, the accounts will be updated. This is not expected to have any impact on the pension fund accounts but will affect some of the supporting disclosure notes.
- (iv) EY's professional valuation team have identified a number of concerns about how the Council's property assets have been re-valued. They do not agree with the methodology used or the approach adopted by Cushman & Wakefield (C&W) and have been unable to obtain sufficient assurance in any of the asset classes. As a result, the valuations will have to be re-done. C & W have been in conversation with EY and have agreed that a sample selection (all properties with a value of over £1m plus a selection of those with a lower value to ensure all asset classes are covered) will be re-done. C & W estimate this will be completed by 19<sup>th</sup> July. EY will then need time to review what has been done and determine whether any further work is required. Once this work is completed, and the Council and EY are able to confirm we have a sufficient level of assurance, the accounts will need to be amended to reflect the updated values. It is difficult to estimate how long this will take as it will depend on the scale of the issues identified.

Further information is provided in a report to the General Purposes and Licensing Committee on 25<sup>th</sup> July 2019.

3.8 It is intended that the final, post-audited accounts will be reported to the General Purposes and Licensing Committee on 19<sup>th</sup> September 2019. The final Pension Fund Annual Report and Accounts will be reported to this Committee on 27<sup>th</sup> August 2019. The Annual Report, following conclusion of the audit, is required to be published by 1<sup>st</sup> December.

#### 4. POLICY IMPLICATIONS

- 4.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended), for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits. Under the 2013 Regulations, an Annual Report is required to be published by 1<sup>st</sup> December.

#### 5. FINANCIAL IMPLICATIONS

- 5.1 These are summarised in the body of the report and more details are provided in the relevant sections of the Annual Report. The fee for the separate audit of the Pension Fund Accounts and Annual Report was £21k in 2018/19, the same as in 2016/17 and 2017/18 (although a £3k refund from the PSAA in respect of the 2016/17 audit was received in 2017/18), and this was charged to the Pension Fund Revenue Account.

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| <b>Non-Applicable Sections:</b>                       | Personnel Implications, Impact on Vulnerable Adults and Children, Procurement Implications  |
| Background Documents:<br>(Access via Contact Officer) | LGPS Regulations 2013 (as amended);<br>LGPS (Management and Investment of Funds) Regulations 2016;<br>Pension Fund Performance Q4 2018/19 – Pensions Investment Sub-Committee, 15 <sup>th</sup> May 2019. |