

Decision Maker: Pensions Investment Sub-Committee

Date: 3rd December 2019

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

Title: PENSION FUND ANNUAL REPORT 2018/19

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Chief Officer: Director of Finance

Ward: All

1. Reason for report

1.1 This report introduces the annual report and accounts of the Bromley Pension Fund for the year ended 31st March 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 annual report (attached at Appendix 3) has been audited by the Fund's external auditor, Ernst & Young LLP, and their report is included on pages 42 to 44 of the Appendix. In accordance with the regulations, the Council published the annual report on its website before 1st December 2019.

2. RECOMMENDATIONS

2.1 The Sub-Committee is asked to:

- (a) Note and consider the Pension Fund Annual Report 2018/19;**
- (b) Note that no changes have been made to the Governance Policy Statement, Funding Strategy Statement, Investment Strategy Statement and Communications Policy Statement, as outlined in paragraph 3.10, approved by this Sub-Committee on 24th July 2019;**
- (c) Note that arrangements were made to ensure publication by the statutory deadline of 1st December 2019;**
- (d) Consider the external auditor's report on the Council's pension fund accounts (Appendix 1);**
- (e) Note the letter of representation for the 2018/19 pension fund audit (Appendix 2).**

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 31st 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): 6,316 current employees, 5,370 pensioners, 5,746 deferred pensioners as at 31st March 2019
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Ward Councillor Views

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

3. COMMENTARY

- 3.1 The Pension Fund is required by the Local Government Pension Scheme Regulations 2013 to publish an annual report and statement of accounts. The Regulations set out what is to be included within the report and require the report to be published by 1st December. 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 annual report for 2018/19 is attached at Appendix 3.
- 3.2 Ernst & Young LLP (EY) have not yet been able to conclude their audit of the Council's main accounts due to issues relating to asset valuations. In all other respects the audit is now substantially complete. Further details are provided in the Audit of Financial Statements 2018/19 report to General Purposes and Licensing Committee on 28th November 2019.
- 3.3 The audit of the Council's pension fund accounts is substantially complete and the pension fund statement of accounts is included on pages 40 to 58 of the annual report. At the time of writing, the auditors anticipate issuing an unqualified audit opinion on the pension fund financial statements. At its meeting on 28th November 2019 the General Purposes and Licensing Committee is requested to formally approve the pension fund accounts for 2018/19. The General Purposes and Licensing Committee is also requested to authorise the Chairman of that Committee to sign the letter of representation for the 2018/19 pension fund audit on behalf of the Council (Appendix 2).
- 3.4 The external auditors, EY, have issued their report on the pension fund accounts (Appendix 1). This report includes the findings from the interim and final audits and recommendations for improvement. In accordance with ISA260, the auditors are required to report all uncorrected audit differences, other than those that they believe are clearly trivial, to those charged with governance. They are also required to report any material misstatements which have been corrected and which they believe should be communicated to the Committee to assist in fulfilling governance responsibilities. A number of amendments have been made to the pension fund statements as a result of the audit work which the auditors do not consider to be sufficiently significant to bring to the Committee's attention. There are no non-trivial audit differences which remain uncorrected in the pension fund accounts.
- 3.5 As required by ISA 260 and other ISAs specifying communication requirements, the auditors are required to inform the Committee of any significant findings from the audit and other matters if they are significant to your oversight of the Fund's financial reporting process. There are no matters that the auditors wish to draw to the attention of the Committee other than those highlighted in the auditor's report.
- 3.6 The auditor's report also reviews accounting systems and systems of internal control as part of an assessment of the control environment. They are required report any significant deficiencies in internal control. They have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the financial statements. They have, however, identified three areas where internal control should be improved and these are included on pages 21 to 23 of Appendix 1.
- 3.7 The Local Government Pension Scheme Regulations 2013 require the pension fund annual report to be published on or before 1st December. The pension fund accounts form an integral part of the annual report and the external auditor's opinion on the pension fund statement of accounts must also be included.

- 3.8 Although not specifically required by legislation, the annual report should be formally reviewed by Pensions Investment Sub-Committee and authorised by the Chairman and the Director of Finance. This should not be confused with the separate process for the review and approval of the Council's accounts. As the audit had not yet concluded, a draft annual report was reported to this Committee on 24th July 2019. An update was provided to the Committee by the Director of Finance on 27th August 2019 and Members agreed to delegate authority for approving the final annual report to the Director of Finance in consultation with the Chairman and Vice-Chairman following conclusion of the audit. This was to enable the annual report to be published before the statutory deadline of 1st December. It was noted that the audited annual report would then be presented to this meeting for information.
- 3.9 Since the draft report to this Committee in July, the pension fund accounts and annual report have been amended to reflect the impact of the recent McCloud judgement, the legal ruling concerning transitional protection offered to older members of the Fire and Judiciary pension schemes when they were reformed which is expected to have an impact for other public sector pension schemes, including the LGPS. As a result of this ruling, employers in the LGPS were required to re-state their 2018/19 accounts to reflect the estimated impact on IAS19 and IAS26 calculations. The Government Actuary's Department (GAD) had estimated that the impact of the judgement for the LGPS as a whole could be to increase active member liabilities by 3.2% (around 1% of overall liabilities) based on a given set of actuarial assumptions. Based on the calculation carried out by Mercer, the Fund's actuary, the estimated impact on the pension fund accounts is to increase in the actuarial present value of promised retirement benefits from £1,201m to £1,213m (increase of £12m). This is reflected in notes 5 and 14 of the pension fund accounts. There have been some other minor presentational changes and the external auditor's report has been inserted on pages 42 to 44.
- 3.10 In accordance with the Regulations, the 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 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 60 to 70 of the 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 71 to 75 of the annual report; and
 - Communications Policy Statement (required by Regulation 61 of the Local Government Pension Scheme Regulations 2013). This can be found on pages 76 to 77 of the annual report.
- There have been no amendments to these statements since they were approved by this Committee on 24th July 2019.
- 3.11 The Bromley Pension Fund had total net assets of £1,039m as at 31st March 2019 (£967.0m as at 31st March 2018). The Fund Accounts and Net Assets Statement can be found on pages 39 to 59 of the annual report.

- 3.12 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 – 1st over 3 years, 2nd over 5 years and 1st 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.
- 3.13 Total membership of the fund increased from 16,920 as at 31st March 2018 to 17,432 as at 31st March 2019, when it comprised 6,316 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 59 of the annual report.
- 3.14 The 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 have been audited by the Council's external auditor, EY, and were made available in draft form on the Council's website before the end of May 2019 in accordance with statutory requirements. At the time of writing EY anticipate issuing an unqualified audit opinion on the financial statements of the pension fund and a statement to that effect can be found on pages 42 to 44 of the annual report. The annual report has also been audited and was published before 1st December in line with LGPS regulations.

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 1st 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 £16k in 2018/19 (£21k in 2017/18) and this was charged to the Pension Fund Revenue Account.

6. LEGAL IMPLICATIONS

- 6.1 Regulation 57 of the Local Government Pension Scheme Regulations 2013 require an administering authority to prepare a pension fund annual report which must be published on or before 1st December following the Scheme year end.

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