

# **LONDON BOROUGH OF BROMLEY PENSION FUND**

## **ANNUAL REPORT 2023/24**

**LONDON BOROUGH OF BROMLEY PENSION FUND  
ANNUAL REPORT 2023/24  
INDEX**

<b>Contents</b>	<b>Page No</b>
Foreword	3 – 4
Management & Financial Performance Report	5 – 13
Investment Policy & Performance Report	14 – 21
Fund Administration Report	22 – 25
Actuarial Report	26 – 34
Governance Policy and Compliance Statement	35 – 40
Fund Account and Net Assets Statement	41 – 70
Pension Fund Revenue Account and Membership	71
Funding Strategy Statement	72 – 83
Investment Strategy Statement	84 – 90
Communications Policy Statement	91 – 92
Appendices	93 – 128

## FOREWORD

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

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

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

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

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

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

Service pre 1 April 2008:

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

Service post 31 March 2008:

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

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

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

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

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

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

The Pensions Committee has delegated the management of the Fund's active investments to professional investment managers, whose activities are specified in detailed investment management agreements and whose performance is monitored quarterly. The investment managers of the Fund are appointed by the Committee and, as at 31<sup>st</sup> March 2024, comprise Baillie Gifford (London Collective Investment Vehicle), Fidelity and MFS International, Morgan Stanley and Schroders. They are regulated by the Financial Conduct Authority (FCA). The Fund's investment managers are set individual performance targets marked against relevant market benchmarks.

2023/24 saw variable returns across of the year, with returns above benchmark in the first quarter only and below benchmark in the second, third and final quarters. In terms of overall market returns, the total fund value increased from £1,296.4m as at 1<sup>st</sup> April 2023 to £1,443.0m at 31<sup>st</sup> March 2024. The Fund return for the year of 11.87% was below the benchmark of 13.37%. The Fund's medium and long-term returns have remained strong overall, with returns of -3.7% for 2022/23, 0.69% for 2021/22 and 34.7% for 2020/21 against the benchmarks of -2.6%, 8.69% and 23.59% respectively. The overall Fund ranked 38<sup>th</sup> against the 63 funds in the PIRC LGPS universe for the year to 31<sup>st</sup> March 2024, 94<sup>th</sup> over 3 years, 26<sup>th</sup> over 5 years, and second over 10 years, 20 years and 30 years. Further details about the Fund's performance can be found on pages 14 to 21.

The Fund's investment policy is summarised on pages 14 to 15 and further details are set out in the Investment Strategy Statement on pages 84 to 90.

# **LONDON BOROUGH OF BROMLEY PENSION FUND**

## **MANAGEMENT AND FINANCIAL PERFORMANCE REPORT**

### **The Fund**

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

As well as for its own employees, the Fund provides for employees who transferred from the Council or the Bromley's schools to Clarion Housing Group (formerly Affinity Sutton), Bromley Mytime, Liberata, Clean Tec, Certitude, Diagrama Healthcare, The Landscape Group, Amey, Cushman & Wakefield, Creative Support, Mears, Greenwich Leisure Ltd, British Telecom, Birkin Cleaning Services, Lewis and Graves, Ecoclean Services Ltd, Lodestar Cleaning Contracts Ltd, Ridge Crest Cleaning Ltd, See Clear and Foots Cray Out of School Club. These bodies are permitted under the regulations to contribute to the Fund and are termed Admission Bodies. It also provides for non-teaching staff in Ravensbourne University within the borough which is termed a Scheduled Body. As at 31<sup>st</sup> March 2024, the Fund also provided for 107 school academies, which are also termed Scheduled Bodies. The Council is responsible for administering the Fund in accordance with various statutory regulations, the principal regulations being the Local Government Pension Scheme Regulations 2013, as amended by any subsequent regulations and enactments. Day-to-day administration of the Fund, such as the collection of contributions and the payment of pensions, is contracted out to Liberata UK Ltd.

### **Fund management and advisers**

Any decisions on discretionary matters, most of which are prescribed by the regulations, are either taken by officers under delegated authority (generally by the Director of Finance) or the Chairman and Vice Chairman of the Pensions Committee. The Pensions Committee oversees the investment of the Fund and has a general responsibility to monitor the Fund's financial position. The Governance Policy Statement (pages 35 to 36) sets out the responsibilities of the various parties involved in managing the Fund. Meetings are held quarterly and the Committee's membership for the year 1<sup>st</sup> April 2023 to 31<sup>st</sup> March 2024 comprised:

Councillor Keith Onslow (Chairman), Councillor Kira Gabbert (Vice Chairman), Cllr Josh Coldspring-White, Councillor Simon Fawthrop, Councillor Simon Jeal, Cllr David Jefferies, Councillor Jonathan Laidlaw, Cllr Andrew Lee, Councillor Christopher Marlow, Councillor Ruth McGregor, Councillor Sam Webber, Dr Sunil Gupta, Cllr Adam Jude Grant, Cllr Robert Evans, Cllr Julie Ireland and Cllr Chris Price.

## Member attendance at Pensions Committee meetings in 2023/24.

Councillor	24/05/23	11/09/23	14/12/23	21/02/24
Keith Onslow (Chairman)	Y	Y	Y	Y
Kira Gabbert (Vice-Chairman)	Y	Y	Y	Y
Josh Coldspring-White			Y	Y
Simon Fawthrop		Y	N	Y
Simon Jeal	Y	Y	N	Y
David Jefferys	N	Y	Y	Y
Jonathan Laidlaw	N			
Andrew Lee	N	N		
Christopher Marlow	Y	Y	Y	Y
Ruth McGregor	Y	Y	N	N
Sam Webber	Y	Y	N	Y
Dr Sunil Gupta *	Y			
Adam Jude Grant *	Y			
Robert Evans *			Y	
Julie Ireland *			Y	
Chris Price *			Y	

\* Substitute Member

Note: Greyed out boxes indicate periods when Councillors were not Committee Members

In 2023/24, the Council used the services of a number of professional advisers, including:

### ***Scheme Actuary***

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

### ***Scheme adviser***

Apex Ltd, 8 Old Jewry, London, EC2R 8DN

### ***Auditors***

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

### ***Investment managers***

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

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

London Collective Investment Vehicle, 4th Floor, 22 Lavington Street, London, SE1 0NZ

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

Morgan Stanley, 20 Bank Street, Canary Wharf, Floor 07, London, E14 4AD

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

### ***Legal adviser***

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

### ***Administrator of scheme benefits***

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

### ***Custodians of scheme assets***

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

### ***Banker***

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

### ***Secretary to the trustees***

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

### ***AVC providers***

Aviva, Rose Lane Business Centre, PO Box 520, Norwich, NR1 3WG  
Equitable Life, PO Box 177, Walton Street, Aylesbury, Bucks, HP21 7YH

***Performance monitoring***

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

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

***Council officers***

Peter Turner, Director of Finance

James Mullender, Head of Corporate Finance and Accounting

Daniel Parsons, Senior Accountant

**Local Pension Board**

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

**Risk Management**

There are many factors that could have an adverse impact on achievement of the funding strategy and target funding levels. These can be categorised as administrative, management and investment risks. Some of the key potential risks are listed in a section of the Funding Strategy Statement (pages 72 to 83), 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.

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

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

**Management of Third Party Risk**

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

The Pensions Committee receives quarterly performance reports in which manager performance is reviewed. Any issues arising out of these reviews are raised at the

Committee meeting. The Fund's independent investment adviser monitors the market and the activities of investment managers and informs officers if there are any concerns such as key changes of staff.

### **Financial Performance**

The Council prepares accounts as at 31<sup>st</sup> March each year, which comply with the CIPFA Code of Practice on local authority accounting 2023/24 and the provisions of Chapter 6, Section 5 "Accounting and Reporting by Pension Funds". The Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations 2013 for the purpose of providing pension benefits for its employees. In addition to the provision of retirement pensions, the benefits include lump sum retirement grants and widows' pensions.

Day-to-day income and expenditure into and out of the Fund are recorded in the Pension Fund Revenue Account, which showed an overall surplus of £25.8m in 2023/24. 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 2023/24 from £1,296.4m as at 1<sup>st</sup> April 2023 to £1,443.0m as at 31<sup>st</sup> March 2024. The Pension Fund Accounts and Net Assets Statement, together with supporting notes, are attached (pages 41 to 70).

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

As part of the National Fraud Initiative 2022 data matching exercise, the LB Bromley pension data was matched to other data such as the DWP deceased register and payroll data. No evidence of fraud was identified but there were 4 cases of overpayments in respect of pensioners who were deceased. The total amount involved was £4896.18. The data matching exercise is run every two years and therefore was not run in 2023/24; however, management has agreed to join the flexible data matching scheme offered by the National Fraud Team which matches pension data to the latest DWP deceased register. This was recently matched and the results referred to the Pension Manager for investigation.

In 2023/24, no annual internal audit was completed, as the work done in 19/20 concluded that controls were in place and working well in the areas of:

- Communication with new joiners and setting up their records on the database system
- Communication with leavers and updating their records on the database system
- Transfer value process, including reasonableness checks for quotation and communication between the member and the new pension provider
- Refund eligibility and process
- Additional Pension Contributions eligibility, process and record keeping
- New pensioner process, including documentation, calculation, authorising payment and communication with members
- Death grant process, including calculation and authorising payment

However,

- The Authority has not received pension fund transfer payments, which it has requested from other Authorities, in a timely manner
- Refunds may not be made in the most efficient manner
- There is no evidence of documented checks carried out by the contractor on the amounts paid over by the commissioned out employer

As a result, a substantial assurance opinion was given.



## **Analysis of pension overpayments, recoveries and amounts written off.**

During 2023/24 there were:-

- 127 overpayments to pensioners (73 in 2022/23)
- Total Sum £55380.32 (£27436.47 in 2022/23)
- Total Outstanding £21836.50, of which £6139.03 in relation to death notifications received from January 2024. Also £15599.03 was identified from the mortality screening reports and we are attempting to locate the next of kin of the deceased (£7937.63 in 2022/23)
- Included in the above is 0 write off (0 in 2022/23)

In addition to the above there were a further 22 overpayments below £50 (38 in 2022/23) and, in such cases, the Council's policy is not to pursue.

We are also awaiting confirmation of 29 death notifications of whether there has been an over or under payment of pension.

## **Management Performance**

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

Liberata's commitment to Scheme members is:

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

- Respond to e-mails and written enquiries within 10 working days of receipt  
*822 pieces of correspondence responded to in the last year, of which 100% were within the performance standard (100% in 2022/23)*
- Process each stage of a transfer of pension rights (to or from the Fund) within 10 days of receiving the required information  
*92.04% of 87 transfer-in quotations (100% in 2022/23) and 83.33 % of 181 transfer-out quotations (96.96% in 2022/23) issued within the performance standard*
- Process retirement grants (lump sums) within 10 working days of retirement, provided that Liberata have all the necessary information  
*97.66% of 328 retirement grants paid within the performance standard (97.08% in 2022/23)*
- Issue a benefit statement annually to all active and deferred members  
*Statements issued to all active in August and deferred members in September*
- Advise pensioners in April of the annual increase to their local government pension  
*Pensions increase letters issued to all pensioners in April*

## Five-year analysis of the Fund's membership data

Status	31/03/2024	31/03/2023	31/03/2022	31/03/2021	31/03/2020
	No.	No.	No.	No.	No.
Active Members	6,526	6,509	6,385	6,205	6,253
Pensioners - widow/dependant	736	737	722	747	751
- other	5,403	5,282	5,068	4,925	4,841
Deferred Pensioners	6,666	6,443	6,275	6,197	5,945
	19,331	18,971	18,450	18,074	17,790
Undecided Leavers	1,431	1,096	732	545	457
Frozen Refunds	1,111	1,068	1,050	1,049	968
Total Membership	21,873	21,135	20,232	19,668	19,215

## Administration costs (including fund management fees) – budget v outturn

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

	2023/24	2023/24	2022/23	2022/23
	Budget	Actual	Budget	Actual
	£000	£000	£000	£000
Audit fee	21	16	21	16
Bank charges/transaction costs	349	410	349	285
London CIV implementation & service charge	100	101	100	110
Advice & other costs	175	405	175	560
Internal recharges	555	752	555	784
Total administration costs	1,200	1,689	1,200	1,755
Fund Management fees	3,900	5,678	3,900	5,253
Total	5,100	7,367	5,100	7,008

## Unit cost of administration per Fund member

	2023/24	2022/23	2021/22	2020/21	2019/20
	£	£	£	£	£
Total administration costs (gross)	7,366,903	7,007,062	6,820,782	5,980,066	5,319,198
Fund Management fees	5,677,794	5,253,000	5,185,856	4,410,719	4,144,193
Total administration costs (net)	1,689,109	1,754,062	1,605,926	1,569,347	1,175,005
Cost per member:					
Net (excluding management fees)	£77.22	£82.99	£79.37	£79.79	£61.15
Gross (including management fees)	£336.80	£331.53	£335.69	£304.05	£279.82

## Details of contributions received from each employer in the Fund.

A list of contributing employers and details of contributions received is given below. Summary details are provided in the notes to the Pension Fund Accounts (pages 48-49 and 55).

Contributions are required by statute to be paid into the Fund by the 19<sup>th</sup> day of the following month to that which they relate if paid by cheque or by 22<sup>nd</sup> if paid by bank transfer. The Pension Regulations allow the Council to charge interest on contributions that are not paid on time, but this power was not exercised in 2023/34.

Employer	Contributions 2023/24		
	Employee	Employer	TOTAL
	£	£	£
<u>LB Bromley (inc. community schools)</u>	4,000,475	10,004,433	14,004,908
<u>Primary schools/academies</u>			
Alexandra Infants	22,627	78,162	100,789
Alexandra Juniors	16,444	59,708	76,152
Balgowan Primary	54,611	209,856	264,467
Bickley Primary Academy	28,114	102,800	130,914
Biggin Hill Primary	46,472	148,704	195,176
Blenheim Primary Academy	26,336	94,179	120,515
Burnt Ash Primary	50,793	154,591	205,384
Burwood	59,925	156,561	216,487
Castlecombe Primary	30,948	105,612	136,559
Chelsfield Primary	7,729	28,525	36,254
Chislehurst CE Primary	15,099	60,048	75,147
Churchfield Primary Academy	55,325	72,008	127,333
Clare House	32,213	104,654	136,867
Crofton Infants	41,022	148,057	189,079
Crofton Junior School	59,357	206,841	266,198
Cudham CE Primary	5,962	21,443	27,405
Darrick Wood Infants	20,650	87,192	107,842
Darrick Wood Junior	19,489	68,813	88,303
Downe Academy	4,391	17,074	21,465
Edgebury	30,789	109,738	140,527
Farnborough	15,638	56,754	72,392
Grays Farm	31,097	114,502	145,599
Green Street Green Primary	34,933	143,416	178,349
Harris Primary Academy Beckenham	26,346	84,687	111,033
Harris Primary Academy Orpington	26,917	82,180	109,098
Hawes Down Infants School	39,466	138,980	178,446
Hayes Primary	34,240	123,099	157,338
Highfield Infants Academy	18,854	79,576	98,430
Highfield Junior Academy	18,648	65,245	83,893
Holy Innocents	31,016	115,817	146,834
James Dixon Primary Academy	44,966	133,081	178,047
Keston Primary	11,075	50,366	61,441
La Fontaine Academy	16,590	58,636	75,226
Langley Park Primary	24,874	96,944	121,818
Leesons Primary	34,215	109,837	144,052
Manor Oak Primary	19,328	59,953	79,281
Marian Vian	23,300	90,813	114,112
Mead Road	8,364	22,392	30,756
Midfield Primary	42,995	128,384	171,379
Mottingham	18,850	62,398	81,248
Oak Lodge	22,055	86,398	108,453
Oaklands	44,660	158,749	203,409
Parish Primary	32,623	138,602	171,225
Perry Hall	26,906	95,951	122,858
Pickhurst Infants	36,790	137,763	174,553
Pickhurst Juniors	50,173	122,296	172,469
Poverest	54,532	190,032	244,564
Pratts Bottom	5,629	18,446	24,076
Princes Plain Primary	42,499	148,623	191,122
Raglan Primary	43,254	172,920	216,174
Red Hill Academy	46,109	159,308	205,417
Riverside Primary School	246,007	868,592	1,114,599

Employer	Contributions 2023/24		
	Employee	Employer	TOTAL
	£	£	£
Primary schools/academies cont.			
Scotts Park Primary	24,788	88,162	112,950
Southborough	39,878	139,719	179,597
St Anthonys RC Primary Academy	18,233	60,955	79,188
St George's (academy)	32,602	109,206	141,808
St James RC School	17,347	71,447	88,794
St John's (academy)	19,014	59,265	78,279
St Josephs Primary	20,393	72,098	92,491
St Marks CE Primary	25,508	96,137	121,645
St Mary Cray	21,108	66,833	87,941
St Mary'S R.C Primary	31,397	115,603	147,000
St Pauls Cray Primary	22,410	86,277	108,686
St Peter & St Paul Primary	28,208	94,469	122,677
St Philomenas Primary	22,485	91,054	113,539
St Vincents	18,472	82,040	100,512
Stewart Fleming Primary	33,612	107,400	141,012
The Highway	16,015	58,615	74,629
TKAT (Kemnal Tech School)	252,202	540,132	792,334
Tubbenden Primary	38,182	232,164	270,346
Unicorn	21,244	78,148	99,392
Valley	39,719	130,919	170,638
Warren Road	102,253	308,037	410,290
Wickham Common	14,415	53,322	67,737
Worsley Bridge Juniors	17,553	59,595	77,149
Secondary Schools			
Bishop Justus	179,567	467,185	646,752
Bullers Wood Girls	114,230	458,044	572,274
Charles Darwin	76,641	294,722	371,362
Chislehurst School for Girls	74,225	250,032	324,257
Coopers School	75,753	210,897	286,650
Darrick Wood	110,152	407,609	517,761
Eden Park High	59,744	180,166	239,910
Harris Academy Beckenham	48,539	187,824	236,363
Harris Beckenham Green	19,875	58,546	78,421
Harris Crystal Palace	23,809	90,072	113,881
Harris Girls Academy Bromley	59,256	218,232	277,489
Harris Kent House	30,454	102,273	132,727
Harris Secondary Academy Orpington	59,633	225,796	285,429
Harris Shortlands Academy	16,698	58,127	74,824
Hayes School	94,133	314,558	408,691
Kemnal Technical College	54,989	189,065	244,054
Langley Park Boys	103,840	347,347	451,188
Langley Park Girls	86,841	272,269	359,110
Newstead Wood School	51,751	208,050	259,801
Ravensbourne School	67,836	254,844	322,680
Ravenswood School	77,668	293,869	371,537
St. Olaves	110,577	133,620	244,197

Employer	Contributions 2023/24		
	Employee	Employer	TOTAL
	£	£	£
<u>Special / AP Schools</u>			
Compass Academy Trust	61,783	210,947	272,731
Education for the 21st Century	81,723	170,218	251,941
Harris Aspire	31,908	109,938	141,846
Langley Park Learning Trust	55,039	95,197	150,236
LSEC Multi-Academy Trust	76,810	190,328	267,138
Nexus MAT	89,141	273,585	362,725
Ravensbourne University	488,862	929,682	1,418,544
SOLA MAT	33,533	97,083	130,616
Spring Partnership Trust	54,127	170,680	224,807
The Bromley Trust Academy	43,710	132,950	176,660
The Glebe	95,124	288,162	383,286
<u>Other Bodies</u>	2,854	11,464	14,318
Bromley My Time		427,367	427,367
BT	54,796	105,399	160,195
Caterlink – Blenheim	1,190	4,155	5,346
Caterlink – Eden	2,238	9,556	11,794
Caterlink – Mottingham	1,459	5,382	6,841
Caterlink – Ravensbourne	2,606	9,187	11,792
Caterlink – Scotts Park	1,452	5,598	7,050
Creative Support	2854.22	11464.04	14318.26
Diagrama Healthcare Services Ltd	11,823	45,677	57,501
Eleanor Nursing and Social Care Ltd	10,969	39,910	50,879
Footscray Out of School Club	59	294	353
Greenwich Leisure Limited (GLL)	84,584	320,658	405,242
Liberata	27,986	105,562	133,547
Mears Care	8,280	34,535	42,815
The Landscape group	5375.34	17406.12	22781.46
	9,602,405	27,989,401	37,591,807

## INVESTMENT POLICY AND PERFORMANCE REPORT

### Investment Principles

In accordance with the requirements of regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations"), as amended, the Council has produced an Investment Strategy Statement (ISS). The ISS was originally approved by the Pensions Committee on 22<sup>nd</sup> February 2017, and subsequent amendments (to reflect the revised asset allocation strategy) approved on 19<sup>th</sup> September 2017. This is published on the Council's website (see pages 84 to 90).

### Investment Managers

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

The Council currently employs five investment managers:

- Baillie Gifford & Company (initially appointed in December 1999 and running a global equities mandate from December 2013 to May 2023, this is now managed through the London Collective Investment Vehicle);
- Fidelity Pensions Management (originally appointed in April 1998, with a fixed income mandate since December 2013, and Multi-Asset Income Fund, a UK Property Fund mandate from February 2018 and a Short Dated Corporate Bond Fund from April 2024);
- MFS International (appointed from December 2013 to manage a global equities mandate);
- Schroder Investment Management (appointed from December 2017 to manage a Multi-Asset Income Fund).
- Morgan Stanley Northaven (appointed in December 2021) to manage a USD property fund.

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

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

The investment managers have to operate within the investment powers set out in the regulations and in accordance with their benchmarks. These determine the broad allocation of investments over different asset classes and the extent to which they can diverge from that allocation. Details are included in the Fund's Investment Strategy Statement (pages 84 - 90). The Pensions Committee is responsible for determining and reviewing the asset allocation strategy of the Fund and this is reviewed on a regular basis. The asset allocation strategy agreed in 2006 (two balanced portfolios managed by Fidelity and Baillie Gifford with benchmarks based on a broad 80:20 ratio of equities to bonds) remained in place until the comprehensive strategy review that took place during 2011/12 (see below), following relatively poor performance in 2011/12.

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

Following a review, the asset allocation strategy was revised in April 2017, to provide income generating investments to help meet the Fund's cash-flow requirements at the same time as aiming to reduce overall risk. The strategy removed the allocation to Diversified Growth Funds, reduced the allocation to Global Equities and Fixed Income, and introduced allocation to Property (pooled funds) and Multi-Asset Income (MAI). A further drawdown of the Fidelity property was completed in December 2018. The sale of the balance of the Blackrock Fund was completed and transferred to Fidelity's MAI Fund.

The asset allocation strategy was reviewed again during 2019/20, and a reviewed strategy is currently being finalised. The revised strategy has amended the allocations as follows: Equities (58%), Multi Asset Income Funds (20%), Fixed Income (13%), UK Real Estate (4%) and International Property (5%).

Fees paid to the investment managers are charged to the Fund. In 2023/24, these were calculated on the following bases:

Baillie Gifford (global equities - Base fee (quarterly 0.65% of first £30m of Fund, 0.50% of next £30m and 0.35% of remainder)  
Baillie Gifford (fixed income - Base fee (quarterly 0.30% of total Fund value)  
Fidelity (fixed income - Base fee (quarterly 0.35% of first £10m of Fund value, 0.30% of next £10m, 0.21% of next £30m and 0.18% of remainder. From 1st January 2018 a reduction of 20% has been applied)  
Fidelity (MAI - Base fee (quarterly 0.40% of first £20m of Fund value, 0.30% of next £30m, 0.25% of next £100m and 0.20% of remainder)  
Fidelity (Property - Base fee (quarterly 0.75%  
MFS (global equities - Base fee (quarterly 0.60% of first £25m of Fund value, 0.45% of next £25m and 0.40% of remainder)  
Schroders (MAI) – 0.35% of Fund value.  
Morgan Stanley North Haven (Real Estate - 1.50% per annum management fee, paid on capital commitments during the investment period, and thereafter based on invested equity; with a 25% reduction during the investment period.

## **Review of Investment Performance**

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

## **Performance data for 2023/24**

### ***Fund Value***

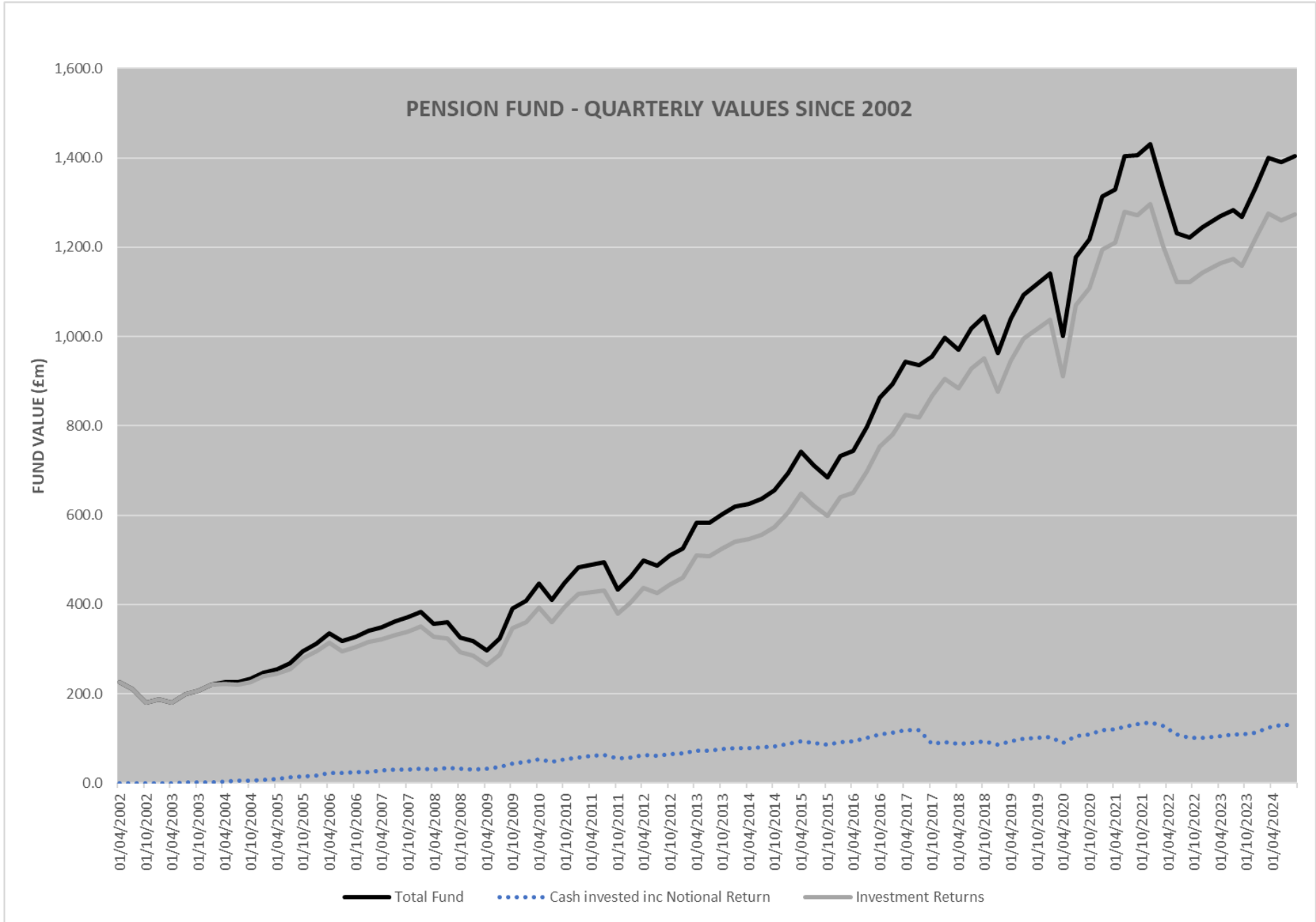
The total market value of the Fund has fluctuated considerably in the last few years.

2024 was a year of moderate performance for most LGPS funds, with the average fund delivering a 10.5% return. The total market value of the Fund has fluctuated considerably in the last few years. Since 2002, however, increases in the good years (most notably 2005/06, 2009/10, 2012/13, 2014/15, 2016/17, 2017/18, 2018/19 and 2020/21 have far exceeded decreases in the bad years (2002/03, 2008/09, 2019/20, 2021/22 and 2022/23. As a result, the total value of Fund investments has increased from £180.3m as at 31st March 2003 to £1,443.0m as at 31st March 2024. In 2023/24, the value increased by 11% from £1,296.4m to £1,443.0m.



## MOVEMENTS IN PENSION FUND MARKET VALUE (NET ASSETS) SINCE 2002

Date	Baillie Gifford					Fidelity					Blackrock		MFS		Schroder		MS		CAAM		GRAND TOTAL
	Balanced Mandate	DGF	Fixed Income	Global Equities	Total	Balanced Mandate	Fixed Income	MAI	Property	Sterling Bond	USD ILF	Total	Global Equities	Global Equities	DGF	MAI	US Property	LDI			
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m			
31/03/2002	113.3				113.3	112.9						112.9								226.2	
31/03/2003	90.2				90.2	90.1						90.1								180.3	
31/03/2004	113.1				113.1	112.9						112.9								226.0	
31/03/2005	128.5				128.5	126.7						126.7								255.2	
31/03/2006	172.2				172.2	164.1						164.1								336.3	
31/03/2007	156.0				156.0	150.1						150.1							43.5	349.6	
31/03/2008	162.0				162.0	151.3						151.3							44.0	357.3	
31/03/2009	154.4				154.4	143.0						143.0								297.4	
31/03/2010	235.4				235.4	210.9						210.9								446.3	
31/03/2011	262.6				262.6	227.0						227.0								489.6	
31/03/2012	269.7				269.7	229.6						229.6								499.3	
31/03/2013#	315.3	26.5			341.8	215.4						215.4			26.1					583.3	
31/03/2014@	15.1	26.8	45.2	207.8	294.9		58.4					58.4	122.1	123.1	27.0					625.5	
31/03/2015		45.5	51.6	248.2	345.3		66.6					66.6	150.5	150.8	29.7					742.9	
31/03/2016		44.8	51.8	247.9	344.5		67.4					67.4	145.5	159.2	28.3					744.9	
31/03/2017		49.3	56.8	335.3	441.4		74.3					74.3	193.2	206.4	28.5					943.8	
31/03/2018&			58.0	380.0	438.0		75.6	79.2	15.9			170.7	155.2	206.8						970.7	
31/03/2019			59.2	416.5	475.7		78.7	78.8	48.6			206.1	11.4	230.2		115.8				1039.2	
31/03/2020			60.9	411.9	472.7		83.5	80.6	47.0			211.1		220.3		96.1				1000.3	
31/03/2021				597.7	597.7		85.7	131.4	46.3	64.8		328.2		293.1		110.9				1329.9	
31/03/2022				527.8	527.8		81.2	125.5	77.9	61.2	14.8	360.6		332.9		108.7				1330.0	
31/03/2023				438.3	438.3		78.6	124.4	65.1	63.5	20.5	352.1		350.2		114.8	14.2			1269.6	
31/03/2024				433.1	433.1		144.7	123.7	59.9	65.5	14.5	408.3		412.4		122	24.8			1400.6	
# £50m Fidelity equities sold in Dec 2012 to fund Standard Life and Baillie Gifford DGF allocations.																					
@ Assets sold by Fidelity (£170m) and Baillie Gifford (£70m) in Dec 2013 to fund MFS and Blackrock global equities.																					
\$ £32m Blackrock global equities sold in July 2017 to pay group transfer value re Bromley College.																					
& Assets sold by Baillie Gifford (£51m), Standard Life (£29m) and Blackrock (£19m) in Feb 2018 to fund Fidelity MAI and Property funds.																					
£ Assets sold by Blackrock (£120m) in May 2018 to fund Schroder MAI fund.																					



## **Investment Performance**

The Fund's medium and long-term returns have remained strong overall, in a year which showed variable returns for many LGPS funds. Total return in 2023/24 was 11.9% against a benchmark of 13.4%. 2022/23 was -3.72% against a benchmark of -2.59%, the returns for 2021/22 was 0.69% against the benchmark of 8.69%, ranking 38<sup>th</sup> in the LGPS Universe of 63 funds maintained by PIRC.

For 2020/21 the return was 34.07% against a benchmark of 23.59%. Total return in 2019/20 was -2.75% against a benchmark of -1.98%, the returns for 2018/19 was 7.98% against the benchmark of 8.17%.

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

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

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

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

The Bank of New York Mellon measures their results against these benchmarks, and at total Fund level, PIRC maintains the local authority universe for comparator information. The following tables show total Fund performance and the performance returns of the individual managers in periods ended 31<sup>st</sup> March 2024.

Portfolio	1 Year %	3 Years %	5 Years %	Since Inception %
Baillie Gifford Global Equity	3.53	-2.25	7.69	8.43
Benchmark	21.18	10.67	12.15	8.56
Excess Return	-17.65	-12.92	-4.46	-0.13
Fidelity Property	-3.77	0.57	1.11	1.20
Benchmark	-0.70	1.51	1.39	2.02
Excess Return	-3.08	-0.94	-0.28	-0.82
Fidelity Fixed Income	5.86	-4.90	-1.17	5.03
Benchmark	2.74	-5.62	-2.18	4.19
Excess Return	3.11	0.73	1.02	0.84
Fidelity MAI	5.23	-1.60	0.34	0.64
Benchmark	4.00	4.00	4.00	4.00
Excess Return	1.23	-5.60	-3.66	-3.36
Fidelity SD CB				2.04
Benchmark				4.29
Excess Return				-2.25
LCIV GAG Pooled Equities				15.39
Benchmark				21.38
Excess Return				-5.99
MFS Global Equity	17.78	11.98	12.35	12.66
Benchmark	20.60	10.15	11.61	11.58
Excess Return	-2.82	1.83	0.74	1.07
Schroder MAI	9.62	1.76	1.93	1.68
Benchmark	5.00	5.00	5.00	5.00
Excess Return	4.62	-3.24	-3.07	-3.32
<b>Total Fund</b>	<b>11.87</b>	<b>2.74</b>	<b>7.18</b>	<b>8.63</b>
<b>Benchmark</b>	<b>13.37</b>	<b>6.28</b>	<b>7.76</b>	
<b>Excess Return</b>	<b>-1.49</b>	<b>-3.53</b>	<b>-0.58</b>	

## Medium and long-term performance data

The Fund's medium and long-term returns have remained strong over the long term, with the Fund ranking 38<sup>th</sup> against the 63 funds in the PIRC LGPS universe for the year to 31<sup>st</sup> March 2024, 94<sup>th</sup> over 3 years, 26<sup>th</sup> over 5 years, and second over 10 years, 20 years and 30 years, and underlines the fact that the Fund's performance has been consistently strong over a long period. Whole Fund returns and rankings for individual years are shown in the following table:

Year	Whole Fund Return	Benchmark Return	Local Authority average*	Whole Fund Ranking*
	%	%	%	
Financial year figures				
<b>2023/24</b>	<b>11.9</b>	<b>13.4</b>	<b>10.5</b>	<b>38</b>
2022/23	-3.7	-2.6	-1.6	63
2021/22	0.7	8.7	8.6	60
2020/21	34.1	23.6	22.8	2
2019/20	-2.7	-1.8	-4.8	22

Year - continued	Whole Fund Return	Benchmark Return	Local Authority average*	Whole Fund Ranking*
	%	%	%	
2018/19	8.0	8.3	6.6	11
2017/18	6.7	3.1	4.5	3
2016/17	26.8	24.6	21.4	1
2015/16	0.1	0.5	0.2	39
2014/15	18.5	16.4	13.2	7
2013/14	7.6	6.2	6.4	29
2012/13	16.8	14.0	13.8	4
<b>3 year ave to 31/3/18</b>	<b>10.6</b>	<b>8.9</b>	<b>8.3</b>	<b>1</b>
2014/15	14.6	13.4	11.2	1
2013/14	8.4	7.5	6.4	6
2012/13	14.2	12.1	11.1	5
2011/12	2.2	2.0	2.6	74
2010/11	9.0	8.0	8.2	22
<b>5 year ave to 31/3/18</b>	<b>11.5</b>	<b>9.8</b>	<b>8.8</b>	<b>2</b>
2012/13	13.6	12.0	10.7	1
2011/12	8.8	7.6	7.1	6
2010/11	10.7	9.2	8.8	11
2009/10	48.7	41.0	35.2	2
2008/09	-18.6	-19.1	-19.9	33
2007/08	1.8	-0.6	-2.8	5
2006/07	2.4	5.2	7.0	100
2005/06	27.9	24.9	24.9	5
<b>10 year ave to 31/3/18</b>	<b>10.5</b>	<b>n/a</b>	<b>7.7</b>	<b>1</b>
<b>20 year ave to 31/3/18</b>	<b>7.8</b>	<b>n/a</b>	<b>6.5</b>	<b>2</b>
<b>30 year ave to 31/3/18</b>	<b>9.7</b>	<b>n/a</b>	<b>8.9</b>	<b>2</b>

\*The most recent LA averages and rankings as at 31/03/24 are based on the PIRC LA universe containing 63 of the 89 funds.

## Custodial arrangements

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

## **FUND ADMINISTRATION REPORT**

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

In accordance with regulation 73A of the Local Government Pension Scheme Regulations 1997, the Council has produced a Pension Fund Governance Policy Statement. This is attached at pages 35 to 36. In addition, the Local Government Pension Scheme Regulations 2013 require administering authorities to report the extent of compliance against a set of best practice principles published by the government. This Governance Compliance Statement was reported to the General Purposes and Licensing Committee in July 2008 and is attached at pages 37 to 40.

### **Fund Administration**

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

Details of administration costs, including investment management fees, adviser fees and fees paid to Liberata are shown on pages 9 and 10 and in the supporting notes to the Pension Fund accounts (page 56).

### **Liberata UK Ltd**

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

Administrator functions include:

- Provision of retirement benefits, life cover and dependants' benefits for current and former staff and their dependants.
- Maintenance of member pension records via interface from the Council payroll.
- Implementation of changes in the regulations affecting benefit (or potential benefit) entitlements and keeping members informed of their options.
- Provision of illustrations for transfer of members' previous pension benefits into the Fund and, where appropriate, affecting the transfer.
- Provision, on request, of illustrations of the benefits of paying additional contributions.
- Provision of details of preserved entitlements for early leavers and transfers out and payment as necessary.
- Provision of forecasts of redundancy and early retirement benefits and payment as necessary.
- Calculation and recovery of employer costs associated with the capital impact on the Fund of early payment of benefits – including one-off payments.
- Operation of special provisions of the LGPS relating to elected Members who have opted to join the Fund.
- Provision of data to the Council's actuary for the annual IAS19 exercise and for triennial full valuations of the Fund.

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

Key activity in 2023/24 included:

- Data Accuracy Reports, Common data 2023 96.6% from 96.5% in 2022 and specific data 2023 95.9% from 95.3% in 2022
- McCloud project – all active members records have been updated with the McCloud tranche
- MSS self-service portal implemented
- New payroll system introduced, Oracle

### Enquiries and Complaints

In order to protect Members' interests, the Council is required by the LGPS regulations to set up a two-stage appeal procedure. Full details 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 1339, Bromley, BR1 9HR	Tel: 020 8603 3429 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> Director of Finance, 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, The Pension Service 9, Mail Handling Site A, Wolverhampton, WV98 1LU	Tel: 0800731 0193
---	-------------------

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

**The Pensions Ombudsman (TPO)**

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

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

Telephone 0800 917 4487

Website [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

**The Fund's Internal Dispute Resolution Procedure.**

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

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

The IDRP has two stages:

Stage 1: the complaint should be made formally, in writing, within 6 months of the date of notification of the decision against which the member wishes to complain. A person nominated by the employer will review the decision and inform the complainant in writing within 3 months of the date on which the complaint was logged.

Stage 2: the member can ask for a 2<sup>nd</sup> look at the complaint (by a person not involved in the 1<sup>st</sup> stage decision) if he/she is not satisfied with the 1<sup>st</sup> stage decision or if the 1<sup>st</sup> stage decision has not been made within 3 months of the date on which it was logged.

If the complainant is still unhappy with the decision after the 2<sup>nd</sup> stage, he/she can take the case to the Pensions Ombudsman, provided this is within 3 years of the original decision or problem.

There were 0 formal complaints raised through the IDRP in 2023/24

**Self-Service Pensions**

Members of the Fund can access their own pension records online, through the Altair Member Self Service (MSS). 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. Members also have the option of updating their Expression of Wish records (by downloading and submitting a signed form) and personal details such as change of address or name. An activation key to access the Altair Member Self Service function can be requested by accessing <https://bromleypensionsonline.bromley.gov.uk> and a key and details of how to use MSS will be sent direct to the member.



**Membership of Bodies**

The Fund is a member of the following bodies:

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

## ACTUARIAL REPORT

The regulations require an actuarial valuation of the Fund's assets and liabilities every three years and the Pensions Committee is responsible for considering the actuary's report. In the report on the most recent valuation as at 31st March 2022, the Fund's actuary, Mercer Ltd, determined the level of employers' contributions for the three years 2023/24 to 2025/26. 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 (if that is applicable for the employer). Contribution rates for the years 2020/21 to 2023/24 were set by the 2019 valuation. The next full valuation of the Fund (as at 31<sup>st</sup> March 2025) will be carried out during 2025/26 with updated contributions becoming payable by employers from 2026/27.

In the 2022 valuation, the actuary found that the value of the Fund's assets represented 115% of the value of its liabilities, up from 110% in 2019. The actuarially assessed positions at 31 March 2019 and 2022 are summarised in the table below.

<b>Valuation</b>	<b>31 March 2019</b>	<b>31 March 2022</b>	<b>% change</b>
	£m	£m	%
Liabilities	945	1,163	+23.1
Assets	1,039	1,339	+28.9
Surplus	94*	176**	+87.2
Funding level	110%	115%	+5.0

\*The 2019 position excludes the estimated impact of the proposed McCloud remedy.

Allowing for this would have reduced the 2019 surplus to £87m. The 2022 position includes allowance for the potential cost of implementing the remedy.

\*\*The 2022 position includes an additional liability reserve for those employers who opted for this as part of the Funding Strategy consultation undertaken. The reserve provides protection against adverse future market/membership experience.

The key actuarial assumptions as at 31<sup>st</sup> March 2019 and 2022 are shown below:

<b>Financial Assumptions</b>	<b>2019</b>	<b>2022</b>
Future investment returns	% p.a.	% p.a.
<i>Discount Rate</i>	3.65	4.1
<i>Pay increases – long term</i>	3.90	4.60
<i>General CPI inflation</i>	2.4	3.1
<i>Pension increases</i>	2.4	3.1

In the 2019 Valuation, the primary employer contribution rate in respect of future service with effect from 1<sup>st</sup> April 2020 to 31<sup>st</sup> March 2023 was set at 17.6% for all Fund employers. The 2022 Valuation increased this to a weighted average of 19.0% for the three years 1<sup>st</sup> April 2023 to 31<sup>st</sup> March 2026, and for the Council, the rate is 18.3%. The 2019 rate excludes an average contribution of 0.7% paid by employers to cover the accruing costs of McCloud up to the remedy end date of 31 March 2022. Primary contributions were set using a discount rate of 4.65% p.a. at the 2019 Valuation and 4.1% p.a. at the 2022 Valuation (other assumptions as per the table above).

In addition to the primary contributions payable in respect of active Fund members, for those employers in deficit they are also required to make secondary contributions to eliminate the deficit. For the 2022 Valuation, the average recovery period for those employers in deficit was 10 years. For those employers in surplus, surplus offset secondary contributions were permissible in certain circumstances (based on a 12 year recovery period) to help achieve

contribution rate stability). Total secondary rate contributions for 2023/24 to 2025/26 equated to 0.04% p.a. of pensionable pay. For the Council, for the 2022 valuation, the secondary rate contribution was a surplus offset of 0.6% p.a. of pensionable pay to achieve contribution rate stability for 2023/24 to 2025/26, with a recovery period of 12 years. This equates to a total contribution of 17.7% p.a. over that period.

The 2022 valuation report also contained contribution rates for the other employers in the Fund, including Ravensbourne University London, Liberata UK, Birkin Cleaning Services, Landscape Group, Creative, Mears Care, BT, Greenwich Leisure, Ridge Crest Cleaning, Footscray out of School Club, Busy Bee Cleaning, Ambient Support, Diagrama Healthcare and Eleanor Nursing and Caterlink, as well as for schools. Separate contribution rates were also set for those schools that had adopted academy status.

Overall, income to the Fund from employer contributions is expected to fall slightly over the period to 31 March 2026, compared to the contributions that would have been payable on the 2019 actuarial valuation outcomes. This is due primarily to the improved funding level emerging and subsequent reduction in secondary contributions payable. The Fund's current objective is to achieve and maintain a funding level of 100% over a reasonable time period. This will be reassessed in the next full valuation (as at 31<sup>st</sup> March 2025), the results of which will be known towards the end of 2025/26.

The latest Fund valuation report (as at 31<sup>st</sup> March 2022) can be found at [http://www.bromley.gov.uk/downloads/file/2937/pension\\_fund\\_actuarial\\_valuation\\_report\\_31\\_march\\_2016](http://www.bromley.gov.uk/downloads/file/2937/pension_fund_actuarial_valuation_report_31_march_2016). No interim valuations were carried out between that date and the previous full valuation as at 31<sup>st</sup> March 2019.

The actuary's Summary Funding Statement and Rates and Adjustments certificate are attached at pages 26 to 27 and 28 to 30 respectively.

**LONDON BOROUGH OF BROMLEY PENSION FUND**  
**ACTUARIAL VALUATION 31 MARCH 2022 – KEY RESULTS OF THE FUNDING**  
**ASSESSMENT (Section 3 of the Actuarial Valuation as at 31 March 2022)**

**SOLVENCY FUNDING POSITION**

The table below compares the assets and liabilities of the Fund at 31 March 2022. Figures are also shown for the last valuation as at 31 March 2019 for comparison.

	£m	
	31 March 2022	31 March 2019
Total assets	1,039	1,339
Liabilities:		
Active members	277	360
Deferred pensioners	205	266
Pensioners	463	537
Total liabilities	945	1,163
Past service surplus / (shortfall)	94	176
Funding level	110%	115%

The liability value at 31 March 2022 shown in the table above is known as the Fund's solvency funding target". The solvency funding target is calculated using assumptions that the Administering Authority has determined are appropriate having consulted with the actuary, and are also set out in the Administering Authority's Funding Strategy Statement (FSS).

The table shows that at 31 March 2022 there was a surplus of £176m against the Fund's solvency funding target. An alternative way of expressing the position is that the Fund's assets were sufficient to cover 115% of its liabilities – this percentage is known as the solvency funding level of the Fund.

At the previous valuation at 31 March 2019 the surplus was £94m, equivalent to a solvency funding level of 110%. The key reasons for the changes between the two valuations are considered in Section 4 of the full valuation report. Further details of the way in which the solvency funding target has been calculated are set out in Appendix A of the full valuation report.

**PRIMARY CONTRIBUTION RATE**

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

The table below gives a breakdown of the Primary Contribution Rate at 31 March 2022 and also shows the corresponding rate at 31 March 2019 for comparison. In calculating the average Primary Contribution Rate we have not made any allowance for future members to opt for the 50:50 scheme.

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

	% of pensionable pay	
	31 March 2022	31 March 2019
Normal contribution rate for retirement and death benefits	24.6	23.4
Allowance for administrative expenses	1.0	0.7
Total normal contribution rate	25.6	24.1
Average member contribution rate	6.6	6.5
Common Contribution rate	19.0	17.6

*\* In line with updated CIPFA guidance, the 2022 Primary Contribution Rate is the weighted average of the individual employer Primary Contribution Rates as derived based on their individual circumstances (e.g. whether or not they are closed to new entrants).*

## **CORRECTING THE IMBALANCE – SECONDARY CONTRIBUTION RATE**

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period adopted is 10 years, and for employers in surplus is 12 years. The total initial recovery payment (the “Secondary rate” for 2023/24) is an offset of 0.04% of salaries - approximately £0.05m per annum in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS, including allowance for some employers to phase in any increases).

## **McCLOUD JUDGEMENT**

The Actuary has carried out a stand-alone estimate of the cost of the McCloud Judgment. We estimate that the cost is an increase in past service liabilities at the valuation date of £11 million. This represents 0.9% of total past service liabilities and is included in the 2022 liability figure above. Provision for these estimated McCloud costs has been included within the Secondary Contribution Rate shown above and in the corresponding Secondary Contribution Rate for each individual employer.

**LONDON BOROUGH OF BROMLEY PENSION FUND**  
**ACTUARIAL VALUATION 31 MARCH 2022 – RATES AND ADJUSTMENTS**  
**CERTIFICATE ISSUED IN ACCORDANCE WITH REGULATION 62**  
**(Appendix G of the Funding Report of the Actuarial Valuation as at 31 March 2022)**

**PRIMARY CONTRIBUTION RATE**

I hereby certify that, in my opinion, the primary rate of the employers' contribution for the whole Fund for each of the three years beginning 1 April 2023 is 19.0% of pensionable pay.

The primary rate of contribution for each employer for the three year period beginning 1 April 2023 is set out in the attached schedule.

**SECONDARY CONTRIBUTION RATE**

I hereby certify that, in my opinion, the secondary rate of the employer's contribution for the whole Fund for each of the three years beginning 1 April 2023 is as follows:

2023/24 0.04% of pensionable pay (offset)

2024/25 0.04% of pensionable pay (offset)

2025/26 0.04% of pensionable pay (offset)

The secondary rate of contribution for each employer for each of the three years beginning 1 April 2023 is set out in the attached schedule.

**CONTRIBUTION AMOUNTS PAYABLE**

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

**FURTHER ADJUSTMENTS**

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

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

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

In cases where an element of an existing Scheme employer's surplus or deficit is transferred to a new employer on its inception, the Scheme employer's secondary contributions, as shown on the schedule to this Certificate in Appendix H, may be reallocated between the Scheme employer and the new employer to reflect this, on the advice of the Actuary and as agreed with the Administering Authority so that the total payments remain the same overall.

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

**REGULATION 62(8)**

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

**Clive Lewis**  
**Fellow of the Institute and Faculty of Actuaries**  
**30<sup>th</sup> March 2023**

**Michelle Doman**  
**Fellow of the Institute and Faculty of Actuaries**

# Schedule to the Rates and Adjustment Certificate dated 30 March 2023

Employer (Number)	Notes	Primary rate 2023/24 to 2025/26	Secondary rates			Total Contribution rates		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
Major Scheme Employer								
London Borough of Bromley (Council) (1)		18.3%	-0.6%	-0.6%	-0.6%	17.7%	17.7%	17.7%
Other Scheme Employers (non Academies)								
Ravensbourne College (27)		15.4%	-1.2%	-1.2%	-1.2%	14.2%	14.2%	14.2%
St Olaves (31)		21.1%	-2.6%	-2.6%	-2.6%	18.5%	18.5%	18.5%
Academies / Free Schools								
Education For The 21st Century (600)		19.2%	-0.5%	-0.5%	-0.5%	18.7%	18.7%	18.7%
Darrick Wood Secondary (602)		20.5%	Nil	Nil	Nil	20.5%	20.5%	20.5%
Chislehurst Girls School (603)		20.2%	0.2%	0.2%	0.2%	20.4%	20.4%	20.4%
Bishop Justus (604)		21.4%	2.0%	2.0%	2.0%	23.4%	23.4%	23.4%
Coopers Technology College (605)		17.7%	Nil	Nil	Nil	17.7%	17.7%	17.7%
Bullers Wood School (606)		19.4%	3.5%	3.5%	3.5%	22.9%	22.9%	22.9%
Charles Darwin School (607)		20.4%	2.3%	2.3%	2.3%	22.7%	22.7%	22.7%
Hayes Secondary School (608)		19.9%	Nil	Nil	Nil	19.9%	19.9%	19.9%
Langley Park Boys School (609)		21.2%	2.0%	2.0%	2.0%	23.2%	23.2%	23.2%
Newstead Wood School (610)		19.2%	3.7%	3.7%	3.7%	22.9%	22.9%	22.9%
Ravens Wood School (611)		19.9%	3.2%	3.2%	3.2%	23.1%	23.1%	23.1%
Ravensbourne School (612)		19.3%	4.1%	4.1%	4.1%	23.4%	23.4%	23.4%
Langley Park Girls School (613)		18.9%	Nil	Nil	Nil	18.9%	18.9%	18.9%
Hayes Primary School (614)		20.3%	Nil	Nil	Nil	20.3%	20.3%	20.3%
Warren Road Primary School (615)		22.1%	1.8%	1.8%	1.8%	23.9%	23.9%	23.9%
Balgowan Primary School (616)		21.3%	2.0%	2.0%	2.0%	23.3%	23.3%	23.3%
Biggin Hill Primary School (617)		20.2%	-1.4%	-1.4%	-1.4%	18.8%	18.8%	18.8%
Darrick Wood Infant School (618)		23.5%	Nil	Nil	Nil	23.5%	23.5%	23.5%
Green Street Green Primary (619)		21.4%	1.9%	1.9%	1.9%	23.3%	23.3%	23.3%
Pickhurst Infant School (620)		22.4%	-1.2%	-1.2%	-1.2%	21.2%	21.2%	21.2%
Pickhurst Junior School (621)		20.5%	-1.8%	-1.8%	-1.8%	18.7%	18.7%	18.7%
Stewart Fleming Primary (622)		19.0%	-1.1%	-1.1%	-1.1%	17.9%	17.9%	17.9%
Valley Primary School (623)		22.6%	-2.4%	-2.4%	-2.4%	20.2%	20.2%	20.2%

Employer (Number)	Notes	Primary rate 2023/24 to 2024/25	Secondary rates			Total Contribution rates		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
Academies / Free Schools								
Crofton Junior School (624)		20.9%	-0.3%	-0.3%	-0.3%	20.6%	20.6%	20.6%
Harris Girls Academy Bromley (626)		20.1%	3.3%	3.3%	3.3%	23.4%	23.4%	23.4%
Harris Academy Beckenham (627)		20.1%	3.8%	3.8%	3.8%	23.9%	23.9%	23.9%
Tubbenden Primary School (628)		20.4%	Nil	Nil	Nil	20.4%	20.4%	20.4%
St James Roman Catholic (629)		23.8%	1.0%	1.0%	1.0%	24.8%	24.8%	24.8%
Harris Primary Orpington (631)		18.2%	Nil	Nil	Nil	18.2%	18.2%	18.2%
Crofton Infants School (632)		20.1%	Nil	Nil	Nil	20.1%	20.1%	20.1%
Parish Academy (633)		19.8%	1.5%	1.5%	1.5%	21.3%	21.3%	21.3%
Raglan Academy (634)		21.0%	1.7%	1.7%	1.7%	22.7%	22.7%	22.7%
Alexandra Junior (635)		20.7%	Nil	Nil	Nil	20.7%	20.7%	20.7%
Harris Kent House (636)		19.7%	0.1%	0.1%	0.1%	19.8%	19.8%	19.8%
Harris Crystal Palace (637)		20.5%	1.3%	1.3%	1.3%	21.8%	21.8%	21.8%
Highfield Infants (638)		22.3%	1.1%	1.1%	1.1%	23.4%	23.4%	23.4%
Grays Farm (639)		21.1%	Nil	Nil	Nil	21.1%	21.1%	21.1%
Highfield Junior (640)		20.0%	-0.5%	-0.5%	-0.5%	19.5%	19.5%	19.5%
Harris Aspire (641)		18.7%	2.8%	2.8%	2.8%	21.5%	21.5%	21.5%
Perry Hall (642)		20.2%	Nil	Nil	Nil	20.2%	20.2%	20.2%
Farnborough (643)		19.9%	0.9%	0.9%	0.9%	20.8%	20.8%	20.8%
Manor Oak (644)		18.5%	-1.1%	-1.1%	-1.1%	17.4%	17.4%	17.4%
Alexandra Infants (645)		20.0%	Nil	Nil	Nil	20.0%	20.0%	20.0%
St John's (646)		20.0%	0.1%	0.1%	0.1%	20.1%	20.1%	20.1%
St Joseph's RC Primary (648)		20.2%	Nil	Nil	Nil	20.2%	20.2%	20.2%
St Philomenas (649)		21.9%	-0.2%	-0.2%	-0.2%	21.7%	21.7%	21.7%
Scotts Park Primary (650)		21.1%	-0.2%	-0.2%	-0.2%	20.9%	20.9%	20.9%
St Peter And St Paul (651)		19.1%	Nil	Nil	Nil	19.1%	19.1%	19.1%
Keston Primary (652)		23.4%	0.1%	0.1%	0.1%	23.5%	23.5%	23.5%
St Marys RC Primary (653)		21.3%	Nil	Nil	Nil	21.3%	21.3%	21.3%
St Anthonys RC Primary (654)		21.0%	-2.2%	-2.2%	-2.2%	18.8%	18.8%	18.8%
La Fontaine Academy (655)		15.9%	4.1%	4.1%	4.1%	20.0%	20.0%	20.0%
BTAP Academy (656)		19.8%	-1.0%	-1.0%	-1.0%	18.8%	18.8%	18.8%
Leesons Primary (657)		15.5%	2.5%	2.5%	2.5%	18.0%	18.0%	18.0%
Harris Primary Shortlands (658)		19.8%	0.9%	0.9%	0.9%	20.7%	20.7%	20.7%
St Mary Cray (659)		19.5%	-1.6%	-1.6%	-1.6%	17.9%	17.9%	17.9%
St Vincents (660)		24.5%	0.9%	0.9%	0.9%	25.4%	25.4%	25.4%
Trinity CE Primary (661)		19.8%	Nil	Nil	Nil	19.8%	19.8%	19.8%
St Nicholas (662)		23.0%	0.4%	0.4%	0.4%	23.4%	23.4%	23.4%
St Marks Academy (663)		21.0%	Nil	Nil	Nil	21.0%	21.0%	21.0%



Employer (Number)	Notes	Primary rate 2023/24 to 2024/25	Secondary rates			Total Contribution rates		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
Academies / Free Schools								
Midfield Academy (664)		17.4%	-0.8%	-0.8%	-0.8%	16.6%	16.6%	16.6%
Holy Innocents Academy (665)		20.7%	0.8%	0.8%	0.8%	21.5%	21.5%	21.5%
Cudham Primary (668)		20.6%	0.1%	0.1%	0.1%	20.7%	20.7%	20.7%
Oak Lodge Academy (669)		21.9%	Nil	Nil	Nil	21.9%	21.9%	21.9%
Wickham Common (670)		19.4%	Nil	Nil	Nil	19.4%	19.4%	19.4%
Unicorn (671)		20.3%	Nil	Nil	Nil	20.3%	20.3%	20.3%
Marian Vian (672)		21.6%	Nil	Nil	Nil	21.6%	21.6%	21.6%
Oaklands Primary (673)		20.6%	Nil	Nil	Nil	20.6%	20.6%	20.6%
Mead Road Infants School (674)		16.6%	-0.5%	-0.5%	-0.5%	16.1%	16.1%	16.1%
Mottingham Primary School (675)		19.8%	-0.5%	-0.5%	-0.5%	19.3%	19.3%	19.3%
Bromley Beacon Academy (676)		16.2%	-0.1%	-0.1%	-0.1%	16.1%	16.1%	16.1%
Harris Primary Beckenham (677)		16.4%	2.0%	2.0%	2.0%	18.4%	18.4%	18.4%
Worsley Bridge Primary School (678)		21.6%	-2.2%	-2.2%	-2.2%	19.4%	19.4%	19.4%
Burnt Ash Primary School (679)		18.5%	-0.6%	-0.6%	-0.6%	17.9%	17.9%	17.9%
Chelsfield Primary School (680)		22.2%	-1.1%	-1.1%	-1.1%	21.1%	21.1%	21.1%
Pratts Bottom Primary School (681)		20.2%	-2.0%	-2.0%	-2.0%	18.2%	18.2%	18.2%
Highway Primary School (682)		20.3%	Nil	Nil	Nil	20.3%	20.3%	20.3%
Darrick Wood Junior School (683)		22.4%	-2.5%	-2.5%	-2.5%	19.9%	19.9%	19.9%
Clare House Primary (684)		21.0%	-1.5%	-1.5%	-1.5%	19.5%	19.5%	19.5%
Red Hill Primary (686)		20.7%	-0.7%	-0.7%	-0.7%	20.0%	20.0%	20.0%
St George's Primary (687)		20.1%	-0.8%	-0.8%	-0.8%	19.3%	19.3%	19.3%
Langley Park Primary School (688)		19.6%	1.9%	1.9%	1.9%	21.5%	21.5%	21.5%
James Dixon Primary (689)		18.6%	-1.9%	-1.9%	-1.9%	16.7%	16.7%	16.7%
The Kemnal Academies Trust (690)		15.7%	-0.1%	-0.1%	-0.1%	15.6%	15.6%	15.6%
Kemnal Technology College (691)		20.2%	Nil	Nil	Nil	20.2%	20.2%	20.2%
Harris Secondary Orpington (692)		18.6%	4.7%	4.7%	4.7%	23.3%	23.3%	23.3%
Blenheim Primary School (693)		21.6%	0.1%	0.1%	0.1%	21.7%	21.7%	21.7%
Eden Park High School (694)		17.7%	2.1%	2.1%	2.1%	19.8%	19.8%	19.8%
Harris Academy Beckenham Green (695)		19.2%	-1.8%	-1.8%	-1.8%	17.4%	17.4%	17.4%
Churchfields Primary School (696)		20.4%	-1.1%	-1.1%	-1.1%	19.3%	19.3%	19.3%
Spring Partnership Trust (697)		19.4%	3.4%	3.4%	3.4%	22.8%	22.8%	22.8%
Glebe School (698)		20.1%	-1.3%	-1.3%	-1.3%	18.8%	18.8%	18.8%
Hawes Down Primary School (699)		20.2%	Nil	Nil	Nil	20.2%	20.2%	20.2%
Nexus Multi Academy Trust (700)		20.4%	2.7%	2.7%	2.7%	23.1%	23.1%	23.1%
St Pauls Cray CofE Primary (701)		23.5%	-0.8%	-0.8%	-0.8%	22.7%	22.7%	22.7%

Employer (Number)	Notes	Primary rate 2023/24 to 2024/25	Secondary rates			Total Contribution rates		
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26
Bickley Primary School (702)		20.7%	0.6%	0.6%	0.6%	21.3%	21.3%	21.3%
Compass Academy Trust (703)		22.4%	-0.5%	-0.5%	-0.5%	21.9%	21.9%	21.9%
Langley Park Learning Trust (704)		16.1%	Nil	Nil	Nil	16.1%	16.1%	16.1%
SOLA Mat (Central Staff) (705)		20.1%	-0.1%	-0.1%	-0.1%	20.0%	20.0%	20.0%
LSEC Mat (Central Staff) (706)		17.1%	2.3%	6.7%	11.0%	19.4%	23.8%	28.1%
Elmstead Wood Primary School (707)		19.3%	Nil	Nil	Nil	19.3%	19.3%	19.3%
<b>Admitted Bodies</b>								
Liberata UK Ltd (35)		22.4%	Nil	Nil	Nil	22.4%	22.4%	22.4%
Birkin Cleaning Services (36)		30.9%	Nil	Nil	Nil	30.9%	30.9%	30.9%
Landscape Group (38)		23.3%	Nil	Nil	Nil	23.3%	23.3%	23.3%
Creative (43)		23.2%	Nil	Nil	Nil	23.2%	23.2%	23.2%
Mears Care Ltd (44)		22.9%	Nil	Nil	Nil	22.9%	22.9%	22.9%
British Telecom (45)		20.3%	Nil	Nil	Nil	20.3%	20.3%	20.3%
Greenwich Leisure Ltd (47)		22.9%	Nil	Nil	Nil	22.9%	22.9%	22.9%
Ridge Crest Cleaning Ltd (50)		23.2%	Nil	Nil	Nil	23.2%	23.2%	23.2%
Footscray Out Of School Club (51)		28.0%	Nil	Nil	Nil	28.0%	28.0%	28.0%
Busy Bee Cleaning Ltd (52)		27.4%	Nil	Nil	Nil	27.4%	27.4%	27.4%
Ambient Support (55)		22.8%	Nil	Nil	Nil	22.8%	22.8%	22.8%
Diagrama Healthcare Service Ltd (56)		24.4%	Nil	Nil	Nil	24.4%	24.4%	24.4%
Caterlink Ltd Blenheim Primary (57)		19.3%	Nil	Nil	Nil	19.3%	19.3%	19.3%
Caterlink Ltd Eden Park High School (58)		23.7%	Nil	Nil	Nil	23.7%	23.7%	23.7%
Caterlink Ltd Mottingham (59)		21.4%	Nil	Nil	Nil	21.4%	21.4%	21.4%
Caterlink Ltd Scotts Park Primary (60)		21.9%	Nil	Nil	Nil	21.9%	21.9%	21.9%
Caterlink Ltd Ravensbourne School (61)		21.8%	Nil	Nil	Nil	21.8%	21.8%	21.8%
Eleanor Nursing And Social Care (62)		23.2%	Nil	Nil	Nil	23.2%	23.2%	23.2%
Note:								
The percentages shown are percentages of pensionable pay and apply in respect of all members, including those who are members under the 50:50 option under the LGPS.								
The above secondary contributions include provision for the estimated effect of the McCloud judgment based on the proposed remedy. Whilst it is possible that the Fund may require additional contributions from employers at that point in time if the McCloud remedy is substantially different from that currently anticipated based on the Administering Authority's current knowledge and understanding of the likely outcome it believes that requiring such additional contributions is an unlikely outcome. In the event that additional contributions are required, this certificate will then be updated to reflect these changes. Any contribution changes will take effect from a date to be determined by the Administering Authority.								

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

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

8. In addition to the Pensions Committee, a Local Pension Board (hereinafter referred to as 'the Board') has been established to meet the requirements of The Local Government Pension Scheme Regulations 2013 (as amended). The role of the Local Pension Board is to "assist" administering authorities to secure compliance with the LGPS regulations and other legal and regulatory requirements, and generally to ensure the efficient and effective governance and administration of the LGPS.

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

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

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

## GOVERNANCE COMPLIANCE STATEMENT

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

### Principle A – Structure

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

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

The Pensions Committee does not include any representatives of the other Fund employers. The Council does not believe that it would be practicable for these employers to be represented on either committee, as this would result in an inappropriate balance of committee membership given that a large proportion of the Fund's members are the financial responsibility of the Council. This matter will be kept under review. There are two employer representatives and two member representatives on the Local Pension Board.

### Principle B – Representation

a)	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 Local Pension Board membership comprises two employer representatives and two member representatives.

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

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

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

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

### **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	Fully compliant

	members of committees, sub-committees, advisory panels or any other form of secondary forum.	
<p>Please use this space if you wish to add anything to explain or expand on the ratings given above :-</p> <p>The policy is to ensure that there is regular and comprehensive access to training. In-house training sessions for Councillors were held in January 2016 and January 2017, and the next one has been arranged for November 2018.</p>		

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

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

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

As stated the two employer representatives and two member representatives on the Local Pensions Board receive all papers for, and can attend all Pensions Committee meetings.

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

The Pensions 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 fall 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 assets statement with supporting notes and disclosures prepared in accordance with proper practice. These statements must be included in this annual report and must be drawn up in accordance with the Code of Practice on Local Authority Accounting issued by CIPFA.

The accounts have to be accompanied by a statement of responsibilities signed by the Director of Finance and by the independent auditor's report. These can be found on pages 43 and 44. The Fund Account and Net Assets Statement are on pages 48 and 49, supporting notes are on pages 47 to 67 and details of the Pension Fund Revenue Account are on page 71.

During 2023/24, the total net assets of the Fund rose from £1,296.4m to £1,443.0m. The Pension Fund Revenue Account showed an overall surplus of £25.8m in 2023/24 (excluding changes in market value), and total Fund membership numbers increased in the year from 21,135 to 21,873.

## **APPROVAL OF THE PENSION FUND STATEMENT OF ACCOUNTS**

**I hereby confirm that the Pension Fund Statement of Accounts for the year ending 31 March 2024, as signed by the Director of Finance on 26th February 2025 has been approved by the Mayor of the London Borough of Bromley on 26th February 2025.**

A handwritten signature in black ink, appearing to read 'M B J', with a horizontal line underneath.

**Councillor David Jefferys  
Mayor of the London Borough of Bromley  
26th February 2025**

## 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 Finance;
- \* 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 Finance's Responsibilities***

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

In preparing this Statement of Accounts, the Director of Finance 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 Finance 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 Finance***

I certify that the Pension Fund accounts set out on pages 41 - 70 of the Pension Fund Annual Report present fairly the financial position of the Authority as at 31<sup>st</sup> March 2024 and its income and expenditure for the year ended 31<sup>st</sup> March 2024.



Peter Turner

Director of Finance

Dated 26th February 2026

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF BROMLEY ON THE PENSION FUND'S FINANCIAL STATEMENTS**

## **Opinion**

We have audited the Pension Fund ("the Fund") financial statements for the year ended 31 March 2024 under the Local Audit and Accountability Act 2014 (as amended). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2024 and the amount and disposition at that date of the its assets and liabilities as at 31 March 2024 and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council as administering authority for the Pension Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period 12 months from when the Fund's financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.

## **Other information**

The other information comprises the information included in the London Borough of Bromley 2023/24 Statement of Accounts, other than the financial statements and our auditor's report

thereon. The Director of Finance is responsible for the other information contained within the 2023/24 Statement of Accounts.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Matters on which we report by exception**

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended);
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended);
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended);
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended); or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended).

We have nothing to report in these respects.

### **Responsibility of the Director of Finance**

As explained more fully in the Statement of the Director of Finance's Responsibilities set out on page 21, the Director of Finance is responsible for the preparation of the Council's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, and for being satisfied that they give a true and fair view. The Director of Finance is also responsible for such internal control as the Director of Finance determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Administering Authority either intends to cease operations, or has no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be



expected to influence the economic decisions of users taken on the basis of these financial statements.

**Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with Director of Finance .

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.
- We understood how the Fund is complying with those frameworks by making enquiries of the management. We corroborated this through our reading of the Pension Board minutes and other information.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the management for their awareness of any non-compliance of laws or regulations, inspecting correspondence with the Pensions Regulator and review of minutes.
- We assessed the susceptibility of the Fund's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements and documenting the controls that the Fund has established to address risks identified, or that otherwise seek to prevent, deter or detect fraud.
- In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- To address our fraud risk we tested the consistency of the investment asset valuation from the independent sources of the custodian and the fund managers to the financial statements.
- The Fund is required to comply with The Local Government Pensions Scheme regulations, other legislation relevant to the governance and administration of the Local Government Pension Scheme and requirements imposed by the Pension Regulator in relation of the Local Government Pension Scheme. As such, we have considered the experience and expertise of the engagement team to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the control environment and consider compliance of the Fund with these regulations as part of our audit procedures.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## Use of our report

This report is made solely to the members of London Borough of Bromley , as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 85 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the London Borough of Bromley and its members as a body, for our audit work, for this report, or for the opinions we have formed.

*E. Jackson*  
*Ernst & Young LLP*

Elizabeth Jackson John Smith (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Luton  
27 February 2025

## PENSION FUND

## PENSION FUND ACCOUNT

2022/23			Note	2023/24	
£000	£000			£000	£000
		<b>Dealings with members and employers</b>			
		<b>Contributions and similar payments</b>			
8,900		Contributions - from members	5	9,602	
26,924		- from employers	5	28,041	
5,596		Transfers in from other pension funds (individual)		3,775	
	41,420				41,418
		<b>Benefits</b>			
(31,584)		Pensions		(35,034)	
(4,514)		Lump sum benefits - retirement	6	(4,430)	
(492)		- death	6	(992)	
	(36,590)				(40,456)
		<b>Payments to and on account of leavers</b>			
(153)		Refunds of contributions		(53)	
(4,079)		Transfers out (individual)		(4,370)	
	(4,232)				(4,423)
	598	<b>Net (withdrawal) / addition from dealings with Fund members</b>			(3,461)
	(7,008)	<b>Management expenses</b>	7		(7,367)
	(6,410)	<b>Net (withdrawal) / addition including fund management expenses</b>			(10,828)
		<b>Returns on investments</b>			
30,468		Investment income	9	38,429	
(73,918)		Profit and losses on the disposal of investments and changes in the value of investments	10	119,001	
	(43,450)	Net return on investments			157,430
	(49,860)	<b>Net increase/(decrease) in the net assets available for benefits during the year</b>			146,602
	1,346,324	Opening net assets of the scheme			1,296,464
	<b>1,296,464</b>	<b>Closing net assets of the scheme</b>			<b>1,443,066</b>



## PENSION FUND

### NET ASSETS STATEMENT

31st March 2023			31st March 2024	
£000	£000		£000	£000
		<b>Long term investments</b>		
	150	Shares in London Collective Investment Vehicle (CIV)	10	150
		<b>Investment assets</b>	10	
	773,901	<b>Equities</b>		402,364
		<b>Pooled funds</b>	10	
142,087		Fixed income	210,227	
-		Global equities	431,588	
238,264		Multi-asset income	244,067	
	380,351			885,882
		<b>Other investments</b>	10	
79,374		Pooled property investments	85,569	
	79,374			85,569
10,743		Cash deposits held by investment managers	9,360	
20,524		Money market funds	29,623	
5,642		Investment income due	6,605	
187		Amounts receivable for sales	0	
	37,096			45,588
	1,270,722	Total investment assets		1,419,403
		<b>Investment liabilities</b>		
(665)		Amounts payable for purchases	-	
	(665)	Total investment liabilities		-
	1,270,207	<b>Total net investments</b>	10	1,419,553
	988	Long-term debtors	14	1,082
		<b>Current assets</b>	13	
13,098		Short term lending	7,421	
12,188		Cash balances	18,268	
3,105		Debtors	3,768	
	28,391			29,457
		<b>Current liabilities</b>		
	(3,121)	Creditors	13	(7,025)
	1,296,465	<b>Net assets of the fund available to fund benefits at the end of the reporting period</b>		1,443,066

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

# PENSION FUND

## Notes to the Accounts

### 1 Description of Fund

The following description of the Fund is a summary only. For more detail, reference should be made to the London Borough of Bromley Pension Fund Annual Report 2023/24 and the underlying statutory powers underpinning the scheme, which are listed below.

#### (a) General

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

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

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

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

#### (b) Membership

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

Organisations participating in the Fund include:

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

The following table shows the total membership of the Fund as at 31st March 2024 and 2023.

	2024	2023
Number of employers	134	140
<b>Number of employees in scheme</b>		
London Borough of Bromley	1,942	1,992
Other employers	4,584	4,517
	<u>6,526</u>	<u>6,509</u>
<b>Number of pensioners</b>		
London Borough of Bromley	4,566	5,111
Other employers	1,573	908
	<u>6,139</u>	<u>6,019</u>
<b>Deferred pensioners</b>		
London Borough of Bromley	2,964	4,098
Other employers	3,702	2,345
	<u>6,666</u>	<u>6,443</u>
<b>Total number of members in pension scheme</b>	<u><b>19,331</b></u>	<u><b>18,971</b></u>

# PENSION FUND

## Notes to the Accounts

---

### 1 Description of Fund (continued)

#### (c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active scheme members in accordance with the LGPS Regulations 2013 and, in 2023/24, ranged from 2.75% to 12.5% of pensionable pay. Contributions are also made by employers and these are set based on triennial actuarial valuations.

A secondary contribution rate (previously known as deficit amount or past service adjustment) may also be charged. This rate is either paid as a monetary value or as an additional percentage of pensionable pay. In 2023/24, total employer rates ranged from 12.5% to 35.8% of pensionable pay.

#### (d) Benefits

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

Service pre 1st April 2008:

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

Service post 31st March 2008:

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

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

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

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

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

### 2 Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2023/24 financial year and its position as at 31st March 2024. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, which is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector, as well as guidance on Investment Valuations issued by the Pensions Research Accountants Group (PRAG).

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

The accounts have been prepared on a going concern basis. The London Borough of Bromley Pension Fund is an open scheme with a strong covenant from the participating employers and is therefore able to take a long-term outlook when considering the general funding implications of external events. The Fund was 110% funded at the 31 March 2019 valuation and funding had improved to 115% funded at the 31 March 2022 valuation.

# PENSION FUND

## Notes to the Accounts

---

### 2 *Basis of Preparation (continued)*

Cash flow in the Fund is generally provided by the ongoing excess of contributions over payments. Additionally, a portion of investment income generated by the Fund is also retained as cash to provide additional liquidity. The Fund held cash of £47.89 million at the Balance Sheet date, equivalent to 3.37% of the Fund Assets. In addition, the Fund held £1.3 billion in Level 1 and Level 2 investment assets which could be realised in 3 months if required.

The overall cash flow position is subject to periodic monitoring and review to ensure that there is sufficient liquidity in Fund assets to meet any commitments. The Fund can disinvest to ensure that it is able to remain liquid for a period of at least 12 months from the date the financial statements are authorised for issue. As such, the accounts have been prepared on a going concern basis.

### 3 *Summary of Significant Accounting Policies*

#### *(a) Contribution income*

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

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

#### *(b) Transfers to and from other schemes*

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

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

#### *(c) Investment Income*

##### *(i) Interest income*

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

##### *(ii) Dividend income*

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

##### *(iii) Distributions from pooled funds*

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

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

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

#### *(d) Benefits payable*

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

# PENSION FUND

## Notes to the Accounts

---

### 3 Summary of Significant Accounting Policies (continued)

#### *(e) Taxation*

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

#### *(f) Management expenses*

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

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

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

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

#### *(g) Investment management expenses*

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

#### *(h) Financial assets*

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

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS9 (see Note 11).

#### *(i) Foreign currency transactions*

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

#### *(j) Cash and cash equivalents*

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

#### *(k) Financial liabilities*

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

# PENSION FUND

## Notes to the Accounts

---

### 3 *Summary of Significant Accounting Policies (continued)*

#### *(l) Actuarial present value of promised retirement benefits*

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

#### *(m) Additional voluntary contributions (AVCs)*

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

#### *(n) Contingent Assets and Liabilities*

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

#### *(o) Events After the Reporting Period End*

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

- those that provide evidence of conditions that existed at the end of the reporting period – the accounts are adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the accounts are not adjusted to reflect such events, but, where a category of events would have a material effect, disclosure is made of the nature of the events and their estimated financial effect.

#### *(p) Basis for Valuation*

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

##### **Level 1** - London CIV (Baillie Gifford) and MFS equities

The majority of listed investments are stated at closing bid price or where not available, the last traded price as at 31 March 2024.

##### **Level 2** - Fidelity and Schroders fixed income and multi asset funds

(when not subject to a material uncertainty clause)

Closing bid price where bid and offer prices are published or closing single price where single price is published

##### **Level 3** - Fidelity and Morgan Stanley Northaven pooled property funds

Market value as published in the audited accounts.

#### *(q) Roundings*

It is not the Council's policy to adjust for immaterial cross-casting differences between the main statements and disclosure notes.

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

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

# PENSION FUND

## Notes to the Accounts

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

The actuarial present value of promised retirement benefits is included in Note 16. Estimation of the net liability to pay pensions and the judgements used are carried out by the scheme actuary. The significant judgements relate to the discount rate used, salary increase projections, inflation and demographic assumptions. As for the 31 March 2022 figures, the figure includes the potential impact of the McCloud judgement.

### 5 Contributions receivable

	2022/23 £000	2023/24 £000
Employer Contributions		
L.B. Bromley part of Fund		
L.B. Bromley - normal	10,313	10,056
- augmentations	-	-
- deficit funding	-	-
Scheduled bodies - Foundation Schools	250	168
	<u>10,563</u>	<u>10,224</u>
Other		
Scheduled bodies - normal - academies	14,481	15,275
- normal - colleges	777	930
Admitted bodies - normal	626	1,134
- deficit funding	478	478
	<u>26,925</u>	<u>28,041</u>
Member Contributions		
L.B. Bromley part of Fund		
L.B. Bromley	3,902	4,000
Scheduled bodies - Foundation Schools	166	118
	<u>4,068</u>	<u>4,118</u>
Other		
Scheduled bodies - academies	4,111	4,617
- colleges	409	489
Admitted bodies	311	377
	<u>8,899</u>	<u>9,601</u>

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

### 6 Benefits Payable

	2022/23 £000	2023/24 £000
Pensions		
L.B. Bromley part of Fund	16,815	18,653
Scheduled bodies - Foundation Schools	12,611	13,989
Admitted bodies	2,158	2,394
	<u>31,584</u>	<u>35,036</u>
Lump Sum Benefits - retirement		
L.B. Bromley part of Fund	2,923	3,891
Scheduled bodies - Foundation Schools	1,111	24
Admitted bodies	480	514
	<u>4,514</u>	<u>4,429</u>
Lump Sum Benefits - death		
L.B. Bromley part of Fund	463	934
Scheduled bodies - Foundation Schools	29	58
Admitted bodies	-	-
	<u>492</u>	<u>992</u>

## PENSION FUND

### Notes to the Accounts

#### 7 Management Expenses

	2022/23	2023/24
	£000	£000
Administrative costs	985	743
London CIV implementation & service chg	110	101
External audit costs	16	16
Investment management expenses	5,538	6,088
Oversight and governance costs	358	419
	<u>7,007</u>	<u>7,367</u>

#### 8 Investment Management Expenses

	2022/23	2023/24
	£000	£000
Management fees	5,253	5,678
Custody fees	216	274
Transaction costs	69	136
	<u>5,538</u>	<u>6,088</u>

#### 9 Investment Income

	2022/23	2023/24
	£000	£000
Income from equities	13,518	10,049
Pooled property investments	3,521	5,816
Pooled investments	13,367	21,811
Interest on cash deposits	62	753
	<u>30,468</u>	<u>38,429</u>

#### 10 Investments

Following a review of the Fund's investment strategy in 2021, to help manage the projected cashflow position of the Fund, Fidelity Bonds were changed from re-investing to income distributing. The managers as at 31st March 2024 were as follows:

Global equities: Baillie Gifford and MFS.  
Pooled global equities - London Collective Investment Vehicle  
Fixed income: Fidelity.  
Multi-Asset Income: Fidelity and Schroders.  
Pooled Property: Fidelity and Morgan Stanley

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

The bid value of the Fund as at 31st March 2023 and 2024 was divided between the Fund managers as follows:

	31st March 2023		31st March 2024	
	£000	%	£000	%
Baillie Gifford - global equities	437,538	34.54%	0	0.00%
LCIV - Pooled global equities	0	0.00%	431,588	30.86%
Fidelity - fixed income	142,095	11.22%	210,227	15.03%
- multi-asset income	124,341	9.81%	123,668	8.84%
- pooled property	65,144	5.14%	59,898	4.28%
- USD liquidity fund	20,524	1.62%	14,435	1.03%
MFS - global equities	348,988	27.55%	412,554	29.50%
MS Northaven - US property	14,230	1.12%	25,671	1.84%
Schroders - multi-asset income	113,930	8.99%	120,399	8.61%
London CIV	150	0.01%	150	0.01%
	<u>1,266,940</u>	<u>100.00%</u>	<u>1,398,590</u>	<u>100.00%</u>



# PENSION FUND

## Notes to the Accounts

### 10 Investments (continued)

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

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

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

	31st March 2023	31st March 2024
	£000	£000
Multi-Asset Income Fund (2)	238,271	244,067
Global Equities Funds (1)	-	431,588
Property Funds (2)	79,374	85,569
Sterling Bond Funds (1)	142,095	210,227
	<u>459,740</u>	<u>971,451</u>

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

	Value at 31st March 2023	Purchases	Sales	Change in value	Value at 31st March 2024
	£000	£000	£000	£000	£000
Equities	773,901	63,614	(496,418)	61,267	402,364
Pooled investments	380,352	508,951	(65,000)	61,579	885,882
Pooled property investments	79,373	10,455	(616)	(3,644)	85,569
	<u>1,233,626</u>	<u>583,020</u>	<u>(562,034)</u>	<u>119,203</u>	<u>1,373,815</u>
Money market funds	20,524			(213)	29,623
Cash deposits	10,745			12	9,360
Amounts receivable for sales	187				-
Investment income due	5,642				6,605
Amounts payable for purchases	(665)				-
<b>Net investment assets</b>	<b><u>1,270,059</u></b>			<b><u>119,001</u></b>	<b><u>1,419,403</u></b>

	Value at 31st March 2022	Purchases	Sales	Change in value	Value at 31st March 2023
	£000	£000	£000	£000	£000
Equities	850,400	127,184	(187,509)	(16,174)	773,901
Pooled investments	376,020	50,000	(1,064)	(44,604)	380,352
Pooled property investments	81,776	12,175	(1,033)	(13,545)	79,373
	<u>1,308,196</u>	<u>189,359</u>	<u>(189,606)</u>	<u>(74,323)</u>	<u>1,233,626</u>
Money market funds	11,159			624	20,524
Cash deposits	6,563			(79)	10,745
Amounts receivable for sales	-				187
Investment income due	4,763				5,642
Amounts payable for purchases	-				(665)
<b>Net investment assets</b>	<b><u>1,330,681</u></b>			<b><u>(73,778)</u></b>	<b><u>1,270,059</u></b>

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

Transaction costs, comprising costs charged directly to the scheme such as fees, commissions, stamp duty and other fees, are included in the cost of purchases and sale proceeds. Transaction costs incurred during the year totalled £136k (£69k in 2022/23). Indirect costs are also incurred through the bid-offer spread on investments within pooled investment vehicles, but amounts are not separately provided to the scheme.

# PENSION FUND

## Notes to the Accounts

### 10 Investments (continued)

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

	31st March 2023		31st March 2024	
	£000	% of total	£000	% of total
Fidelity				
- Institutional Aggregate Bond Fund	142,087	10.96	210,227	14.57
- Diversified Income Fund	124,341	9.59	123,668	8.57
- UK Real Estate Fund	65,144	5.02	59,898	4.15
LCIV BG - Global Equities Fund	-	-	431,588	29.91
Schroders - Global Multi Asset Income	113,930	8.79	122,018	8.46

### 11 Fair Value Hierarchy

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

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

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

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

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

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

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

#### Determination of the fair value of assets

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

	As at 31st March 2024			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<b>Financial assets at fair value through profit and loss</b>				
Equities	402,364			402,364
Pooled investments	431,588	454,294		885,882
Pooled property investments			85,569	85,569
London CIV			150	150
Cash deposits	9,368			9,368
Investment income due	6,605			6,605
Amounts receivable for sales	0			-
	849,925	454,294	85,719	1,389,938
<b>Financial liabilities at fair value through profit and loss</b>				
Amounts payable for purchases	-			-
	-	-	-	-
<b>Total</b>	<b>849,925</b>	<b>454,294</b>	<b>85,719</b>	<b>1,389,938</b>

# PENSION FUND

Notes to the Accounts

## 11 Fair Value Hierarchy (continued)

There were no transfers between levels during 2023/24

	As at 31st March 2023			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets at fair value				
Equities	773,901			773,901
Pooled investments		380,352		380,352
Pooled property investments			79,374	79,374
London CIV			150	150
Cash deposits	10,745			10,745
Investment income due	5,642			5,642
Amounts receivable for sales	187			187
	790,475	380,352	79,524	1,250,351
Financial liabilities at fair value				
Amounts payable for purchases	(665)			(665)
	(665)	-	-	(665)
Total	789,810	380,352	79,524	1,249,686

The valuation basis for each category of investment asset (Level 1, Level 2 & Level 3) is set out below:

Category of Investment Asset	Basis of Valuation	Observable & Unobservable Inputs	Key Sensitivities Affecting the Valuations Provided
<b>Level 1</b>			
Global equities	The published bid market price on the final day of the accounting period	Not required	Not required
Cash deposits held by Investment Managers	Carrying value is deemed to be fair value because of the short term nature of these financial instruments	Not required	Not required
Investment income due	Carrying value is deemed to be fair value because of the short term nature of these financial instruments	Not required	Not required
Futures and UK bond options (derivatives)	Published exchange price at the year end	Not required	Not required
Investment debtors and creditors	Carrying value is deemed to be fair value because of the short term nature of these financial instruments	Not required	Not required
Third party loans	Carrying value is deemed to be fair value because expected future interest rates are not significantly different from contractual interest rates for the loan	Not required	Not required

# PENSION FUND

## Notes to the Accounts

### 11 Fair Value Hierarchy (continued)

Level 2			
Unquoted equity investments	Average of broker prices	Evaluated price feeds	Not required
Unquoted fixed income bonds and unit trusts	Average of broker prices	Evaluated price feeds	Not required
Unquoted pooled fund investments	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	Market forward exchange rates at the year end	Exchange rate risk	Not required
Pooled property funds and hedge funds where regular trading takes place	Closing bid price where bid and offer prices are published. Closing single prices where single price is published.	NAV-based pricing set on a forward pricing basis	Not required
Level 3			
Share in London CIV	Regulatory capital payment for pooling membership	Valued at book cost	Not required
Pooled property	Valued by investment managers on a fair value basis each year using PRAG guidance	NAV-based pricing set on a forward pricing basis	Not required
Freehold and leasehold properties	Valued at fair value at year end	<ul style="list-style-type: none"> <li>•Existing lease terms</li> <li>•Nature of tenancies</li> <li>•Covenant strength</li> <li>•Vacancy levels</li> <li>•Estimated rental growth</li> <li>•Discount rate</li> </ul>	Not required
Shares in London CIV asset pool	Estimated value of the pension funds share of net assets held by the asset pool, based on relative % of shares held and voting rights	Current estimates of future dividend income	Not required
Other unquoted and private equities	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital guidelines 2018	<ul style="list-style-type: none"> <li>•EBITDA multiple</li> <li>•Revenue multiple</li> <li>•Discount for lack of marketability</li> <li>•Control premium</li> </ul>	Not required

#### Sensitivity of Assets Valued at Level 3

The Fund has determined that the valuation methods described for Level 3 investments, are likely to be accurate within certain ranges. The Pension Funds' only Level 3 investments are the Fidelity and Morgan Stanley Northaven Pooled Property investments. Please see Note 19 - Other Price Risk Sensitivity Analysis, which describes the value of each asset class at 31 March 2024, potential market movements (%), value on increase and decrease respectively.

## PENSION FUND

### Notes to the Accounts

#### 11b Fair Value Hierarchy (continued)

	Unquoted and private equity £'000	Property £'000	Total £'000
Value as at 31 March 2023	150	79,373	79,523
Purchases		10,455	10,455
Sales		(616)	(616)
Unrealised gains and losses *		(3,644)	(3,644)
<b>Value as at 31 March 2024</b>	<b>150</b>	<b>85,568</b>	<b>85,718</b>

\* Unrealised and realised gains and losses are recognised in the changes in value of investments line of the fund account.

	Unquoted and private equity £'000	Property £'000	Total £'000
Value as at 31 March 2022	150	81,776	81,926
Purchases		12,175	12,175
Sales		(1,033)	(1,033)
Unrealised gains and losses *		(13,008)	(13,008)
Realised gains and losses *		(537)	(537)
<b>Value as at 31 March 2023</b>	<b>150</b>	<b>79,373</b>	<b>79,523</b>

## PENSION FUND

Notes to the Accounts

### 12 Classification of Financial Instruments

2022/23			2023/24		
<i>Fair value through profit and loss</i>	<i>Financial assets at amortised cost</i>	<i>Financial liabilities at amortised cost</i>	<i>Fair value through profit and loss</i>	<i>Financial assets at amortised cost</i>	<i>Financial liabilities at amortised cost</i>
£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial Assets</b>					
380,352			885,882		
773,901			402,364		
79,374			85,569		
10,745			9,368		
5,642			6,605		
	150			150	
32,712			47,891		
-478			0		
	3,105			3,768	
	13,098			7,421	
	612			1,031	
<b>1,282,247</b>	<b>16,965</b>		<b>1,437,679</b>	<b>12,370</b>	
<b>Financial Liabilities</b>					
		(3,121)			(7,025)
		<b>(3,121)</b>			<b>(7,025)</b>
<b>1,282,247</b>	<b>16,965</b>	<b>(3,121)</b>	<b>1,437,679</b>	<b>12,370</b>	<b>(7,025)</b>

### 13 Current assets and liabilities

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

	2022/23	2023/24
	£000	£000
<u>Short term debtors</u>		
Contributions due from employers and employees	2,039	1,943
VAT debtor		1,206
Other	1,066	619
	<b>3,105</b>	<b>3,768</b>
Cash balances	12,188	18,268
Short term lending	13,098	7,421
<b>Total current assets</b>	<b>28,391</b>	<b>29,457</b>
<u>Current liabilities</u>		
Fund management fees	1,122	541
Sundry Creditors	1,999	6,484
	<b>3,121</b>	<b>7,025</b>

### 14 Long term debtors

	2022/23	2023/24
	£000	£000
<u>Long term debtors</u>		
Repayment of Exit Agreement	337	287
Reimbursement of lifetime tax allowances	651	795
	<b>988</b>	<b>1,082</b>

## PENSION FUND

### Notes to the Accounts

#### 15 Funding Arrangements

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

The valuation of the Fund (as at 31st March 2019) calculated a solvency funding level of 110% and set a common employer contribution rate (including allowance for McCloud) of 20.0% and total annual lump sum past-deficit contributions of £0.1m from 1st April 2020 until 31st March 2023 for those employers where a shortfall exists, additional contributions will be required over an average recovery period of 12 years. The most recent full valuation of the Fund (as at 31st March 2022) was carried out by the actuary during 2022/23. This calculated a new solvency funding level of 115%. For those employers where a shortfall exists, additional contributions will be required to correct this shortfall over an average recovery period of 10 years.

From 1st April 2023 until March 2026 the actuary has certified a Primary Contribution rate (i.e. the average contribution towards future service benefits across all employers) of 19.0% of pay. Secondary rate contributions is an offset of 0.04% of pay per annum (totalling approximately £0.05m per annum on average across all employers). The Secondary Rate payable also includes contributions towards the potential impact of the McCloud judgement as agreed with employers. For any schools adopting academy status from 1 April 2024, a contribution rate calculation will be carried out individually by the actuary.

The following assumptions were employed in the 2019 and 2022 valuations.

	2019	2022
	% p.a.	% p.a.
<b>Economic assumptions</b>		
Increases in earnings - long term	3.9	4.6
- short term (3 years)	n/a	n/a
General Inflation	2.4	3.1
Increases in pensions	2.4	3.1
Investment return - Overall discount rate	3.65	4.1
<b>Mortality assumptions</b>	<b>Years</b>	<b>Years</b>
Life expectancy - male aged 65 now	22.7	22.3
- at 65 for male aged 45 now	24.6	23.7
- female aged 65 now	25.1	24.4
- at 65 for female aged 45 now	27.1	26.5

**Commutation assumption** - It has been assumed that, on average, retiring members will take 75% of the maximum tax-free cash available at retirement. This is slightly less than the assumption at the 2019 actuarial valuation which was equivalent to members taking about 80% of the maximum tax-free cash available.

#### 16 Actuarial Present Value of Promised Retirement Benefits

The net liability of the London Borough of Bromley part of the Fund in relation to the actuarial promised retirement benefits and the net assets available to fund these benefits (both based on IAS 19 information available as at 31st March) is shown in detail in Note 44 to the main financial statements.

The figures shown in the Net Assets Statement are in respect of the Whole Fund.

The Fund is also required to disclose the actuarial present value of future benefits for the Fund as a whole. This was assessed by the Council's actuary under IAS 26 as £1,056m as at 31st March 2024 (£1,032m as at 31st March 2023).

	31 March	31 March
	2023	2024
	£000	£000
Present value of promised retirement benefits	-1,032,000	-1,056,000
Fair value of scheme assets (bid value)	1,282,397	1,443,066
<b>Net liability</b>	<b>250,397</b>	<b>387,066</b>

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

## PENSION FUND

### Notes to the Accounts

#### 16 Actuarial Present Value of Promised Retirement Benefits (continued)

The key feature of the proposed remedy is to extend the final salary “underpin” to a wider group of members for service up to 31 March 2024. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2014. In preparing the 2022 actuarial valuation of the London Borough of Bromley Pension Fund, the Fund’s actuary assessed, at the overall Fund level that the potential cost of the judgment could be an increase in past service liabilities of broadly £7 million and an increase in the Primary Contribution rate of 0.7% of Pensionable Pay per annum for the period to 31 March 2022. As part of the valuation, employers in the Fund were given the option to pay additional contributions to meet these potential costs.

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

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

The demographic assumptions used in preparing the IAS 26 figures are the same as those used for the 2022 actuarial valuation (see Note 15) but with a long-term rate of life expectancy improvement of 1.5% p.a. For the year end assumptions, the Actuary has also updated to the latest CMI tables available (CMI 2022) and applied a suitable reweighting. The following financial assumptions used were:

	2023	2024
	% p.a.	% p.a.
Increases in earnings	4.2	4.2
Increases in pensions	2.8	2.8
Inflation	2.7	2.7
Investment return - Overall discount rate	4.8	4.9

In June 2023, the UK High Court (Virgin Media Limited v NTL Pension Trustees II Limited) ruled that certain historical amendments for contracted-out defined benefit schemes were invalid if they were not accompanied by the correct actuarial confirmation. The judgment has now been upheld by the Court of Appeal.

The Local Government Pension Scheme is a contracted out defined benefit scheme and amendments have been made during the period 1996 to 2016 which could impact member benefits. Work is being performed by the Government Actuary’s Department as the Local Government Pension Scheme actuary to assess whether section 37 certificates are in place for all amendments and some of these have been confirmed, however, at the date of these financial statements, the full assessment is not complete. Until this analysis is complete, we are unable to conclude whether there is any impact on the assessed actuarial present value of promised retirement benefits under IAS 26, or if it can be reliably estimated. As a result, Bromley Pension Fund does not consider it necessary to make any allowance for the potential impact of the Virgin Media case in the disclosure of the actuarial present value of promised retirement benefits in its financial statements.



## PENSION FUND

### Notes to the Accounts

---

#### 17 Additional Voluntary Contributions

Contributing members have the right to make AVCs to enhance their pensions. In accordance with the LGPS (Management and Investment of Funds) Regulations 2016, AVCs are not included in the Pension Fund accounts. A summary of contributions made by members in 2022/23 and 2023/24 and the total value of AVC Funds as at 31st March 2023 and 2024 is shown below.

	2022/23	2023/24
	£000	£000
AVC contributions		
- to Aviva	27	13
<b>Total contributions</b>	<b>27</b>	<b>13</b>

	2022/23	2023/24
	£000	£000
Market Value		
- Aviva	553	604
- Utmost Life & Pensions	60	60
<b>Total Market Value</b>	<b>612</b>	<b>664</b>

#### 18 Related Parties

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

A special responsibility allowance of £8,250 was paid to the Chairman of the Committee in 2023/24 (£2,064 in 2022/23). No other payments were made for meeting attendance.

The Council incurred costs of £1.415m (£1.548m 2022/23) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses.

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

	2022/23	2023/24
	£000	£000
Short-term benefits	16	17
Post-employment benefits	4	5
	<b>20</b>	<b>22</b>

# PENSION FUND

## Notes to the Accounts

---

### 19 *Nature and extent of risks arising from financial instruments*

The Code of Practice on Local Authority Accounting in the United Kingdom 23/24 requires disclosure of the nature and extent of risks arising from financial instruments. This requirement extends to the specific risks related to Pension Fund investments. Detailed disclosures concerning these risks are included in this note on the next two pages.

#### Risk and Risk Management

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

#### Market Risk

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

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

#### Other price risk

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

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

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

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

In consultation with its investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for 2023/24, assuming that all other variables, in particular foreign exchange rates and interest rates remain the same.

# PENSION FUND

## Notes to the Accounts

### 19 Nature and extent of risks arising from financial instruments (continued)

#### Other price risk - Sensitivity Analysis

Asset type	Value as at 31.03.2024 £000	Potential market movements (+/-)	Value on increase £000	Value on decrease £000
UK bonds	211,330	2.74%	217,120	205,539
Overseas bonds	(1,103)	2.74%	(1,133)	(1,072)
UK quoted equities	462,177	21.2%	560,158	364,195
UK unquoted equities	150	0	150	150
Overseas equities	371,176	21.2%	449,865	292,486
Pooled investments - OIECs	245,687	4.50%	256,743	234,631
Pooled property investments - OIECs	59,898	7%	64,091	55,705
Overseas property investments	25,671	7%	27,468	23,874
<b>Total</b>	<b>1,374,984</b>		<b>1,574,462</b>	<b>1,175,509</b>

Asset type	Value as at 31.03.2023 £000	Potential market movements	Value on increase £000	Value on decrease £000
UK bonds	142,486	13.66%	161,950	123,023
Overseas bonds	(399)	13.66%	(453)	(344)
UK quoted equities	42,450	1.18%	42,951	41,949
UK unquoted equities	150	0	150	150
Overseas equities	731,452	1.18%	740,083	722,821
Pooled investments - OIECs	239,152	4.50%	249,914	228,390
Pooled property investments - OIECs	65,144	14.47%	74,571	55,718
Overseas property investments	14,230	14.47%	16,289	12,171
<b>Total</b>	<b>1,234,664</b>		<b>1,285,454</b>	<b>1,183,878</b>

#### Currency Risk

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

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

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

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

## PENSION FUND

### Notes to the Accounts

#### 19 Nature and extent of risks arising from financial instruments (continued)

##### Currency Risk - Sensitivity Analysis

Assets exposed to currency risk	Asset value as at 31.03.2024 £000	Potential market movement	Value on increase £000	Value on decrease £000
Overseas bonds	(1,103)	(110)	(1,213)	(993)
Overseas equities	371,176	37,118	408,293	334,058
Overseas pooled property	25,671	2,567	28,238	23,104
Cash and cash equivalents	9,368	937	10,305	8,431
<b>Total change in assets available to pay benefits</b>	<b>405,112</b>	<b>40,511</b>	<b>445,623</b>	<b>364,600</b>

Assets exposed to currency risk	Asset value as at 31.03.2023 £000	Potential market movement	Value on increase £000	Value on decrease £000
Overseas bonds	(399)	(40)	(439)	(360)
Overseas equities	731,452	73,145	804,597	658,307
Overseas pooled property	14,230	854	15,083	13,376
Cash and cash equivalents	25,429	2,543	27,972	22,886
<b>Total change in assets available to pay benefits</b>	<b>770,711</b>	<b>76,501</b>	<b>847,213</b>	<b>694,208</b>

##### Credit Risk

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

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

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

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years.

The Council reviews exposure to different classes of credit ratings for fixed-interest securities and these results are reviewed quarterly by the Director of Finance.

##### Liquidity Risk

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

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

## PENSION FUND

### Notes to the Accounts

#### 19 Nature and extent of risks arising from financial instruments (continued)

##### Liquidity Risk continued

The Fund has illiquid assets through the Fidelity and Morgan Stanley Northaven Property Funds, which had values of £59.9m and £25.7m respectively as at 31st March 2024, representing 6.2% of investment assets (£65.1m (5.2%) and £14.2m (1.1%) as at 31st March 2023).

##### Interest rate risk

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

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

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

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

##### Interest rate - risk sensitivity analysis

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

##### Assets exposed to interest rate risk:

Exposure to interest rate risk	Asset values as at 31.03.2024	Impact of 1% decrease	Impact of 1% increase
	£000	£000	£000
Cash and cash equivalents	9,368	9,274	9,461
Fixed interest bonds	210,227	208,125	212,329
<b>Total</b>	<b>219,595</b>	<b>217,399</b>	<b>221,791</b>

Exposure to interest rate risk	Asset values as at 31.03.2023	Impact of 1% decrease	Impact of 1% increase
	£000	£000	£000
Cash and cash equivalents	56,555	55,990	57,121
Fixed interest bonds	142,087	140,666	143,508
<b>Total</b>	<b>198,643</b>	<b>196,656</b>	<b>200,629</b>

## PENSION FUND

### *Notes to the Accounts*

---

#### **20 *Contingent Assets***

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

#### **21 *Events After the Reporting Period***

There are no events after the reporting date to disclose.

**PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP**

	<b>Final Outturn 2022/23 £'000's</b>	<b>Estimate 2023/24 £'000's</b>	<b>Draft Actuals for 2023/24 £'000's</b>
<b>INCOME</b>			
Employee Contributions	8,900	9,600	9,602
Employer Contributions			
- Normal	26,446	27,000	27,563
- Past-deficit	478	478	478
Transfer Values Receivable	5,596	3,000	3,775
Investment Income			
- Re-invested	13,673	13,000	15,856
- Distributed	15,409	15,000	20,844
Total Income	<u>70,502</u>	<u>65,378</u>	<u>78,118</u>
<b>EXPENDITURE</b>			
Pensions	31,584	35,000	35,034
Lump Sums	5,006	5,000	5,422
Transfer Values Paid	4,079	4,000	4,370
Administration			
- Manager fees	5,253	4,900	5,678
- Other (incl. pooling costs)	1,754	1,600	1,689
Refund of Contributions	153	100	53
Total Expenditure	<u>47,829</u>	<u>50,600</u>	<u>52,246</u>
Surplus/Deficit (-)	<u>22,673</u>	<u>14,778</u>	<u>25,872</u>
<b>MEMBERSHIP</b>	<b>31/03/2023</b>	<b>31/03/2024</b>	
Employees	6,509	6,526	
Pensioners	6,019	6,139	
Deferred Pensioners	6,443	6,666	
	<u>18,971</u>	<u>19,331</u>	

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

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

### **Guide to the FSS and Policies**

The information required by overarching guidance and Regulations is included in [Section 2](#) and [Section 3](#) of the Funding Strategy Statement. This document also sets out the Fund’s policies in the following key areas:

#### **1. Actuarial Method and Assumptions (Appendix A)**

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, known as the “Primary” contribution rate, and any contribution variations due to underlying surpluses or deficits, known as the “Secondary” rate, together with other factors that may impact an employer’s contribution outcomes, are set out [here](#).

#### **2. Deficit Recovery and Surplus Offset Plans (Appendix B)**

The key principles when considering deficit recovery and surplus offset plans as part of the valuation are set out [here](#).

#### **3. Employer Types and Admission Policy, (Appendix C)**

Various types of employers are permitted to join the LGPS under certain circumstances. The conditions upon which their entry to the Fund is based and the approach taken is set out [here](#)

#### **4. Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements (Appendix D)**

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer’s liabilities in respect of the benefits of the exiting employer’s former employees along with a termination contribution certificate showing any exit debt or exit credit, due from or to the exiting employer. In some circumstances an employer and the Fund can enter a Deferred Debt Agreement. The termination policy can be found [here](#)

#### **5. New Academy Conversions and Multi-Academy Trusts (Appendix E)**

Current Fund policy regarding the treatment of local authority maintained schools when converting to academy status is for the new academy to inherit the school’s share of the historic local authority deficit at the point of its conversion. Further details on this and multi-academy trusts can be found [here](#).

#### **6. Review of Employer Contributions between Valuations (Appendix F)**



In line with the Regulations, the Administering Authority has the discretion to review employer contributions between valuations in prescribed circumstances. The Fund's policy on how the Administering Authority will exercise its discretion is set out [here](#).

## **7. Covenant Assessment and Monitoring Policy (Appendix G)**

The Fund has implemented a policy to regularly monitor the covenant of certain employers in the Fund to ensure they are able to meet their financial responsibilities to the Fund now and in the future. More details are set out [here](#).

## **8. Glossary (Appendix H)**

A glossary of the key terms used throughout is available at the end of this document [here](#).

## 1. Background

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

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

It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the London Borough of Bromley Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

### **Integrated Risk Management Strategy**

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund to meet the objective for all employers over different periods. The funding strategy includes appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would result in greater volatility of contribution rates at future valuations if these margins were not included. This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long term cost efficiency objectives. Individual employer results will also have regard to their covenant strength, where deemed appropriate by the Administering Authority.

### **The Regulations**

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

### **The Solvency Objective**

The Administering Authority's long-term objective is for the Fund to achieve and maintain a 100% solvency level over a reasonable time period. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if assumptions are borne out in practice, there would be sufficient assets to pay all benefits earned up to the valuation date as they fall due.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next in order to meet the Fund's objective. This in turn means that contributions will be subject to change from one valuation to another. This objective translates to an employer specific level when setting individual contribution rates so each employer has the same fundamental objective in relation to their liabilities.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen with sufficient prudence for this objective to be reasonably achieved in the long term at each valuation.

### **Long Term Cost Efficiency**

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise. Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

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

### **Employer Contributions**

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

## 2. Key Funding Principles

### Purpose of the FSS

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

The purpose of this Funding Strategy Statement is therefore:

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

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

<b>The aims of the fund are to:</b>	<b>The purpose of the fund is to:</b>
<ul style="list-style-type: none"><li>• manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due</li><li>• enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes</li><li>• maximise the returns from investments within reasonable risk parameters taking into account the above aims.</li></ul>	<ul style="list-style-type: none"><li>• receive monies in respect of contributions, transfer values and investment income, and</li><li>• pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the Regulations.</li></ul>

### Responsibilities of the key parties

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the

Pensions Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

### Key parties to the FSS

<b>The Administering Authority should:</b>	<b>The Individual Employer should:</b>
<ul style="list-style-type: none"> <li>• operate the pension fund</li> <li>• collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations</li> <li>• pay from the pension fund the relevant entitlements as stipulated in the Regulations</li> <li>• invest surplus monies in accordance the Regulations</li> <li>• ensure that cash is available to meet liabilities as and when they fall due</li> <li>• take measures as set out in the Regulations to safeguard the fund against the consequences of employer default</li> <li>• manage the valuation process in consultation with the Fund's actuary</li> <li>• prepare and maintain a FSS and an Investment Strategy Statement ("ISS), both after proper consultation with interested parties, and</li> <li>• monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary</li> <li>• effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and</li> <li>• establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.</li> </ul>	<ul style="list-style-type: none"> <li>• deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are a Deferred Employer</li> <li>• pay all contributions, including their own, as determined by the actuary, promptly by the due date</li> <li>• undertake administration duties in accordance with the Pension Administration Strategy.</li> <li>• develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework</li> <li>• make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and</li> <li>• have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and</li> <li>• notify the Administering Authority promptly of any changes to membership which may affect future funding.</li> <li>• understand the pension impacts of any changes to their organisational structure and service delivery model.</li> <li>• understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data would normally result in the employer paying higher contributions than otherwise would be the case if the data was of high quality.</li> </ul>

<b>The Fund Actuary should:</b>	<b>A Guarantor should:</b>
<ul style="list-style-type: none"> <li>• prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to its FSS and the Regulations</li> <li>• prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as such as pension strain costs, ill health retirement costs etc.</li> <li>• provide advice and valuations on the termination of admission agreements</li> <li>• provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default</li> <li>• assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations</li> <li>• advise the Administering Authority on the funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and</li> <li>• ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.</li> </ul>	<ul style="list-style-type: none"> <li>• notify the Administering Authority promptly of any changes to its guarantee status, as this may impact on the treatment of the employer in the valuation process or upon termination.</li> <li>• provide details of the agreement, and any changes to the agreement, between the employer and the guarantor to ensure appropriate treatment is applied to any calculations.</li> <li>• be aware of all guarantees that are currently in place</li> <li>• work with the Fund and the employer in the context of the guarantee</li> <li>• receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor.</li> </ul>

## Solvency Funding Target

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

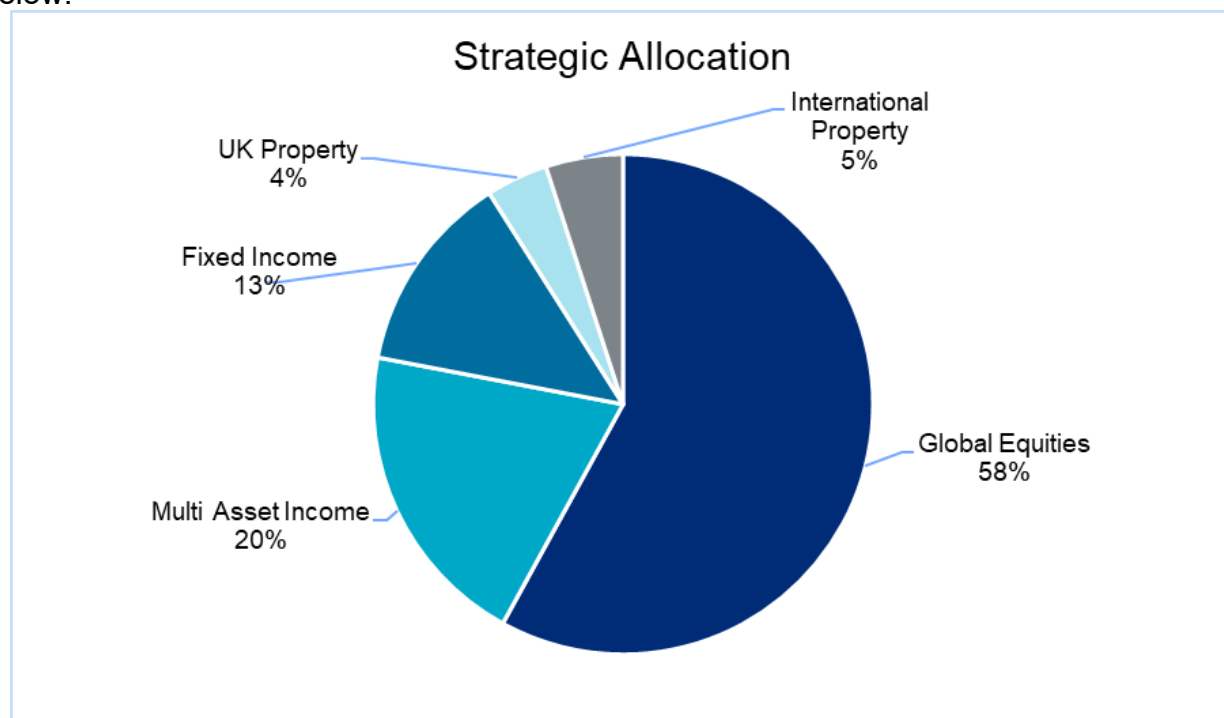
Each employer's contributions are set at such a level to achieve long-term cost efficiency and full solvency in a reasonable timeframe.

The results of the 2022 valuation show the liabilities to be 115% covered by the assets, with a funding surplus of £176m albeit there will be some instances, at an individual employer level, where a shortfall of assets exist. In such cases, the shortfalls will be covered by future deficit contributions.

### **Link to Investment Policy and the Investment Strategy Statement (ISS)**

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

The overall strategic asset allocation is set out in the ISS. The current strategy is included below.



The investment strategy set out above and individual return expectations on those asset classes equate to an overall best estimate average expected return of 3.6% per annum in excess of CPI inflation as at 31 March 2022 i.e. a 50/50 chance of achieving this real return. For the purposes of setting a long term sustainable funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations (see further comment in **Appendix A**).

### **Risk Management Strategy**

In the context of managing various aspects of the Fund's financial risks, the Administering Authority will consider implementing investment risk management techniques where appropriate. Further details will be set out in the ISS.

### **Climate Change**

An important part of the risk analysis underpinning the funding strategy will be to identify the impact of climate change transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes. In terms of the current valuation an analysis of different climate change scenarios at the Whole Fund level relative to the baseline position assuming that the funding assumptions are played out on a best estimate basis.

The projections are meant to illustrate the different elements of risk under two climate change scenarios based on the current strategic allocation. The scenarios are not meant to be predictors of what may happen and are only a small subset of a very wide range of

scenarios that could arise depending on the global actions taken in relation to climate change. The actions taken by the Fund in relation to making its asset portfolio more sustainable will be set out in the separate Taskforce for Climate Change (TCFD) reports. This will include analysis of the asset portfolio adopting the same (or similar) scenarios.

The analysis considers a projection of the funding levels under the scenarios considered which are designed to illustrate the transition and physical risks over different periods depending on what actions are taken globally on climate change.

The key metrics are the relative impact on the funding level over the different time periods as this illustrates the impact of climate related market shocks on the funding plan. Whilst these scenarios are only two out of a considerable range of potential outcomes, it shows that climate change can have far reaching effects on the Fund.

The Actuary applies a nuanced approach to understand what is/is not priced into the markets in terms of transition and physical risks. They include assumptions about what is currently priced into markets, and later price in shocks when the markets account for future impacts (both physical and transition impacts). The two climate shock scenarios considered are:

- 1. Rapid Transition** - there is a sudden divestment across multiple securities in 2025 to align portfolios to the Paris Agreement goals, this will have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock. Average temperature increase stabilises at 1.5°C around 2050. In relative terms to the best estimate basis at the valuation date, this could have a slightly detrimental impact on the funding level of around 5% after 5 years as the larger transition risks manifest. However, whilst the rapid transition sees a world that has a major shock in the early years there is then a period of recovery in the following years, with reduced physical damages in the long term. The projection then follows the baseline as the time period spans out towards 20 years and beyond.
- 2. Failed Transition** - The world fails to meet the Paris Agreement goals and global warming reaches 4.3°C above pre-industrial levels by 2100. Physical climate impacts cause large reductions in economic productivity and increasing impacts from extreme weather events. In relative terms this could lead to a marginal increase in the funding level of 2% after 5 years which reflects the lower impact from transition risks (versus the market pricing) and a hugely detrimental impact of 27% after 20 years which shows the material consequences of the physical risks from the significant temperature increases as time progresses.

The actuarial assumptions (versus the best estimate) include a level of prudence which implicitly allows for the climate risk and other risks to support future contribution stability and the Actuary has concluded that the level of prudence is currently sufficient. However, any climate related impacts will potentially put significant stress on the funding plan, especially when taken into account with other risk factors so needs to be monitored over time. Other risks (e.g. longevity) will also be considered in future analysis but are expected to have a much lower impact than the financial market impacts. The expected impact on asset returns under different scenarios and timeframes will be shown in more detail in the separate TCFD reports

## Identification of Risks and Counter-Measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the



actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target. The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes quantification of some of the major risk factors.

<b>Financial</b>	<b>Demographic</b>
<p>The financial risks are as follows:-</p> <ul style="list-style-type: none"> <li>• Investment markets fail to perform in line with expectations</li> <li>• Protection and risk management policies fail to perform in line with expectations</li> <li>• Market outlook moves at variance with assumptions</li> <li>• Investment Fund Managers fail to achieve performance targets over the longer term</li> <li>• Asset re-allocations in volatile markets may lock in past losses</li> <li>• Pay and price inflation significantly more than anticipated</li> <li>• Future underperformance arising as a result of participating in the larger asset pooling vehicle</li> <li>• An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.</li> </ul> <p>Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.</p> <p>In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.</p>	<p>The demographic risks are as follows:-</p> <ul style="list-style-type: none"> <li>• Future changes in life expectancy (longevity) that cannot be predicted with any certainty. Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds.</li> <li>• Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers</li> <li>• Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations. The Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy</li> </ul> <p>Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.</p>
<b>Governance</b>	<b>Regulatory</b>
<p>The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their representatives on the Local Pension Board) to make their views known to the Fund and to participate in</p>	<p>The key regulatory risks are as follows:-</p> <ul style="list-style-type: none"> <li>• Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to the Fund, Typically these would be via the Cost</li> </ul>

Governance	Regulatory
<p>the decision-making process. Governance risks are as follows:-</p> <ul style="list-style-type: none"> <li>• The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated</li> <li>• Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level</li> <li>• Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates</li> <li>• An employer ceasing to exist with insufficient funding or adequacy of a bond.</li> <li>• An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.</li> <li>• Changes in the Committee membership.</li> </ul> <p>For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored but in most cases the employer, rather than the Fund as a whole, bears the risk.</p>	<p>Management Process although in light of the McCloud discrimination case, there can be exceptional circumstances which give rise to unexpected changes in Regulations.</p> <ul style="list-style-type: none"> <li>• Changes to national pension requirements and/or HMRC Rules</li> <li>• Political risk that the guarantee from the Department for Education for academies is removed or modified along with the operational risks as a consequence of the potential for a large increase in the number of academies in the Fund due to Government policy.</li> </ul> <p>Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.</p>

## Monitoring and Review

A full review of this Statement will occur no less frequently than every 3 years, to coincide with completion of a full statutory actuarial valuation and every review of employer rates or interim valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

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

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Scheme membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy

- have been any significant special contributions paid into the Fund
- if there have been material changes in the ISS

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employers will be contacted. Further details on the circumstances in which the Administering Authority will review individual employer contribution rates

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

## **INTRODUCTION**

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

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

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

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

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

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

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

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

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

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

The Committee has appointed two asset managers within each of the four asset classes

listed above in order to reduce the risk that a single manager underperforms to an extent overall to reduce concentration risk. These asset managers are all authorised to invest in all assets permitted under the Regulations, subject to the provisions of their benchmarks and certain minor restrictions. Details of the Investment Guidelines and Restrictions are included below.

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

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

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

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

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

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

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

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

At the last full valuation of the Fund (as at 31st March 2022), the actuary valued the fund's assets at 115% of the fund's liabilities (110% in the previous valuation as at 31st March 2019). She determined employers' contribution rates with a view to maintaining the current solvency of the Fund and covering future pension accruals going forward, taking into account the investment strategy as set out in this statement.

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

The principle Funding risks are as follows:

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

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

The principle investment risks are as follows:

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

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

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

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

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

Other key risks that could have an adverse impact on the achievement of the Fund's funding strategy and target funding levels are analysed in the Fund's Funding Strategy

Statement, these include governance and regulatory risks

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

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

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

As at 31/03/2023 the Fund had not transferred any assets to the London CIV but the Committee continued to review the availability of funds within the London CIV and their acceptability and fit with the Fund's requirements. A decision was considered and made in the financial year that the Baillie Gifford fund would be transferred in-specie to the London CIV. This transfer took place in May 2023. This action was deemed most cost effective and the London CIV was able to meet the Fund's requirements in terms of governance; performance; risk and access to the required asset classes. Assets can be retained outside of the London CIV pool, for example if it is not deemed cost effective in terms of management fees and transition costs to transfer them, or if the CIV does not have a suitable sub-fund which meets the requirements of the Fund's asset allocation and investment strategy. The transfer of assets to the London CIV is kept under review by the Committee.

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

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

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

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

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

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

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

## **INVESTMENT GUIDELINES AND RESTRICTIONS**

### **General**

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

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

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

- All investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(d): 5%



### Other restrictions imposed by the authority

- Cash held at custodian's bank is not to exceed £2.5m for each individual fund manager, with any excess placed on the money market with the main clearing banks or placed in institutional cash funds approved by the authority
- No sub-underwriting
- Certain limits on use of futures and options are recorded in the relevant investment management agreements and fund prospectuses

### Asset Allocation

The current investment strategy comprises the following strategic asset allocations:

	<b>Benchmark %</b>
Global Equities	58
Multi-Asset Income	20
Fixed Income	13
UK Property	5
International Property	4
<b>Grand Total</b>	<b>100</b>

The Fund Managers have been set the following targets/benchmarks which their performance is measured against:

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

### Statement of Investment Beliefs

The Committee believes that:

- It is important that funding related aspects and, in particular, funding level and cash flow profile feed into investment strategy decisions. Given this, actuarial and investment matters, most notably setting investment strategy, are looked at in tandem by the Committee.

- The Committee targets a strong funding level to provide some buffer to the risk of future employer contribution increases. This enables the Committee to adopt a long term investment horizon, and is thereby prepared to accept short term volatility or illiquidity, in order to achieve higher investment returns. In this context, the Committee believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds. The Committee is therefore comfortable that the Fund maintains a significant allocation to equities in order to support the affordability of contributions.
- Strategic asset allocation is a key determinant of investment risk and return, and thus is typically more important than manager or stock selection. In addition, the Committee believes that periodic rebalancing of asset class weightings back to their strategic can add value over the long term.
- Risk can be mitigated through the diversification of the portfolio, by selecting a variety of both asset classes and managers. A balance needs to be struck between the need for diversification and keeping a small enough number of mandates to ensure good governance.
- Markets are dynamic and are not always efficient, and therefore offer opportunities for investors. Active management can add value over time but it is not guaranteed and can be hard to access. Where generating 'alpha' is particularly difficult, passive management may be preferred, but brings some of its own risks. In all cases, managers will be judged on after fees returns.
- Managing fees and costs matter, especially in low-return environments. The Committee believes in considering managers' performance on the basis of returns net of fees/costs and not of fees/costs alone.
- A strong ESG / Responsible Investor policy is required by regulation and should be seen within the context of the Fund's long-term investment and futureproofing its financial security. ESG considerations can help identify superior long-term investments and the Committee requires its managers to include them in their investment processes, provided these considerations do not impact financial returns or risk. The Fund requires managers to report back on them on ESG matters. The Committee believes that a policy of engaging with investee companies to improve their behaviour, rather than exclusion, is more compatible with their fiduciary duty and more supportive of their long term investment goals.
- Effective governance and decision-making structures that promote decisiveness, efficiency and accountability add value to the Fund. The Committee identifies good managers with which to work in partnership, delegates authority to them, and monitors their overall performance, on key matters, regularly.
- The Committee expects to assess the London CIV pool in any future management arrangements of investments on behalf of the Council's fund.
- The Committee also believes that taking independent advice, notably in investment and actuarial matters, which can strengthen governance and add value to the Fund.

## LONDON BOROUGH OF BROMLEY PENSION FUND COMMUNICATIONS POLICY STATEMENT

Regulation 61 of the Local Government Pension Scheme Regulations 2013 requires administering authorities to prepare, maintain and publish a Communications Policy Statement. This statement sets out the Council's policy concerning communications with members, members' representatives, prospective members and employing authorities.

<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>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 Finance.
National Website	The address of the LGPS website maintained by the Employer's Organisation for Local Government is published in the Scheme booklet, the annual newsletter and various other documents.	<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 any material changes or developments in the Scheme.	Production & distribution –Liberata in partnership with LBB.
Annual Benefit Statement	A statement of accrued and prospective benefits as at 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 or 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 or developments in the Scheme accompany this.	Production & distribution - Liberata.
Pay Advice to pensioners	A monthly pay advice is sent to Scheme pensioners if a material difference of £10.00.	Production & distribution - Liberata.
Annual pensions increase advice	A statement setting out increases to pensions is sent to pensioners annually in March/April. This is accompanied by a note of any relevant changes to the Scheme and a reminder to the pensioner to inform the Council of any changes in details.	Production & distribution - Liberata.
Staff Intranet	The staff intranet contains outline information about the Scheme and details of where further information may be obtained.	Head of Human Resources in conjunction with Director of Finance.
National website	The address of the LGPS website maintained by the Employer's Organisation for Local Government is published in the Scheme booklet, the annual newsletter and various other documents.	<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 Finance
Consultative documents	Consultative documents issued by ODPM are distributed to employing authorities where relevant.	Director of Finance

**ACTUARIAL METHOD AND ASSUMPTIONS**

The key whole Fund assumptions used for calculating the funding target and the cost of future accrual for the 2022 actuarial valuation are set out below.

<b>Financial Assumptions</b>	<b>2022 valuation assumption</b>	<b>Description</b>
<b>Investment return / discount rate</b>	4.1% p.a. (past) and 5.1% p.a. (future)	<p>Derived from the expected return on the Fund assets based on the long term strategy set out in the ISS, including appropriate margins for prudence. For the 2022 valuation this is based on an assumed return of 1% p.a. above CPI inflation (past) and 2% p.a. above CPI inflation (future). This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.</p> <p>Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole. Such cases will be determined by the Section 151 Officer and reported to the Committee.</p> <p>The assumed real returns quoted above will be periodically reviewed by the administering authority over the period to the next actuarial valuation to ensure that they reflect any significant changes in the Fund's investment strategy or significant changes in market conditions, which impact the appropriate margins for prudence referred to above that were agreed when setting the valuation funding strategy.</p>
<b>Inflation (Retail Prices Index)</b>	3.90% p.a.	The investment market's expectation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date (reflecting the profile and duration of the whole Fund's accrued liabilities).
<b>Inflation (Consumer Prices Index)</b>	3.10% p.a. (includes an adjustment of 0.80% p.a.)	RPI inflation (above) reduced to reflect the expected long-term difference between RPI and CPI measures of inflation (reflecting the profile and duration of the whole Fund's accrued liabilities and 2030 RPI reform) and adjusted to incorporate an Inflation Risk Premium ("IRP"). This IRP will be removed for the minimum risk termination basis, reflecting the degree of inflation hedging inherent in the notional termination basis and will also reflect the duration of an employer's liabilities in the

<b>Financial Assumptions</b>	<b>2022 valuation assumption</b>	<b>Description</b>
		case of a minimum risk termination calculation. The adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any market factors which affect the estimate of CPI inflation.
<b>Salary increases (long-term)</b>	4.60% p.a.	Pre 1 April 2014 benefits (and 2014 to 2022 McCloud underpin) - the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.50% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.
<b>Pension Increases and Deferred Revaluation</b>	3.10% p.a.	Assumed to be in line with the CPI inflation assumption above (noting that pension increases cannot be negative as pensions cannot be reduced). At the 2022 valuation, an adjustment has been made to the liabilities to allow for the known inflation for the period 30 September 2021 to 31 March 2022, and where material, allowance will continue to be made for inflation as it emerges when assessing funding positions between valuations.
<b>Indexation of CARE benefits</b>	3.10% p.a.	Assumed to be in line with the CPI inflation assumption above. For members in pensionable employment, indexation of CARE benefits can be less than zero (i.e. a reduction in benefits).

## Demographic Assumptions

### Mortality/Life Expectancy

The derivation of the mortality assumption is set out in separate advice as supplied by the Actuary. The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI) including a loading reflecting Fund specific experience and will make allowance for future improvements in longevity and the experience of the scheme. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health.

For all members, it is assumed that the trend in longevity seen over recent time periods (as evidenced in the 2021 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI 2021 projections and a long term improvement trend of 1.75% per annum. As an indication of impact, we have set out the life expectancies at age 65 based on the 2019 and 2022 assumptions:

Membership Category	Male Life Expectancy at 65 (2019 assumptions)	Female Life Expectancy at 65 (2019 assumptions)
Pensioners	22.7	25.1
Actives aged 45 now	24.6	27.1
Deferreds aged 45 now	22.9	26.0

Membership Category	Male Life Expectancy at 65 (2022 assumptions)	Female Life Expectancy at 65 (2022 assumptions)
Pensioners	22.3	24.4
Actives aged 45 now	23.7	26.5
Deferreds aged 45 now	23.4	26.0

For example, a male pensioner, currently aged 65, would be expected to live to age 87.3. Whereas a male active member aged 45 would be expected to live until age 88.7. The difference reflects the expected increase in life expectancy over the next 20 years in the assumptions above.

The mortality before retirement has also been reviewed based on LGPS wide experience. The post retirement mortality tables adopted for this valuation are set out below:

Current Status	Retirement Type	Mortality Table
Male Annuitant	Normal health	103% S3PMA_CMI_2021 [1.75%]
Female Annuitant	Normal health	98% S3PFA_M_CMI_2021 [1.75%]
Male Annuitant	Dependant	121% S3PMA_CMI_2021 [1.75%]
Female Annuitant	Dependant	111% S3DFA_CMI_2021 [1.75%]
Male Annuitant	Ill health	121% S3IMA_CMI_2021 [1.75%]
Female Annuitant	Ill health	154% S3IFA_CMI_2021 [1.75%]
Male Annuitant	Future dependant	121% S3PMA_CMI_2021 [1.75%]
Female Annuitant	Future dependant	111% S3DFA_CMI_2021 [1.75%]
Male Active	Normal health	111% S3PMA_CMI_2021 [1.75%]
Female Active	Normal health	98% S3PFA_M_CMI_2021 [1.75%]
Male Active	Ill health	240% S3IMA_CMI_2021 [1.75%]

Female Active	Ill health	315% S3IFA_CMI_2021 [1.75%]
Male Deferred	All	115% S3PMA_CMI_2021 [1.75%]
Female Deferred	All	105% S3PFA_M_CMI_2021 [1.75%]
Male Active / Deferred	Future dependant	126% S3PMA_CMI_2021 [1.75%]
Female Active / Deferred	Future dependant	115% S3DFA_CMI_2021 [1.75%]

<b>Other Demographic Assumptions</b>	
<b>Commutation</b>	Following analysis undertaken by the Actuary, it has been assumed that all retiring members will take 75% of the maximum tax-free cash available at retirement. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.
<b>Other Demographics</b>	Alongside commutation, as part of the 31 March 2022 valuation, the Actuary has carried out analysis to review the assumptions relating to: the incidence of ill health retirements, withdrawal rates, the proportions married/civil partnership assumption, and also the probability of member's dying prior to retirement. Following the outcomes of this analysis, the assumptions for proportions married/civil partnerships and the pre-retirement mortality have been updated in line with the recommendations from the Actuary. All other assumptions remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years.
<b>Expenses</b>	Expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 1.0% of pensionable pay to the contributions from participating employers. This is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.
<b>Discretionary Benefits</b>	The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

Further details on the demographic assumptions are set out in the Actuary's formal report.

## Method

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, alternative methods are adopted, which make advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.



The assumptions to be used in the calculation of the funding target are set out above. Underlying these assumptions are the following two tenets:

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

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

There will be a funding plan for each employer. In determining contribution requirements the Administering Authority, based on the advice of the Actuary, will consider whether the funding plan adopted for an employer is reasonably likely to be successful having regard to the particular circumstances of that employer (potentially taking into account any material changes after the valuation date up to 31 March 2023).

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

## **Method and assumptions used in calculating the cost of future accrual (or primary rate)**

The future service liabilities are calculated using the same assumptions as the solvency funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary Rate” (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition, the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

## **Employer asset shares**

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

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset share maybe restated for changes in data or other policies. Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

## Other factors affecting employer contribution outcomes

Notwithstanding the policies below, the Administering Authority, in consultation with the actuary where necessary, reserves the right to consider whether any exceptional arrangements should apply in particular cases.

**Liability Reserve for uncertain Economic Outlook:** Recognising the uncertain economic outlook at the valuation date, with the aim of ensuring contribution stability at the 2025 actuarial valuation and beyond, the administering authority will provide employers with the option of adding a 10% reserve on to their baseline 31 March 2022 liabilities in order to protect the employer from adverse changes in market conditions over the next inter-valuation period. This reserve is not mandatory and will be for the employer to decide whether to apply based on their own circumstances.

**Contractors (with partial guarantees):** - For those admitted bodies participating in the Fund where any liabilities in relation to post admission date service are not guaranteed by the letting employer, a Primary Rate contribution will be certified only for 2023/26 unless agreed otherwise with the administering authority. The potential unfunded liabilities that may emerge following termination of the admission agreement will be assessed separately by the Actuary as part of a bond review exercise following the valuation and will be communicated to the employer at that time.

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

After the valuation, the Fund may continue to monitor employer's covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer. Further details are set out in Appendix G.

**Target Contribution Rate (academies):** By number, academies form the largest group of employers in the Fund. For those academies in deficit, the target total contribution rate for each academy will be broadly set to be the same target adopted at the 2019 valuation, namely 23.3% of pay.

**Stability:** Subject to affordability considerations (and any change emerging to the Primary Rate) a key principle will be to maintain total contributions in line with those scheduled to be payable following the preceding valuation (including any indexation in these monetary payments over the recovery period) unless there is a specific reason not to do so. As set out in Appendix B, for those employers in surplus, surplus offset secondary contributions will only be permitted in certain circumstances.

**Contribution Increases:** It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore may in some cases be willing to use its discretion to accept an evidence based affordable level of contributions for such organisations for the three years 2023/2026. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the

appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

**Pooling** Where agreed by the Administering Authority, the contribution rate outcomes for certain employers may be pooled together, with a single contribution rate being certified by the Actuary in the Rates and Adjustments Certificate e.g. for Multi-Academy Trusts who have a number of different constituent academies within the Fund (as per Appendix E). It should be noted that contributions will still be allocated to the individual employers by the administration team.

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

**Early Retirement Strain Costs:** Any “strain” costs generated as a result of redundancy, efficiency or flexible retirements will be recovered by additional capital payments to the Fund by the employer. These will be paid in full at the point of retirement.

**Deaths:** The extent to which any funding strain/profit emerges on the death of a member will depend on the profile of the member (status / age / whether any dependant’s benefits become payable) and impacts can be material. Any funding strain/profit will typically emerge at the next actuarial valuation through increased/reduced deficit contributions, except where the employer is terminating, when it will be taken into account when the Actuary determines the termination position

**EMPLOYER DEFICIT AND SURPLUS OFFSET PLANS****Employer Recovery Plans – key principles**

If the funding level of an employer is below 100% at the valuation date (i.e. the assets of the employer are less than the liabilities), a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

The target recovery period for the Fund as a whole is 12 years at this valuation which is the same as the corresponding target for the 2019 valuation. Subject to affordability and other considerations individual employer recovery periods would be expected to reduce at this valuation relative to the 2019 valuation albeit in certain circumstances this may not be possible in order to achieve contribution rate stability. In such cases, as agreed with the Administering Authority, a longer recovery period (subject to a maximum of 12 years) may apply. At this actuarial valuation the average recovery period adopted for employers in deficit is 10 years, and for employers in surplus is 12 years

Secondary Rate contributions for each employer will be expressed as £s amounts (flat or increasing year on year or as a percentage of pay, as deemed appropriate by the Administering Authority, and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures, based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish.

The determination of the recovery periods is summarised in the table below:

<b>Category</b>	<b>Default Deficit Recovery Period</b>
Fund Employers	Lower of 12 years and period required to target stability of overall contributions, subject to a minimum of 3 years.
Open Admitted Bodies	Lower of 12 years and period required to target stability of overall contributions, subject to a minimum of 3 years.
Closed Employers	Lower of 12 years and the future working lifetime of the membership
Employers with a limited participation in the Fund	Determined on a case by case basis

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain broadly the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period), taking into account any changes in the primary rate contribution requirements.

### **Other factors affecting the employer deficit recovery plans**

As part of the process of agreeing funding plans with individual employers and managing risk in the inter-valuation period, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

### **Surplus offset plans**

For those employers assessed to be in surplus at the valuation date, surplus offsets will be only be available to the extent that total overall contributions do not reduce versus those currently payable following the preceding valuation. Any residual surplus retained will act as a margin against investment risk and other potential adverse experience over 2023/26.

Surplus off-sets will be allowed only where there is no deficit on the termination basis. The exception to this will be employers who have moved from a deficit at the last valuation to a surplus at this valuation. As these employers will no longer need to pay deficit contributions, they may see a reduction in overall total contributions.

For any employers assessed to be in surplus at the valuation date, where surplus offsets will be payable, and who are expected to exit the Fund in the period to 31 March 2026 the Secondary rate payments will be based on the expected length of participation in the Fund. For all other employers assessed to be in surplus at the valuation date, where a surplus offset will be payable the Secondary rate will be based on a default recovery period of 12 years, unless otherwise agreed by the Administering Authority.

### **Administering Authority Discretion**

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases when determining deficit recovery/surplus offset plans.

## **EMPLOYER TYPES AND ADMISSION POLICY**

### **Entry to the Fund**

#### **Mandatory Scheme Employers**

Certain employing bodies are required to join the scheme under the Regulations. These bodies include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income). Please also refer to Appendix E in relation to academies.

#### **Designating Bodies**

Designating bodies are permitted to join the scheme if they pass a resolution to this effect. Designating bodies, other than connected entities, are not required under the Regulations to provide a guarantee. These bodies usually have tax raising powers and include Parish and Town Councils.

#### **Admission Bodies**

An admitted body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund. If its application is accepted by the administering authority, it will then have an “admission agreement”. In accordance with the Regulations, the admission agreement sets out the conditions of participation of the admitted body including which employees (or categories of employees) are eligible to be members of the Fund.

Admitted bodies can join the Fund if

- They provide a service for a scheme employer as a result of an outsourcing (formerly known as Transferee Admission Bodies)
- They provide some form of public service and their funding in most cases derives primarily from local or central government. In reality they take many different forms but the one common element is that they are “not for profit” organisations (formerly known as Community Admission Bodies).

In general, admitted bodies may only join the Fund if they are guaranteed by a scheme employer. However, there may be exceptional circumstances whereby, subject to the agreement of the Administering Authority, an admitted body joins the Fund with an alternative form of guarantee. When the agreement or service provision ceases, the Fund's policy is that in all cases it will look to recover any outstanding deficit from the outgoing body unless appropriate instruction is received from the outsourcing employer or guaranteeing employer, in which case the assets and liabilities of the admission body will in revert to the outsourcing scheme employer or guaranteeing employer.

#### **Connected Entities**

Connected entities by definition have close ties to a scheme employer given that a connected entity is included in the financial statements of the scheme employer. Although connected entities are “Designating Bodies” under the Regulations, they have similar characteristics to admitted bodies (in that there is an “outsourcing employer”). However, the Regulations do not strictly require such bodies to have a guarantee from a scheme employer.

However, to limit the risk to the Fund, the Fund will require that the scheme employer provides a guarantee for their connected entity, in order that the ongoing funding basis will be applied to value the liabilities.

## **Risk Assessments**

Prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. If the risk assessment and/or bond amount is not to the satisfaction of the Administering Authority (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the low risk / minimum risk termination methodology and assumptions.

Some aspects that the Administering Authority may consider when deciding whether to apply a low / minimum risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- If the admitted body has an expected limited lifespan of participation in the Fund;
- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

## **Admitted Bodies providing a service**

Generally Admitted Bodies providing a service will have a guarantor within the Fund that will stand behind the liabilities. Accordingly, in general, the low or minimum risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a "risk assessment report" provided by the actuary to the Fund. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the Fund it must also be satisfied (along with the Administering Authority) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Administering Authority, the level of the bond amount will be subject to review on a regular basis.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund's general policy as set out in Appendix A. Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body may be documented in the admission agreement (alongside the commercial agreement between the two parties).

In the event of termination of the Admitted Body, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer.

An exception to the above policy applies if the guarantor is not a participating employer within the Fund, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the LBBPF the Administering Authority may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the minimum risk methodology and assumptions.

## **Contribution Rate Assessments**

In most situations, unless agreed otherwise with the Administering Authority, the Actuary will undertake an assessment of the required contribution rate payable by the new admitted body.

## **Pre-Funding for termination**

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a low or minimum risk methodology and assumptions, subject to the agreement of the Administering Authority. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination due to the use of a notional matching investment strategy (see below). However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the low or minimum risk basis.

For any employing bodies funding on such a low or minimum risk strategy a notional investment strategy will be assumed as a match to the liabilities. In particular, the employing body's notional asset share of the Fund will be credited with an investment return in line with the low or minimum risk funding assumptions adopted rather than the actual investment return generated by the actual asset portfolio of the entire Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Fund, or depending on any case specific circumstances.



## **TERMINATION POLICY, FLEXIBILITY FOR EXIT PAYMENTS AND DEFERRED DEBT AGREEMENTS**

### **Exiting the Fund**

#### **Termination of an employer's participation**

When an employer's participation in the Fund comes to its end, or is prematurely terminated for any reason (e.g. a contract with a local authority comes to an end or the employer chooses to voluntarily cease participation), employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund with a different Administering Authority.

Where the Fund obtains advance notice that an employer's participation is coming to an end, the Regulations enable the Fund to commission a funding assessment leading to a revised contribution certificate which is designed to eliminate, as far as possible, any surplus or deficit by the cessation date.

Whether or not an interim contribution adjustment has been initiated once participation in the Fund has ceased, the employer becomes an exiting employer under the Regulations and the Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a revision of the rates and adjustment certificate showing any contributions due from the admission body.

When an employer exits the Fund, as an alternative to requiring an immediate payment in full, the Regulations give power to the Fund to set a repayment plan to recover the outstanding debt over a period at its sole discretion and this will depend on the affordability of the repayments and financial strength of the exiting employer. Once this repayment plan is set the payments would not be reviewed for changes in the funding position due to market or demographic factors.

The Fund's policy for termination payment plans is as follows:

- The default position is for exit payments and exit credits to be paid immediately in full unless agreed otherwise with the relevant parties.
- At the discretion of the administering authority, instalment plans over a defined period will only be agreed when there are issues of affordability that risk the financial viability of the organisation and the ability of the Fund to recover the debt (see further details below).
- Any costs associated with the exit valuation will be paid by the employer by either increasing the exit payment or reducing the exit credit by the appropriate amount. In the case of an employer where the exit debt/credit is the responsibility of the original employer through a risk sharing agreement the costs will be charged directly to the employer unless the original employer directs otherwise.

In the event that unfunded liabilities arise that cannot be recovered from the exiting employer, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

## **Basis of Termination**

The LBBPF's policy is that a termination assessment will be made based on:

- A low risk basis, with the exception that;
- The Administering Authority retains a discretion to apply the minimum risk funding basis where an employer is not linked to a contract, unless;
- The employing body has a guarantor within the Fund (covering the liabilities associated with service prior to and post the admission date), or a successor body exists to take over the employing body's liabilities (including those for former employees), in which case the ongoing funding assumptions will be used.

This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated).

For all termination cases, the underlying assumptions adopted for individual employers will be based on the approximate duration of that employer's liabilities.

Details of the low risk and minimum risk funding bases are shown below.

If, instead, the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities, the Fund's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the Fund otherwise.

The guarantor or successor body will then, following any termination payment made, subsume the assets and liabilities of the employing body within the Fund. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.)

This may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body, including any funding deficit (or surplus) on closure. In these circumstances no termination payment will be required from (or made to) the outgoing employing body itself, as the deficit (or surplus) would be recovered via the successor body's own deficit recovery plan.

It is possible under certain circumstances that an employer can apply to transfer all assets and current and former members' benefits to another LGPS Fund in England and Wales. In these cases, no termination assessment is required as there will no longer be any orphan liabilities in the Fund. Therefore, a separate assessment of the assets to be transferred will be required.

Whether or not the termination liabilities are assessed on the valuation funding basis or the low risk / minimum risk termination basis, the liabilities may also include an allowance for estimated future administrative expenses in relation to any remaining members on termination.

## Implementation

### Admission bodies participating by virtue of a contractual arrangement

For employers that are guaranteed by a guarantor (usually the original employer or letting authority), the Fund's policy at the point of cessation is for the guarantor to subsume the residual assets, liabilities and any surplus or deficit under the default policy. In some instances an exit debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No payment of an exit credit will be payable unless representation is made as set out below.

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

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

If requested, the Administering Authority will provide details of the information considered as part of the determination. A determination notice will be provided alongside the termination assessment from the Actuary. The notice will cover the following information and process steps:

1. Details of the employers involved in the process (e.g. the exiting employer and guarantor).
2. Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision making process. The underlying principle will be that if an employer is responsible for a deficit, they will be eligible for any surplus. This is subject to the information provided and any risk sharing arrangements in place.
3. The final termination certification of the exit credit by the Actuary.
4. The Administering Authority's determination based on the information provided.
5. Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate risk sharing agreement. The default is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor unless representation is made by the relevant parties in line with the Regulations as noted above.

For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations unless the Fund is aware of the provisions of the risk sharing agreement in any representation made and determines an exit credit should be paid.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. Should a termination assessment be undertaken prior to final regulations being made, where a surplus or deficit isn't being subsumed, an allowance will be made for McCloud within the calculations consistent with the allowance made for the 2022 valuation.

For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the Regulations have been finalised, any calculations will be performed in line with the prevailing regulations these and associated guidance.

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

As the guarantor will absorb the residual assets and liabilities under the default policy above, it is the view of the Actuary that the ongoing valuation basis described above should be adopted for the termination calculations. This is the way the initial admission agreement would typically be structured i.e. the admission would be fully funded based on liabilities assessed on the valuation basis.

If the guarantor refuses to take responsibility, then the residual deferred pensioner and pensioner liabilities should be assessed on the more cautious low risk or minimum risk basis. In this situation the size of the termination payment would also depend on what happened to the active members and if they all transferred back to the original Scheme Employer (or elsewhere) and aggregated their previous benefits. As the transfer would normally be effected on a "fully funded" valuation basis the termination payment required would vary depending on the circumstances of the case. Where this occurs the exiting employer would then be treated as if it had no guarantor as per the policy below.

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

### **Non contract-based admission bodies with a guarantor in the Fund.**

The approach for these will be the same as that above and will depend on whether the guarantor is prepared to accept responsibility for residual liabilities. Indeed, it may be that Fund is prepared to accept that no actual termination payment is needed (even if one is calculated) and that all assets/liabilities can simply be absorbed by the guarantor.

### **Admission bodies with no guarantor in the Fund**

These are the cases where the residual liabilities would be orphaned within Fund. It is possible that a bond would be in place. The termination calculation would be on the more cautious low risk or minimum risk basis.

The actuarial valuation and the revision of any Rates and Adjustments Certificate in respect of the outgoing admission body must be produced by the Actuary at the time when the admission agreement ends; the policy will always be subject to change in the light of changing economic circumstances and legislation.

The policy for such employers will be:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation assessment by the Actuary). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. Should a termination assessment be undertaken prior to final regulations being made, allowance will be made for McCloud within the calculations consistent with the allowance made for the 2022 valuation. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the Regulations have been finalised, any calculations will be performed in line with these and associated guidance.

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

The above funding principles will also impact on the **bond requirements** for certain admitted bodies. The purpose of the bond is that it should cover any unfunded liabilities arising on termination that cannot be reclaimed from the outgoing body.

## **Connected Entities**

In the event of cessation, the connected entity will be required to meet any outstanding liabilities valued in line with the approach outlined above. In the event there is a shortfall, the assets and liabilities will revert to the Fund as a whole (i.e. all current active employers). In the event that a scheme employer provides a guarantee for their connected entity, the assets and liabilities will revert in totality to that scheme employer on termination, including any unrecovered deficit.

## **Policy in relation to the flexibility for exit debt payments and Deferred Debt Agreements (DDA)**

The Fund's policy for termination payment plans is as follows:

1. The default position is for exit payments to be paid immediately in full unless there is a risk sharing arrangement in place with a guaranteeing Scheme employer in the Fund whereby the exiting employer is not responsible for any exit payment. In the case of an exit credit the determination process set out above will be followed.
2. At the discretion of the administering authority, instalment plans over an agreed period or a Deferred Debt Agreement will only be agreed subject to the policy in relation to any flexibility in recovering exit payments.

As set out above, the default position for exit payments is that they are paid in full at the point of exit (adjusted for interest where appropriate). If an employer requests that an exit debt payment is recovered over a fixed period of time or that they wish to enter into a Deferred Debt Agreement with the Fund, they must make a request in writing covering the reasons for such a request. Any deviation from this position will be based on the Administering Authority's assessment of whether the full exit debt is affordable and whether it is in the interests of taxpayers to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer and will be charged as an upfront payment to the Fund.

The following policy and processes will be followed in line with the principles set out in the statutory guidance published 2 March 2021.

### **Policy for Spreading Exit Payments**

The following process will determine whether an employer is eligible to spread their exit payment over a defined period.

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided then the default policy of immediate payment will be adopted.
2. Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit debt over a period of time. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payments.
3. This could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.
4. The initial process to determine whether an exit debt should be spread may take up to 6 months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time
5. If it is agreed that the exit payments can be spread then the Administering Authority will engage with the employer regarding the following:
  - a. The spreading period that will be adopted (this will be subject to a maximum of 5 years).
  - b. The initial and annual payments due and how these will change over the period
  - c. The interest rates applicable and the costs associated with the payment plan devised (which will be met by the employer unless agreed otherwise with the Administering Authority)

- d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
  - e. The responsibilities of the employer during the exit spreading period including the supply of updated information and events which would trigger a review of the situation
  - f. The views of the Actuary, covenant, legal and any other specialists necessary
  - g. The covenant information that will be required on a regular basis to allow the payment plan to continue.
  - h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances)
6. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.
  7. The costs associated with the advice sought and drafting of the Debt Spreading Agreement will be passed onto the employer and will be charged as an upfront payment to the Fund.

## **Employers participating with no contributing members**

As opposed to paying the exit debt an employer may participate in the Fund with no contributing members and utilise the “Deferred Debt Agreements” (DDA) at the sole discretion of the Administering Authority. This would be at the request of the employer in writing to the Administering Authority.

The following process will determine whether the Fund and employer will enter into such an arrangement:

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation. If this information is not provided then a DDA will not be entered into by the Administering Authority
2. Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit debt that would be required if the arrangement was not entered into is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).
3. The initial process to determine whether a Deferred Debt Agreement should apply may take up to 6 months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date.
4. If the Administering Authority’s assessment confirms that the potential exit debt is not affordable, the Administering Authority will engage in discussions with the employer about the potential format of a Deferred Debt Agreement using the template Fund agreement which will be based on the principles set out in the Scheme Advisory Board’s separate guide. As part of this, the following will be considered and agreed:

- What security the employer can offer whilst the employer remains in the Fund. In general the Administering Authority won't enter into such an arrangement unless they are confident that the employer can support the arrangement on an ongoing basis. Provision of security may also result in a review of the recovery period and other funding arrangements.
- Whether an upfront cash payment should be made to the Fund initially to reduce the potential debt.
- What the updated secondary rate of contributions would be required up to the next valuation.
- The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
- The advice of the Actuary, covenant, legal and any other specialists necessary.
- The responsibilities that would apply to the employer while they remain in the Fund.
- What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the secondary contributions (e.g. provision of security).
- The circumstances that would trigger a variation in the length of the deferred debt agreement (if appropriate), including a cessation of the arrangement (e.g. where the ability to pay contributions has weakened materially or is likely to weaken in the next 12 months). Where an agreement ceases an exit payment (or credit) could become payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
- Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment or change in security underpinning the agreement.

The Administering Authority will then make a final decision on whether it is in the best interests of the Fund to enter into a Deferred Debt Agreement with the employer and confirm the terms that are required.

5. For employers that are successful in entering into a Deferred Debt Agreement, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the Deferred Debt Agreement in the interim if any of the agreed triggers are met.
6. The costs associated with the advice sought and drafting of the Deferred Debt Agreement will be passed onto the employer and will be charged as an upfront payment to the Fund.

## Termination Basis

A lower risk approach will apply on termination where liabilities are not being subsumed, to appropriately reflect the transfer of pension risk from the exiting employer to the Fund.

The discount rate underlying the **low risk** basis is set with reference to the return on corporate bond yields of an appropriate duration for the exiting employer.

The discount rate underlying the **minimum risk** basis is set with reference to the return on fixed interest government bond yields of an appropriate duration for the exiting employer.

Derivation of the discount rates will be kept under review over time.



In setting the CPI assumption to apply on the minimum-risk basis, market RPI inflation will be reduced by 0.3% p.a. to reflect the average difference between RPI and CPI indices allowing for RPI reform in 2030, consistent with the ongoing funding approach. However no adjustment will be made for an “inflation risk premium” reflecting the fully hedged nature of the notional minimum-risk portfolio. This adjustment will be kept under review over time. The low risk / minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2022) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body’s cessation date.

<b>31 March 2022</b>	<b>Low Risk Assumptions</b>	<b>Minimum Risk Assumptions</b>
Discount Rate	2.8% p.a.	1.7% p.a.
CPI price inflation	3.1% p.a.	3.6% p.a.
Pension increases/indexation of CARE benefits	3.1% p.a.	3.6% p.a.

All demographic assumptions will be the same as those adopted for the 2022 actuarial valuation, except in relation to the life expectancy assumption. Given the low risk / minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption. The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2% p.a. from 1.75% used in the 2022 valuation for ongoing funding and contribution purposes. This assumption will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.

### **Administering Authority discretion on low risk / minimum risk assumptions.**

The low-risk / minimum-risk bases of termination will be reviewed as a matter of course at each actuarial valuation but will also be reviewed in times of extreme events, such as a material shift in market conditions or shift in economic/fiscal policy which will affect the assets or liabilities of the exiting employer. This is to ensure that the approach remains appropriate, given the risk, associated with funding the orphaned liabilities left behind by an exiting employer, is being passed to other Fund employers, and ultimately the tax payer.

The Administering Authority therefore reserves the right to review the assumptions (both financial and demographic) if circumstances warrant it. Employers would be notified of any change (and the rationale for the change). For the avoidance of doubt the discount rate / investment return assumption will be not greater than the prudent expected return on the actual investments in which the Fund is reasonably expected to invest the assets of the terminating employer, as determined by the Administering Authority after taking appropriate advice.

The Fund also has the discretion to apply a different approach on a case by case basis taking into account all factors (financial and non-financial) pertaining to the exiting employer.

## **ACADEMIES / MULTI ACADEMY TRUST POLICY**

### **Academy conversions and deficit transfers**

The Fund's policy regarding the treatment of schools when converting to academy status is for the new academy to inherit the school's appropriate share of the historic local authority deficit prior to its conversion. This is in accordance with the Department for Education (DfE) guidance issued when the Academy conversion programme was extended to cover all schools.

The local authority has been assessed to have been in surplus at the 2022 actuarial valuation. Therefore, no deficit will be transferred to the new academy and the initial asset share allocated will be at least equal to the value of the liabilities associated with the transferring active members at the conversion date. The extent to which any surplus assets will be transferred to the new academy on conversion will be determined by the administering authority depending on market conditions at the point of conversion and also the approach adopted by the local authority to recovering contributions from pre-conversion schools.

### **Multi Academy Trusts**

Multi-Academy Trusts (MATs) are groups of academies managed and operated by one proprietor. The employer of non-teaching staff in academies is the proprietor of the Academy Trust and not the individual academy within the Trust. It is therefore the proprietor who is the employer for LGPS purposes making the MAT legally responsible for staff across all schools in the pool (see below).

Multi-Academy Trusts are often set up to cover a number of academies across England. The employees of the former schools can be employed directly by the Trust so they can be deployed across different academy schools in the Trust if necessary.

In cases where numerous academies are operated by the same managing Trust, the Fund is willing to allow a combined funding position and average contribution requirements to apply to all constituent academies (i.e. a pool). In such cases, the Actuary will certify a pooled Primary and Secondary contribution rate for the MAT in the Rates and Adjustments Certificate. Notwithstanding this, the Fund will continue to track the constituent academies separately, in the interests of transparency and clarity around entry and exit events.

### **Approach to setting contribution rates**

The Fund must have a separate employer number for each academy for transparency of cashflows, managing risks should an academy need to leave one Trust for another and for accounting where disaggregated disclosure reports are required. It should also be noted that the Department for Education (DfE) have confirmed that the guarantee relates to individual academies and MATs.

Any new academies joining an existing MAT pool in the Fund can contribute at the employer contribution rate already established for the MAT but an actuarial assessment will still need to be carried out to determine the deficit applicable to the transferring staff.

## REVIEW OF EMPLOYER CONTRIBUTIONS BETWEEN VALUATIONS

The Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

1. The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
2. The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.
3. An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them. The employer would be required to pay the costs of any review following completion of the calculations and is only permitted to make one request between actuarial valuation dates (except in exceptional circumstances and at the sole discretion of the Administering Authority).

Where the funding position for an employer significantly changes solely due to a change in assets (and changes in actuarial assumptions), the Regulations do not allow employer contributions to be reviewed outside of a full valuation although changes in assets would be taken into account when considering if an employer can support its obligations to the Fund after a significant covenant change (see 2. above).

The Administering Authority will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt, any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a rate review would not be undertaken close to the next actuarial valuation date unless in exceptional circumstances. For example:

- A contribution review due to a change in membership profile would not be undertaken in the 6 months leading up to the next valuation Rates and Adjustments Certificate.
- However, where there has been a material change in covenant, a review will be considered on a case by case basis which will determine if it should take place and when any contribution change would be implemented. This will take into account the proximity of the actuarial valuation and the implementation of the contributions from that valuation.

### Situations where contributions may be reviewed

Contributions may be reviewed if the Administering Authority becomes aware of any of the following scenarios. Employers will be notified if this is the case.

Consideration will also be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

#### 1) Significant changes in the employer's liabilities

This includes but is not limited to the following scenarios:

- a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
  - i. Restructuring of an employer
  - ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
  - iii. A bulk transfer into or out of the employer
  - iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements or a large number of withdrawals
- b) Two or more employers merging including insourcing and transferring of services
- c) The separation of an employer into two or more individual employers

In terms of assessing the triggers under a) above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than 10% of the total liabilities. In some cases this may mean there is also a change in the covenant of the employer.

Any review of the rate will only take into account the impact of the change in liabilities (including any underfunding in relation to pension strain costs) both in terms of the Primary and Secondary rate of contributions.

## **2) Significant changes in the employer's covenant**

This includes but is not limited to the following scenarios:

- a) Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other pension arrangement which may impair the security provided to the Fund.
- b) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.
- c) Where an employer exhibits behaviour that suggests a change in their ability and/or willingness to pay contributions to the Fund.

In some instances, a change in the liabilities will also result in a change in an employer's ability to meet this obligations.

Whilst in most cases the regular covenant updates requested by the Administering Authority will identify some of these changes, in some circumstances employers will be required to agree to notify the Administering Authority of any material changes. Where this applies, employers will be notified separately and the Administering Authority will set out the requirements

Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any specific details of restructure plans. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

In this instance, any review of the contribution rate would include consideration of the updated funding position (both on an ongoing and termination basis) and would usually allow for changes in asset values when considering if the employer can meet its obligations on both an ongoing and termination basis (if applicable). This could then lead to the following actions (see further comments below):

- The contributions changing or staying the same depending on the conclusion, and/or;
- Security to improve the covenant to the Fund, and/or;
- Funding for termination

## **Process and potential outcomes of a contribution review**

Where one of the listed events occurs, the Administering Authority will enter into discussion with the employer to clarify details of the event and any intent of the Administering Authority to review contributions. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Actuary, legal or a covenant specialist advisors.

This also applies where an employer notifies the Administering Authority of the event and requests a review of the contributions. The employer will be required to agree to meet any professional and administration costs associated with the review. The employer will be required to outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Administering Authority.

The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in data is expected to have a material effect on the outcome) and whether any supporting information is required from the employer.

As well as revisiting the employer's contribution plan, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- Whether the employer should fund for termination.
- Whether the Primary contribution rate should be adjusted to allow for any profile change and/or move to fund for termination
- Whether the secondary contributions should be adjusted including whether the length of the recovery period adopted at the previous valuation remains appropriate. The remaining recovery period from the valuation would be the maximum period adopted (except in exceptional and justifiable circumstances and at the sole discretion of the Administering Authority on the advice of the Actuary).

The review of contributions may take up to 6 months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment Certificate at the last valuation will be updated for any contribution changes. As part of the process the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor in the Fund, then the guarantor would be consulted on as part of the contribution review process.

The Administering Authority will agree a proportionate process for periodical ongoing monitoring and review following the implementation of the revised contribution plan. The Employer will be required to provide information to the Fund to support this, which will depend in part of the reasons for triggering the contribution review.

## COVENANT ASSESSMENT AND MONITORING POLICY

### Overview

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is any form of security in place and the value of the security
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital. Where appropriate, covenant assessments will also be carried out on organisations providing a third party guarantee.

### Risk criteria

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

—

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow

The relative priority placed on the pension scheme compared to corporate finances  
An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

### **Assessing employer covenant**

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publicly available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Green (RAG) rating and other suitable measures.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score e.g. the employer's contributions may potentially be reviewed.

### **Frequency of monitoring**

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly (at least annually) to allow for a thorough assessment of the financial metrics. Where appropriate, the funding position for certain employers may be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

In certain circumstances, some employers may be subject to a more detailed / frequent review when a risk criterion is triggered.

### **Covenant risk management**

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

- 1 Parental Guarantee and/or Indemnifying Bond
- 2 Transfer to a more prudent actuarial basis (e.g. the termination basis)
- 3 Shortened recovery periods and increased cash contributions

4 Managed exit strategies

5 Contingent assets and/or other security such as escrow accounts.



## GLOSSARY OF TERMS

### Actuarial Valuation

An investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

### Administering Authority

The council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

### Admission bodies

A specific type of employer under the Local Government Pension Scheme (the “LGPS”) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

### Benchmark

A measure against which fund performance is to be judged.

### Benefits

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to within the FSS. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

### Best Estimate Assumption

An assumption where the outcome has a 50/50 chance of being achieved.

### Bonds

Loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

### Career Average Revalued Earnings Scheme (CARE)

With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

## CMI

Acronym standing for “Continuous Mortality Investigation”. The CMI carry out research in relation to mortality and morbidity experience, which can then be used by actuaries to assess the funding required by pension funds and other bodies.

## CPI

Acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

## CPIH

An alternative measure of CPI which includes owner occupiers’ housing costs and Council Tax (which are excluded from CPI).

## Contingent Assets

Assets held by employers in the Fund that can be called upon by the Fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer

## Corporate Bonds

A corporate bond is a type of debt security issued by a company. The bonds usually offer a higher yields than a government bond (gilt) but carry more risk.

## Covenant

The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

## Deferred Debt Agreement (DDA)

A written agreement between the Administering Authority and an exiting Fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed Secondary rate until the termination of the DDA.

## Deferred Employer

An employer that has entered into a DDA with the Fund.

## Deficit

The extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

## Deficit recovery period

The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

## Derivatives

Financial instruments linked to the performance of specific assets which can be used to magnify or reduce exposure to those assets

## Discount Rate

The rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

## Early Retirement Strain

The additional cost incurred by a scheme employer as a result of allowing a Scheme Member aged 55 or over to retire before Normal Retirement Age and to receive a full pension based on accrued service at the date of retirement without full actuarial reduction.

## Employer's Future Service Contribution Rate ("Primary Rate")

The contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses. See also "Primary Rate" below.

## Employing bodies

Any organisation that participates in the LGPS, including admission bodies and Fund employers.

## Equities

Shares in a company which are bought and sold on a stock exchange.

## Equity Protection

An insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

## Exit Credit

The amount payable from the Fund to an exiting employer where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

## Fund / Scheme Employers

Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers. For example, these include councils, colleges, universities and academies

## Funding or solvency Level

The ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

## Funding Strategy Statement

This is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

## Gilts

Loans made to the UK Government, which the Government undertakes to repay at an agreed later date. The “coupon” (i.e. the interest paid as part of the loan agreement) and the final settlement amount will be a fixed amount and agreed at the outset of the loan.

## Government Actuary's Department (GAD)

GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

## Guarantee / guarantor

A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

## Guarantee of Last Resort

For the purposes of the FSS, a guarantee of last resort refers to the situation where an employer has exhausted all alternative options for payment of an exit debt and so the debt is recovered from another employer in the Fund, however the liabilities are not subsumed in this case.

## Index-Linked Gilts

Loans made to the UK Government, which the Government undertakes to repay at an agreed later date. The coupon (i.e. the interest paid as part of the loan agreement) and the final settlement amount are adjusted in line with the movements in RPI inflation in order to retain their ‘real’ value over time and protect against the potential effects of inflation.

## Investment Strategy

The long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

## Letting employer

An employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

## LGPS

The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

## Liabilities

The actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

### Long-term cost efficiency

This is a measure of the extent to which the Fund's policies properly address the need to balance immediate budgetary pressures with the undesirability of imposing an excessive debt burden on future generations.

### Low risk basis

An approach where the discount rate used to assess the liabilities is determined based on the market yields of Corporate bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund where the employer is linked to a contract.

### Maturity

A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

### McCloud Judgment

This refers to the linked legal cases of Sargeant and McCloud, and which found that the transitional protections (which were afforded to older members when the public service pension schemes were reformed in 2014/15) constituted unlawful age discrimination.

### Members

The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

### Minimum Risk Basis

An approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This may be adopted when an employer is exiting the Fund at the discretion of the Administering Authority depending on the circumstances.

### Orphan liabilities

Liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

### Percentiles

Relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

### Phasing/stepping of contributions

When there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

## Pooling

Employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

## Prepayment

The payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

## Present Value

The value of projected benefit payments, discounted back to the valuation date.

## Primary Contribution Rate

The contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant. The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates. See also "Employer's future service contribution rate" above.

## Profile

The profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

## Prudent Assumption

An assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

## Rates and Adjustments Certificate

A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.

## Real Return or Real Discount Rate

A rate of return or discount rate net of (CPI) inflation.

## Recovery Plan

If the funding level of an employer is above or below 100% at the valuation date (i.e. the assets of the employer are more or less than the liabilities), a recovery plan may be needed to return the funding level back to 100% over a fixed period ("the recovery period", as defined in the Funding Strategy Statement). The recovery plan will set out the Secondary contributions payable by an employer over the recovery period. Secondary contributions can

be positive or negative (i.e. an off-set to future accrual costs) but there are restrictions over which negative Secondary contributions will be applied, as set out in the Fund's policy.

### SAB Funding Basis or SAB Basis

A set of actuarial assumptions determined by the LGPS Scheme Advisory Board (SAB). Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the "Section 13 review" as carried out by the Government Actuary's Department. As an example, the real discount rate over and above CPI used in the SAB Basis as at 31 March 2022 was 2.4% p.a., so it can be substantially different from the actuarial assumptions used to calculate the Fund's solvency funding position and contribution outcomes for employers

### Scheduled bodies

Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc., other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

### Secondary Rate of the Employer's Contribution

An adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls. The Secondary rate is specified in the rates and adjustments certificate. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

### Section 13 Valuation

In accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2019 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

### Solvency Funding Target

An assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

### Strain Costs

The costs arising when members retire before their normal retirement date and receive their pensions immediately without actuarial reduction. So far as the Fund is concerned, where the retirements are not caused by ill-health, these costs are invoiced directly to the retiring member's employer at the retirement date and treated by the Fund as additional contributions, unless agreed with the administering authority. The costs are calculated by the Actuary.

### Valuation funding basis

The financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is

consistent with an expected rate of return of the Fund's investments, expressed as an expected out-performance over CPI in the long term by the Fund's assets i.e. the "real rate".

### 50/50 Scheme

In the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.