Meeting of the Group Audit and Risk Committee

Supplement 1

No.	*Item*	*Pages*	*Presenter*
15.	Pensions assumptions and results: appendices	3 - 88	RF
17.	Draft sections for annual report and accounts 2020/21 • Draft corporate governance statement	89 - 122	RF, JS

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BARNETT WADDINGHAM
beyond the expected

Accounting reporting as at 31 July 2021

Employer briefing note pre-accounting date

Barnett Waddingham LLP

3 June 2021

Contents

Accounting reporting as at 31 July 2021

A number of LGPS employers, in particular universities and colleges, prepare accounting disclosures as at 31 July each year and these may be in accordance with the IAS19 or FRS102 standard, depending on the employer.

Some universities also get disclosures using the US FAS standard which are produced using the same data and assumptions as the FRS102/IAS19 disclosures but have a different presentation and involve a different allocation of pension costs between the various parts of their accounts. This note is only in relation to the main FRS102/IAS19 results.

This note outlines some of the changes to the key financial assumptions that are used in preparing the IAS19 and FRS102 accounting numbers since the last reporting date as well as information on asset performance over the period.

This note complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100).

Unless requested otherwise, we prepare our reports based on our standard approach. We therefore recommend employers discuss this note with their auditors and agree whether the standard approach is appropriate.

How has the accounting position changed?

As we will not know the assumptions that will be adopted for accounting disclosures until 31 July 2021, we have utilised the latest market statistics available. The following analysis uses market statistics as at 31 May 2021. **It is very likely that market conditions at 31 July 2021 will be different.**

As LGPS Funds are usually invested in a range of asset classes, the performance of the assets may be quite different from that of the accounting liabilities (which are linked to corporate bonds, as set out below) and so the results can be very volatile from year to year.

This note discusses our recommended assumptions for the exercise, however the responsibility for setting assumptions ultimately belongs to the employer and, therefore, if an employer was to request alternative assumptions then we would be happy to use these in producing our report. The assumptions in this report are the standards that we intend to use unless instructed otherwise. We believe that these assumptions are likely to be appropriate for most employers but we have not consulted with each employer in setting these.

The change in the balance sheet position over the year is mainly dependent on the answers to three key questions and this report is split into these three sections:

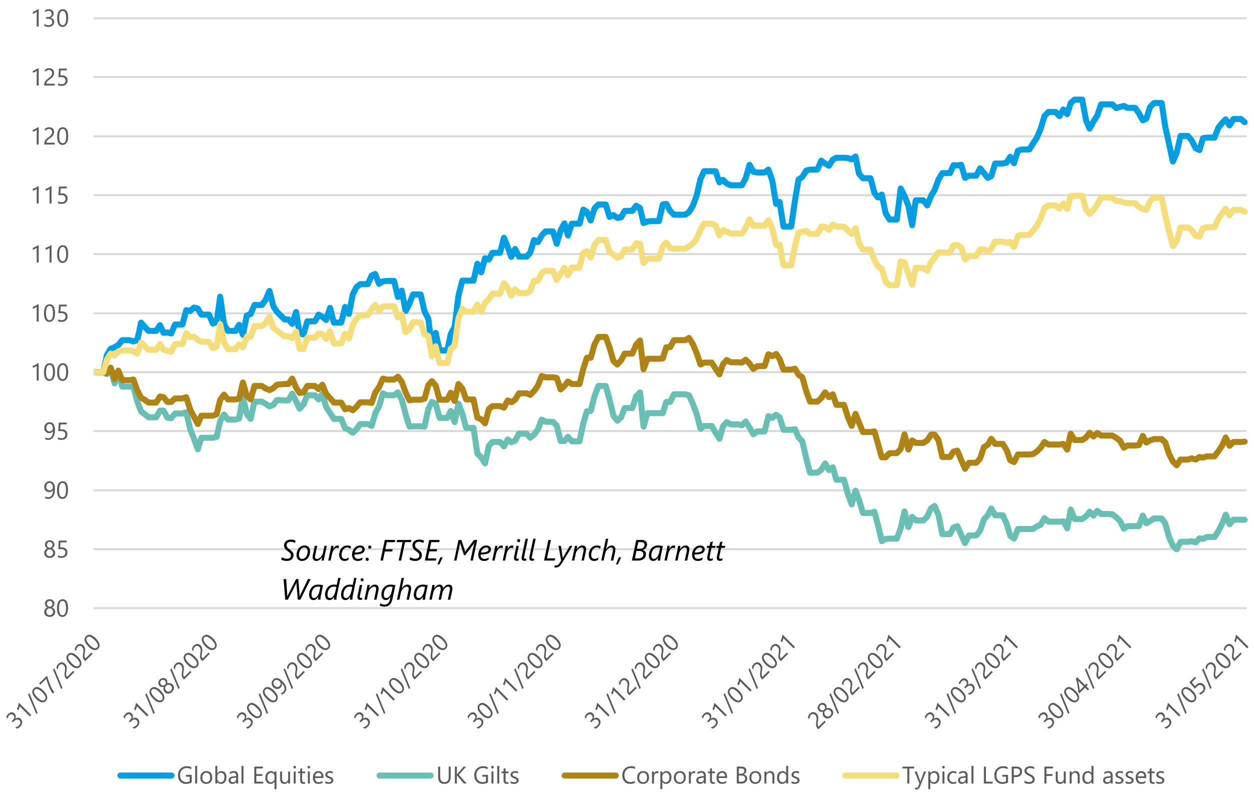
- What were asset returns for the twelve months to 31 July 2021?
- What were corporate bond yields as at 31 July 2021?
- What were market expectations of inflation as at 31 July 2021?

We appreciate that some of the terminology in this report may not be familiar and therefore we would recommend also reading our Glossary and FAQs document for a more detailed explanation on some of the jargon used here. This document has been circulated with this briefing note but please get in touch with the Fund if you would like a copy.

Please let your usual Barnett Waddingham contact know if you have any queries.

Asset returns

The following chart plots returns from the major asset classes since 31 July 2020 alongside the return that would have been achieved by a Fund invested 75% in global equities, 20% in corporate bonds and 5% in gilts.



Asset performance has been strong since 31 July 2020. Based on market indices to 31 May 2021 and the asset allocation outlined above, a typical LGPS Fund might have achieved a positive return of around 14% for the period from 1 July 2020 to 31 May 2021, but this could vary considerably depending on each Fund's investment strategy.

If Fund returns have been around this level, asset returns will have been higher than the discount rate assumed at the previous accounting date. If the actual return for the year is higher than the previous discount rate, this will lead to an actuarial gain on the assets; decreasing the accounting deficit.

However, the overall position is also influenced by the effect of market movements on the assumptions used to place a value on the defined benefit obligation. This is discussed in the next section.

Changes to financial assumptions

The key financial assumptions required for determining the defined benefit obligation under either accounting standard are the discount rate, linked to corporate bond yields, and the rate of future inflation. These assumptions are discussed below.

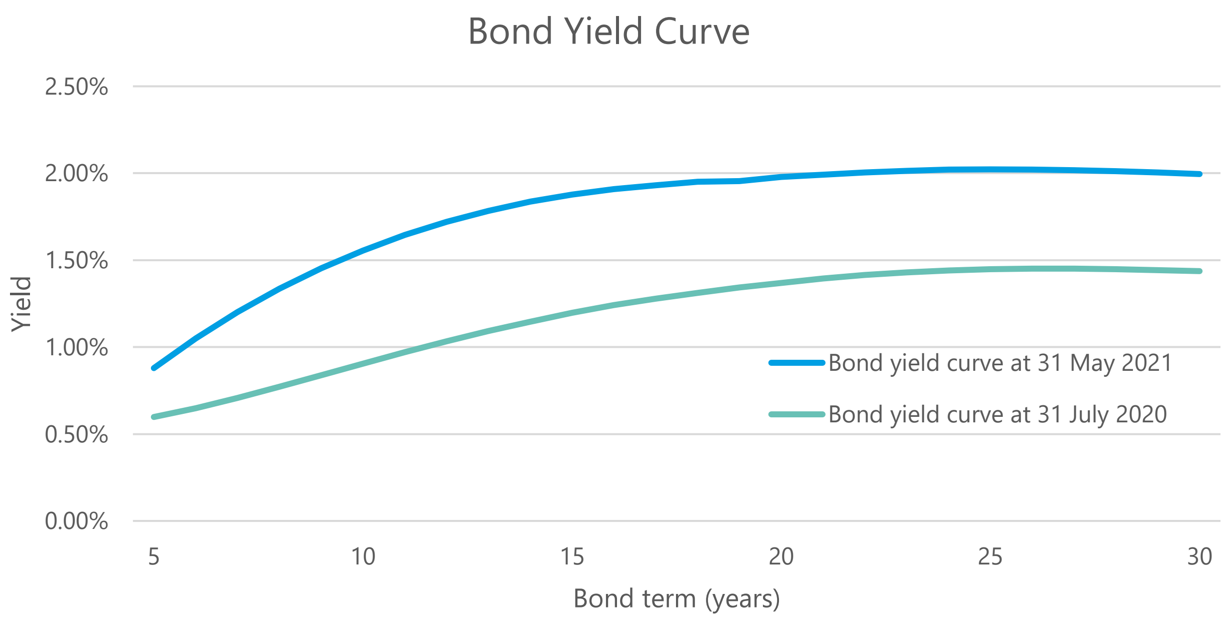
Discount rate

Under both the FRS102 and IAS19 standards the discount rate should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The approach we adopted to derive the appropriate discount rate at the previous accounting date is known as the Single Equivalent Discount Rate (SEDR) methodology. We intend to adopt the same approach for assumptions used for accounting disclosures at 31 July 2021.

We use sample cashflows for employers at each duration year (from 2 to 30 years) and derive the single discount rate which results in the same liability value as that which would be determined using a full yield curve valuation (essentially each year's cashflows has a different discount rate). This discount rate is known as the SEDR. In carrying out this derivation we use the annualised Merrill Lynch AA rated corporate bond yield curve and assume the curve is flat beyond the 30 year point.

The standard assumptions set for an employer will be based on their individual duration. For example, an employer with an estimated liability duration of 13 years will adopt assumptions consistent with those derived using the 13 year cashflows.

The below graph shows the bond yield curve at the last accounting date along with the yield curve at 31 May 2021:



These curves reflect the yields that underlie the SEDR calculations and are not the estimates of the standard discount rate assumption. Sample SEDR assumptions are set out in the table below.

You will see that the bond yield at 31 May 2021 is higher than at 31 July 2020 at all terms. As a result, the discount rate assumed for employers will be higher than that assumed at the previous accounting date. All else being equal, a higher discount rate will result in a lower value being placed on the defined benefit obligation.

Sample SEDRs are set out in the table below based on market conditions at 31 May 2021 with the equivalent 31 July 2020 SEDRs also shown for comparison:

Duration (years)	31 May 2021	31 July 2020
10	1.75%	1.15%
15	1.85%	1.30%
20	1.95%	1.35%
25	1.95%	1.40%

Assumptions are rounded to the nearest 0.05%.

The below table sets out the estimated effect of the change in discount rate assumed based on the same sample durations:

Duration (years)	Estimated effect of change in discount rate on employer's liabilities
10	Decrease of 6%
15	Decrease of 8%
20	Decrease of 11%
25	Decrease of 13%

The actual effect of the change in the discount rate assumption will depend on each employer's membership and the assumption to be adopted this year compared to last year.

Inflation expectations

Whilst the change in corporate bond yields is an important factor affecting the valuation of the liabilities, so too is the assumed level of future inflation as this determines the rate at which active members' CARE benefits and deferred and pensioner members' benefits increase.

IAS19 suggests that in assessing future levels of long-term inflation we should use assumptions that would result in a best estimate of the ultimate cost of providing benefits whilst also giving consideration to the gilt market (in line with general price levels) to give us an indication of market expectation. FRS102 simply refers to a best estimate of the financial variables used in the liability calculation.

Pension increases in the LGPS are expected to be based on the Consumer Prices Index (CPI). As there is limited market information on CPI-linked assets, to derive our CPI assumption we first make an assumption on the Retail Prices Index (RPI) then make an adjustment.

Retail Prices Index (RPI) assumption

Similar to the SEDR approach described above we intend to adopt a Single Equivalent Inflation Rate (SEIR) approach in deriving an appropriate RPI assumption.

The SEIR adopted is such that the single assumed rate of inflation results in the same liability value (when discounted using the yield curve valuation described above) as that resulting from applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield curve is assumed to be flat beyond the 30 year point and the BoE implied inflation curve is assumed to be flat beyond the 40 year point.

Following a recent review of the market, and in particular noting the muted market reaction to the likely alignment of RPI with CPIH from 2030, our view is that gilt-implied inflation rates are currently distorted by supply and demand factors at medium and longer terms. We have therefore allowed for an Inflation Risk Premium (IRP) of 0.4% each year beyond 2030. This results in an overall IRP of 0.0% p.a. - 0.3% p.a. depending on the term of the liabilities. This differs from our standard assumption at the previous accounting date where no allowance for an IRP was made.

Consistent with the SEDR approach, assumptions are rounded to the nearest 0.05% and we intend to use sample cashflows for employers at each duration year (from 2 to 30 years) in deriving the assumptions for employers.

Sample RPI assumptions are set out in the table below based on market conditions at 31 May 2021, with the equivalent 31 July 2020 SEIRs (based on our standard derivation at that time) also shown for comparison:

Duration (years)	31 May 2021	31 July 2020
10	3.50%	3.15%
15	3.40%	3.15%
20	3.30%	3.05%
25	3.25%	3.00%

Difference between RPI and CPI

In March 2019, the UK Statistics Authority proposed changing the way that RPI is calculated; specifically that the calculation methodology should be aligned with the CPIH, the Consumer Prices Index including owner occupiers' housing costs. Consent was sought from the government and, following a consultation on whether the change could take place before 2030, in November 2020 the Chancellor announced that he will not provide consent for reform prior to 2030, meaning the proposed alignment of RPI to CPIH will take effect from 2030 at the earliest.

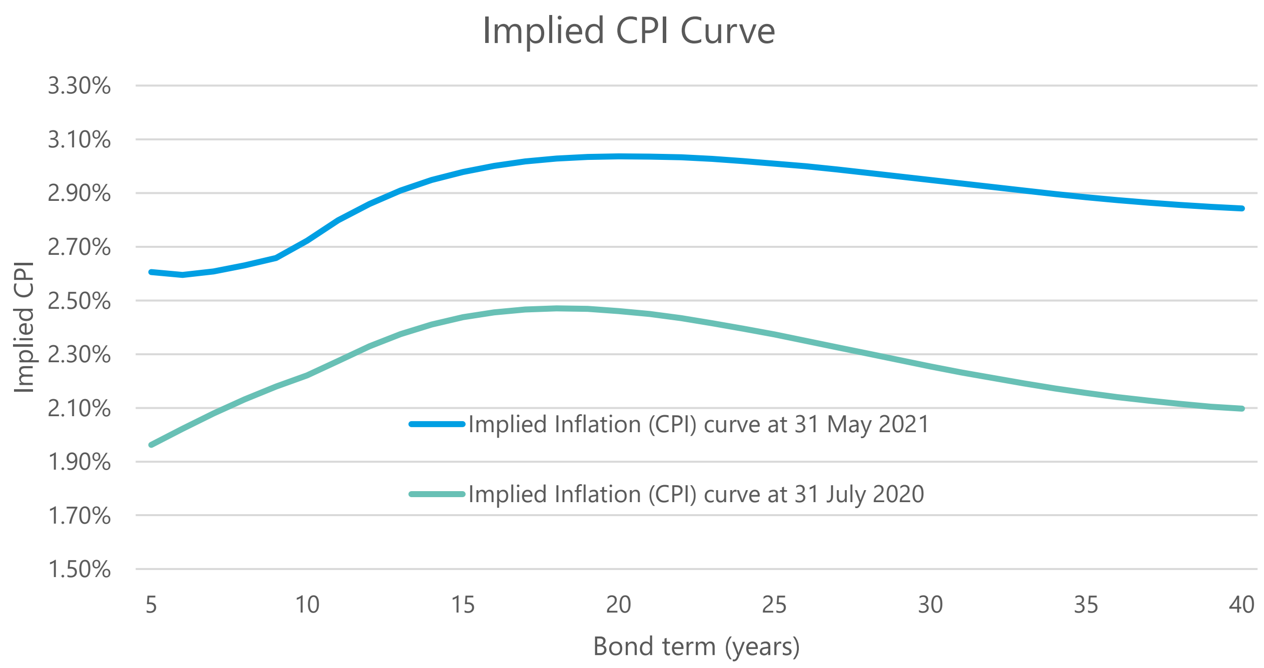
It is expected that RPI will be on average 1.0% p.a. lower than it would have otherwise been from 2030 as a result, bringing RPI inflation in line with CPIH (and CPI) from that date. We have therefore considered how this potential change and the market's reaction to the announcement affects the difference between market implied RPI and CPI inflation.

At the last accounting date we noted that the market had already started to react to this potential change and reduced our assumed gap between to the two inflation measures to 0.8% p.a. – 1.0% p.a. for terms between 10 and 30 years.

Following the November 2020 announcement, we believe the proposed reform of RPI inflation is now fully priced into the market (although noting the apparent muted reaction allowed for through the IRP we have introduced). We have therefore assumed that the annual increase in CPI inflation will be 1.0% p.a. lower than the market implied increases in RPI for each year prior to 2030, and will be in line with RPI inflation thereafter. This results in an assumed gap between the two inflation measures of 0.25% p.a. – 0.90% p.a. depending on the term of the liabilities (for terms ranging from 30 years down to 5 years).

Consumer Prices Index (CPI) assumption

The resulting implied CPI curve at 31 May 2021 is shown below along with the implied CPI curve at the last accounting date for comparison:



These curves reflect the yields that underlie the SEIR calculations and are not the estimates of the standard CPI inflation assumption. Sample SEIR assumptions are set out in the table below.

Using a similar approach described above to calculate the SEIR for our RPI assumption, we have calculated a single equivalent rate of CPI increase that results in the same liability value as would be calculated by applying the above implied CPI curve.

As shown above, the implied CPI curve at 31 May 2021 is higher at all terms. As a result, the level of future pension increases will be higher than that assumed at the previous accounting date, particularly for employers with longer liability durations since this is where the greatest difference in the curves are. If the pension increase assumption is higher than at the previous accounting date, all else being equal, this will result in an increase in the value of employers' liabilities.

The below tables set out the assumed pension increase (CPI) assumptions at sample durations, as well as the estimated effects due to the change in the inflation assumption from last year's standard assumption to this year's:

Duration (years)	31 May 2021	31 July 2020
10	2.90%	2.25%
15	2.95%	2.30%
20	2.95%	2.25%
25	2.95%	2.20%

Duration (years)	Estimated effect of change in inflation on employer's liabilities
10	Increase of 7%
15	Increase of 10%
20	Increase of 15%
25	Increase of 20%

The actual effect of the change in pension increase assumption will depend on the assumption to be adopted this year compared to last year.

Due to the nature of SEDR and SEIR methodology, the assumptions derived are dependent on the sample cashflows used and as a result different cashflows of similar liability durations may result in alternative assumptions. Therefore, another actuary replicating the same approach set out above may derive different assumptions from those set out above. Reasonableness checks have been carried out on the cashflows used.

Salary increases

Although future benefits are not linked to final salary, benefits accrued up to 31 March 2014 will continue to be linked to the final salary of each individual member. Therefore we still need to set an appropriate long-term salary increase assumption.

Where an employer has requested a bespoke salary increase assumption last year, if still appropriate, we will continue the same salary increase assumption at 31 July 2021. For all other employers, we will adopt the standard approach set out below.

For English Funds, our standard assumption remains consistent with the 2019 actuarial valuation. This means assuming that salary increases are in line with CPI plus 1.0% p.a. with no additional allowance for a promotional salary scale.

For Scottish Funds, we intend to use the salary assumption consistent with the 2020 actuarial valuation. This means assuming that salary increases are in line with CPI plus 1.0% p.a. with no additional allowance for a promotional salary scale. This is consistent with the standard approach last year, with the exception that there is now no additional allowance for promotional salary increases as this is assumed to be incorporated in the long term salary increase assumption.

The salary increase assumption is the assumption that employers are most likely to request a specific approach for in line with their own expectations and we are happy to discuss this as required. In particular, we understand that announcements made by the Chancellor as part of the November 2021 spending review in relation to future public pay increases may affect the expected salary increases of some employers who require accounting reports at 31 July 2021. If employers believe that their salary increases in the long term or short term will differ from our standard assumptions, we would be happy to adopt alternative assumptions. However, please note that bespoke financial assumptions will incur additional fees.

Bespoke financial assumptions

As mentioned above, the responsibility for setting assumptions ultimately belongs to the employer and therefore if an employer was to request alternative assumptions then we would be happy to use these in producing our report. The approaches described above are the standard approaches we will adopt to derive financial assumptions, however, we are happy to advise individual employers on the range of assumptions they may be able to adopt.

As part of this advice we are able to provide employers with a deficit modeler which provides an indication of the impact of any changes to their accounting position.

If you would like more information on the options available to employers regarding bespoke assumptions please feel free to contact publicsector@barnett-waddingham.co.uk or your usual Barnett Waddingham contact. However, please be aware that both requesting and receiving advice on bespoke assumptions will incur additional fees.

Mortality assumption

The key demographic assumption is the mortality assumption and there are two main steps in setting this assumption:

- Making a current assumption of members' mortality (the base mortality); and
- Projecting these current mortality rates into the future, allowing for further potential improvements in mortality. Future members' mortality is almost impossible to predict and therefore there is a lot of judgement involved and we naturally have to refine our view on this over time.

Base table mortality

The base table mortality assumptions adopted for Funds' triennial funding valuations were best estimate assumptions and we will, therefore, be using the same assumptions as standard for accounting. As part of the valuation, analysis was carried out by our specialist longevity team to assess the best estimate base table mortality assumption based on each Fund's experience and industry knowledge.

For Scottish Funds, this standard approach will be an update to the base table assumption from the previous accounting date to be in line with the assumption adopted for the recently completed 2020 actuarial valuation.

For English Funds, the standard approach will be the same assumption as that adopted at the last accounting date. For most employers, this is in line with the Fund's 2019 actuarial valuation.

Future improvements to mortality

To project future improvements in mortality, we use a model prepared by the Continuous Mortality Investigation Bureau (CMI). The CMI update their model on an annual basis, incorporating the latest mortality data in the national population.

The CMI recently updated their model and released CMI_2020 in March 2021. This introduces a "2020 weight parameter" for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results.

We have reviewed our standard future mortality improvements assumption in light of the coronavirus pandemic and believe it would be appropriate to incorporate the latest information available. **Our standard approach is to update the future mortality improvements assumption to be based on the CMI_2020 model with a 2020 weight parameter of 25%. Please note that additional fees will be incurred to incorporate the CMI_2020 model, further details of which can be obtained from your Fund contact. This will be the default approach unless employers opt out, and we would recommend discussing this with the auditor before opting out.**

More information on the CMI_2020 model and our rationale for moving to this model is contained in Appendix 5.

Overall expected results

What does this all mean when we bring it all together?

The first caveat is that no employer is average and so any prediction of what might apply to an average employer will not apply to every, or possibly any employer.

The effect of the changes in the financial assumptions on an employer's liabilities are dependent on the assumptions adopted as well as the specific duration of the employer's liabilities. Typically, employers with greater liability durations are more sensitive to changes in financial assumptions as benefits will be paid over a longer term. The table below describes the estimated effects for employers with liability durations of exactly 10, 15, 20 and 25 years: based on assumptions derived as at 31 May 2021:

Duration (years)	Estimated effect of change in financial assumptions on employer's liabilities
10	No change
15	Increase of 1%
20	Increase of 2%
25	Increase of 5%

Based on market conditions at 31 May 2021, employers of durations higher than 10 years may see a slight increase in the value of the defined benefit obligation. In addition, the value of liabilities will increase with interest accumulated over the year.

However, there will be other factors affecting the change in an employer's accounting position including (but not limited to) the effects of:

- For Scottish funds, updating to the 2020 valuation results, which could have a positive or negative effect. The effect will depend on how experience over the intervaluation period has differed from that assumed.
- Any updates to the demographic assumptions (in particular updating the future mortality improvement assumption to be based on the CMI_2020 model and for Scottish funds, updating to be in line with those adopted for the 2020 valuation)
- Fund asset performance
- Employer cashflows, in particular the difference in the cost of benefits accrued over the period and the level of contributions paid by employers and employees

We also set out some other considerations in the following section which may affect an employer's accounting results.

Other considerations

Allowance for actual pension increases

We will be incorporating actual pension increase experience up to 31 July 2021 into our accounting disclosures as standard this year. Actual pension increases since the last full valuation have been less than previously assumed and we would recommend that this experience is allowed for.

This is our standard approach as we understand pension increase experience is being considered more often as part of auditor reviews. Please note that additional fees will be incurred to incorporate the actual pension increase experience and therefore the employer should opt out of this standard approach if they do not want these additional calculations to be carried out.

Treatment of settlements and curtailments

Employers accounting under the IAS19 standard

On 7 February 2018, the International Accounting Standards Board (IASB) issued amendments to the IAS19 standard which now requires that when determining any past service cost or gain or loss on settlement that the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. This applies for all accounting periods starting on or after 1 January 2019 and therefore will apply for the year to 31 July 2021 accounts which are prepared under the IAS19 standard.

Common events for LGPS employers that this amendment may apply to include outsourcings and unreduced early retirements.

The amendment complicates the accounting disclosure as additional calculations are required to determine the cost before and after each event, and to rebase the standard roll forward approach on updated assumptions based on each event date. The amendment does, however, note that the extra remeasurement does not need to be applied where the application of that remeasurement is immaterial. The assessment of materiality will be subject to each employer and auditor's discretion. We can provide additional information to help assess materiality but we cannot conclude whether an event is material or not.

Our default approach for IAS19 reports will be to assume that all events are material and therefore will adopt the approach set out in the IAS19 amendment. We will provide each administering authority with a summary of the events we are aware of and these will be communicated to each employer. If the employer does not want to treat all the events in this way then we would strongly recommend that they engage with their auditor in advance of the preparation of their report to understand their materiality limit and establish which events fall outside of this.

Unless instructed otherwise we will proceed with our default approach and please note that additional fees will apply, details of which can be provided by the administering authority.

Employers accounting under the FRS102 standard

We note that the FRS102 standard is silent on the treatment of settlements and curtailments, and in particular there is no explicit requirement to adopt a similar approach to that set out above for the IAS19 standard.

Therefore, our default approach for FRS102 reports is to not remeasure the net defined benefit liability at the event date, and this is consistent with the approach at the last accounting date.

We are happy to adopt an approach in line with that set out above for the IAS19 reports if requested by the Employer, but please note that that will incur additional charges.

McCloud/Sargeant judgement

If an allowance was already made for McCloud at a previous accounting date in an employer's IAS19/FRS102 report then no explicit adjustment will be made in our results this year. Our standard approach unless requested otherwise was to include allowance for McCloud so we expect most employers this year will fall under this category.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published. We do not believe there are any material differences between the approach underlying our estimated allowance and the proposed remedy. A more detailed analysis at this stage would require a significant volume of member data which is not yet available. Therefore, we do not intend to make any further adjustment in light of the ongoing consultation at the accounting date.

If no allowance has been made, then our default approach will be to include an allowance this year based on GAD's analysis (further details can be found in Appendix 3) and the individual assumptions and membership profile of the employer. The effect on the employer's liabilities will be shown as a past service cost.

This will be the default approach unless employers opt out.

In order to reduce the chance of having to revise any reports we recommend that employers engage with their auditors in advance of their year-end to make them aware of our intended approach.

Please contact the administering authority of the Fund to confirm the relevant fees.

Impact of COVID-19

Employers may wish to consider whether it is appropriate to make an allowance for their actual member mortality experience over the accounting year. This would require a full valuation of updated membership data and would incur additional fees. We would encourage employers to discuss with their auditors whether they believe this approach is appropriate based on the employer's specific experience.

Our standard approach is to continue with a roll forward approach in calculating the liabilities, rather than carry out a full valuation of member data. This means that mortality experience is estimated through the benefits paid out to members. The difference between this estimate and the employer's actual mortality experience will then be incorporated once the next actuarial valuation of the Fund is complete.

Any impact on service cost due to the Coronavirus Job Retention Scheme will be reflected in the report based on the payroll information we are provided with. We request information relating to unreduced early retirements each year from the administering authority and any redundancies we are made aware of as part of this are included as a curtailment where applicable.

Unless specified in the employer's report, we are not aware of any other events relating to COVID-19 that are to be allowed for in the employer's accounting results. For example, there have been no changes to funding agreements or suspension of payment of individual member transfer values.

Consideration of the mortality assumption in light of COVID-19 is set out earlier in this note.

Public sector exit cap

As in previous years, we intend to make an allowance for the additional costs of unreduced early retirements that we are aware of having taken place over the year. These predominantly include early retirements on grounds of redundancy or business efficiency in respect of LGPS members who are aged 55 or over and will be treated as "curtailments" within our disclosures. On 4 November 2020, the Restriction of Public Sector Exit Payment Regulations 2020 came into effect which essentially capped the value of exit payments to £95,000 for certain public sector workers, including early retirement pension costs, except in particular cases where a waiver was deemed to apply. The effect is that some Funds may have applied a reduction to affected members' benefits in order to bring the costs of early payment of benefits to within the cap.

However, on 12 February 2021, HM Treasury (HMT) published the Exit Payment Cap Directions 2021 which effectively disapplied the exit cap for all exits taking place on or after that date. HMT has also issued guidance on these Directions, setting out their expectation that employers should pay the additional sums that would be paid had the cap not applied for employees who left between 4 November 2020 and 12 February 2021. Although the guidance is currently silent on the issue of pensions, it is likely that some Funds have, or will, put into payment the uncapped value of benefits for affected members who left during this period.

Our disclosures will allow for any additional costs to the extent they are notified to us within the data we receive on early retirements and will be included within the "curtailments" figure. Any additional costs not notified to us as this stage will, as with all other types of membership experience, be assessed at the next triennial funding valuation and incorporated into the disclosures thereafter.

Goodwin case

We do not intend to make any adjustments to accounting valuations at 31 July 2021 as a result of the Goodwin case. Please see Appendix 4 for further details.

Guaranteed Minimum Pension (GMP) equalisation and indexation

Impact of Lloyds judgement on past transfer values

The latest news on the Lloyds Banking Group court case involved a ruling that, in cases where a member exercised their right to a transfer value out of the scheme, the trustee had the duty to make a transfer payment that reflects the member's right to equalised benefits and remains liable if an inadequate transfer payment had been paid.

It is not yet known if, or how, this will affect the LGPS. We await further guidance from CIPFA and MHCLG on this. Our standard approach currently is to make no allowance to reflect this judgement.

GMP Indexation Consultation response

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here.

Our standard assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we assume that the Fund will be required to pay the entire inflationary increase. Therefore, our assumption is consistent with the consultation outcome and we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome.

Appendix 1 - Auditor views

It should be highlighted that auditors continue to look for greater accuracy in the roll forward approach used to calculate employers' results. This includes the approach used to determine each employer's share of fund assets at the accounting date and roll forward employers' liabilities.

Asset roll forward

Given the tight timescales for employers to submit their final accounts we appreciate that it is not always possible to wait until a fund's net asset statement at the accounting date is available to begin producing accounting disclosures. As a result, we request details of funds' assets at the most recent date available and, for the remaining period, we assume that returns are in line with relevant market indices.

In order to reduce the chance of having to revise any reports we recommend that employers engage with their auditors and the administering authority of the fund as early as possible to ensure they are comfortable with the information being used to calculate results.

Liability roll forward

To calculate the value of employers' liabilities we carry out a full valuation of membership data at least every three years (as part of the triennial valuation). We then 'roll this forward' to each subsequent accounting date, allowing for the actual cashflows paid into and out of the fund in respect of the individual employer.

In addition we allow for any curtailments as a result of unreduced early retirements we are made aware of. Similarly we allow for any settlements we are made aware of such as those resulting from outsourcings or bulk transfers.

As noted above, we will as standard allow for actual inflation experience between full member valuations. The effect of actual experience compared to what was assumed will be included within the experience item.

Appendix 2 - Adjustments to fees

The Fund will communicate fees to employers however we would like to make you aware that there may be additional fees if there are particular features or events for an employer which need to be taken into account.

As examples of this:

- where an employer chooses their own assumptions;
- if there are additional calculations to be carried out if a surplus is revealed;
- when there are any staff transfers/movements to allow for;
- allowance for actual inflation experience;
- if additional disclosures are required;
- an employer asks to receive their report by a particular deadline; or
- if auditors ask queries following receipt of the report.

Please get in touch with the Fund for further information on fees.

Appendix 3 – Supreme Court ruling in McCloud/Sargeant case

Background

Two employment tribunal cases were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination.

On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the case. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. The consultation closed on 8 October 2020 and a ministerial statement in response to this was published on 13 May 2021, however a full response to the consultation is still awaited. At the time of producing this briefing note the outcome of these matters is still to be agreed so the exact impact they will have on LGPS benefits is unknown.

Government Actuary's Department (GAD) impact analysis

The Scheme Advisory Board, with consent of the Ministry of Housing, Communities and Local Government (MHCLG), commissioned GAD to report on the possible impact of the McCloud/Sargeant judgement on LGPS liabilities, and in particular, those liabilities to be included in local authorities' accounts as at 31 March 2019. This followed an April 2019 CIPFA briefing note which said that local authorities should consider the materiality of the impact. This analysis was to be carried out on a "worst-case" basis, (i.e. what potential remedy would incur the highest increase in costs/liabilities). The results of this analysis are set out in GAD's report dated 10 June 2019.

Although GAD were asked to carry out their analysis on a "worst-case" basis, there are a number of other potential outcomes to the case which would potentially inflict less cost to the Employer. For example, the solution proposed by the Government would only apply the underpin to all members who were active on 31 March 2012. This would have less impact than GAD's scenario (which also includes any new joiners from 1 April 2012).

IAS19/FRS102 requires us to place a best estimate value on liabilities and costs. Consistent with the approach we adopted for the McCloud impact estimates made last year, we will adjust GAD's estimate to include only members that were active on 31 March 2012. This is in line with that proposed in the Government's consultation.

GAD's analysis compared the cost of the old pre-2014 final salary scheme with the new CARE scheme. The key parameter in assessing this cost is the assumed level of future salary increases in excess of CPI. GAD considered the following two scenarios:

1. Salaries increase at CPI plus 1.5% – on this scenario GAD assessed the average cost of implementing their worst-case scenario to be 3.2% of active liabilities at 31 March 2019 and the impact on service cost (i.e. the cost of benefits accruing) to be 3.0% of active payroll.
2. Salaries increase at CPI plus 0% p.a. – on this scenario GAD assessed the average cost to be less than 0.1% of active liabilities at 31 March 2019 and the impact on service cost to be less than 0.1% of payroll.

For the purpose of our impact estimate we will make an allowance to reflect each employer's own salary increase assumption.

Appendix 4 – Goodwin case

Background

Following a case involving the Teachers' Pension scheme, known as the Goodwin case, differences between survivor benefits payable to members with same-sex or opposite-sex survivors have been identified within a number of public sector pension schemes. As a result, the Government have confirmed that a remedy is required in all affected public sector pension schemes, which includes the LGPS.

As this has just recently been announced, we do not yet have an accurate indication of the potential impact this may have on the value of employers' liabilities or the cost of the scheme. Any indication of cost at this stage will only be a rough estimate as in a lot of cases, funds will not have this information or data to hand. It is our understanding that the Government Actuary's Department (GAD) is undertaking a review to assess the potential impact on public sector pension schemes, which we expect will be minimal for LGPS funds.

Intended approach for accounting exercise

Although we do not yet have the results of GAD's review, it's our expectation that the impact on the value of LGPS liabilities as a whole, and for the majority of employers participating in the LGPS, will not be material. However, it's possible that the impact on individual employers may vary depending on their specific membership profile; although any cases resulting in a significant impact are likely to be few and far between.

For employers who are receiving accounting disclosures at 31 July 2021, we do not currently intend to make an allowance for the potential impact of this decision. We do not yet have enough information to make an accurate estimate of the potential impact on employers' liabilities.

Indication of potential impact

The Goodwin case affects male survivors (of female members) by extending the applicable service back from 1988 back to 1978. This only impacts the amount to be paid to widower survivor benefits coming into payment after 2005. A typical fund might expect that widowers' benefits in payment represent around 0.5% of their liability profile, however this may vary at employer level.

For these widowers to be affected, the original female member would need to have pre-88 service, which is now 32 years ago. Given the average age of pensioners typically around 70 and the average member's service may be around 10 years, we expect there are very few members who will be affected by this change. If we assume even 10% meet this criteria then the impact might be 0.5% x 10% x pre 88 benefit / total benefit.

Even if the pre 88 benefit was 50% of the total (which is unlikely) then the impact would be 0.025%. There are necessarily a number of estimates and assumptions here and so this is purely to illustrate that we believe that the impact is very small and not material for the vast majority of employers.

However, as noted above, we understanding that GAD is undertaking a review of the potential impact of this decision, which may provide a more accurate assessment of the effect on employers' accounting positions.

Appendix 5 – CMI_2020

Background

The COVID-19 pandemic has led to a sharp increase in reported deaths in the general population, with the number of deaths in 2020 being significantly higher than deaths reported in other years. There were around 73,000 more deaths in the UK from the start of the pandemic to 1 January 2021 than if mortality rates were similar to those experienced in 2019.

Our view is that the pensioner mortality experience will continue to be heavier over both the short and medium term as a result of the pandemic. The short term view is based on having already seen excess deaths continue since the start of 2021. In the medium term (2-10 years), mortality rates could be expected to be higher (than would otherwise have been the case) possibly due to future waves of coronavirus, but more significantly the effects of economic contraction and the long-term health implications of lockdowns are expected to produce heavier mortality.

CMI_2020 model

The CMI have made a material change to CMI_2020 (compared to previous versions) due to the impact of abnormal mortality data in 2020. This change introduces a "2020 weight parameter" for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results. The CMI have confirmed the core value of this parameter will be 0% (i.e. no allowance for 2020 mortality data). However, the CMI encourages users to consider the parameter in detail before adopting a certain value, and not to take the core values as the CMI's "recommendation".

Changing the 2020 weight parameter has a material impact on projected mortality improvements from 2020. Placing a higher weight on data for 2020 leads to materially lower future mortality improvements as you would expect. However the impact of the 2020 weight parameter on future mortality improvements "dissipates" over time, with the effect completely disappearing by 2040.

Our view is that the overall outlook for best-estimate future mortality improvements looks more negative than implied by the core CMI_2020, with the adverse consequences of the pandemic seeming to outweigh the positive ones.

Given the abnormality of the 2020 data, our view is that placing too much weight on the 2020 data would not be appropriate in setting our best estimate assumption for mortality. However, we believe that the heavy mortality experienced in 2020 and change in future outlook should be captured in our assumption to an extent, and therefore, we believe a 2020 weight parameter of 25% would be an appropriate assumption.

Intended approach for accounting

Overall, we believe it's appropriate to make a specific adjustment to the future improvement mortality assumptions as a result of this recent experience. This ensures our overall assumption for mortality is a best estimate assumption, as required under the IAS19 and FRS102 accounting standards.

As set out above, we are adopting the new CMI_2020 model with a 2020 weight parameter of 25% as standard for the July 2021 accounting valuations. For English funds, all other parameters will remain unchanged from those adopted for previous model. For Scottish funds, these will be updated in line with the assumptions adopted for the 2020 funding valuation.

Adopting the CMI_2020 model will decrease life expectancies compared to those previously assumed. In terms of accounting liabilities, the defined benefit obligation could reduce by 0.5%-1.5% as a result, depending on the membership and the mortality assumption adopted at the previous accounting date.

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FRS102/IAS19 Glossary and FAQs

The purpose of this note is to provide LGPS Fund employers and their advisers with some further explanatory details about the reports we produce in accordance with Financial Reporting Standard 102 (FRS102) and International Accounting Standard 19 (IAS19).

It is divided into a glossary of terms followed by some frequently asked questions (FAQs). Where certain terms are explained in more detail in the glossary these are highlighted in **bold**.

A topical briefing note discussing assumptions and an indication of the likely trend in results is also issued after each of the main accounting dates. In contrast, this briefing note describes the fundamentals of the accounting standards and is only expected to be updated occasionally (e.g. when the standards change). Please get in touch if you would like a copy of any of these notes.

If you have any questions please get in touch with the Fund in the first instance.

Background

Sponsors of defined benefit pension schemes are required to account for the cost of providing retirement benefits and reserve for any outstanding liabilities associated with the schemes they sponsor. They are also required to make certain disclosures about these schemes in the notes to their accounts.

FRS102 and IAS19 are accounting standards that set out the accounting treatment for retirement benefits. For UK listed companies and local authorities IAS19 applies; for other UK entities FRS102 applies. Companies with overseas parents may need to make disclosures under other standards.

A key feature of both standards is the requirement for liabilities to be valued using a discount rate assumption set with reference to yields on "high quality" corporate bonds.

It should be noted that the actual contribution rates required by employers for each Fund are calculated every three years following a triennial actuarial valuation and these are calculated using assumptions set by the Fund Actuary. The discount rate assumption in particular is generally set with reference to expected future investment returns of the Fund unlike the accounting standards which value the liabilities using solely the yields on corporate bonds.

Therefore, the contribution rates paid by employers are not affected by the accounting results.

Glossary of terms

Included in this section:

Actuarial gains & losses

This item reflects the extent to which the movements of the assets and liabilities over the accounting year have not been as assumed at the previous accounting date, and also the effect on the liabilities of changes to the assumptions used to value them.

The components of the actuarial gain or loss on assets are:

- the difference between the actual investment return on the assets over the year, and the interest on assets, plus
- an experience item, if applicable.

The components of the actuarial loss on liabilities are:

- the effect of the change in assumptions used to value the liabilities compared to the previous year, plus
- an experience item, if applicable.

There is a requirement to split the change of assumptions into those of a financial nature (discount rate, assumed future inflation growth etc.) and those of a demographic nature (future mortality rates etc.).

For more details on experience items, please see the "Gains and Losses" section of the FAQs.

Administration expenses

Both accounting standards require the administration expenses to be recognised when the administration services are provided and to be reported as a separate item in the Profit and Loss (P&L) statement.

Note that this does not include expenses in relation to investment management as this is incorporated in the Return on Fund assets.

Change in demographic assumptions

This shows the impact on the value of the liabilities of any changes in the demographic assumptions since the previous accounting date. More detail is provided on what is included in demographic assumptions is detailed in the Demographic assumptions section.

The same demographic assumptions may be adopted between triennial funding valuations and so there may not be a change in demographic assumptions item each year.

The demographic assumption which is most likely to have an effect on the value of liabilities are the assumptions in relation to mortality i.e. how long members will live.

For example, when changes in mortality assumptions results in a decrease in the life expectancy of members this will result in a decrease in the value of liabilities. This is because the term that members are expected to live in retirement would be shorter so less benefits will be paid.

Change in financial assumptions

This shows the impact on the value of the liabilities of any changes in the financial assumptions since the previous accounting date.

Financial assumptions reflect market conditions at the accounting date and so are likely to change each year.

The assumptions which have the most significant impact on the value of liabilities are the discount rate and the assumed rate of pension increases.

If the assumed discount rate is higher than at the previous accounting date this will result in a decrease in the value of liabilities. Conversely, if the assumed rate of pension increases is higher than at the previous accounting date this will result in an increase in the value of liabilities.

Contributions by employer including unfunded

This is the total value of the contributions paid by the employer to the Fund including the normal contributions in respect of benefit accrual by active members, contributions towards any deficit and any early retirement strain contributions. If **unfunded benefits** (usually pensions in payment) are paid through the Fund and are to be included in the accounting report, then payments in respect of unfunded benefits are included here as well.

For more information on the inclusion of **unfunded benefits**, please see the "Do I need to include unfunded benefits on my balance sheet?" section of the FAQs.

Current service cost

The **current service cost** represents the cost to the employer of the benefits earned by active members during the accounting year calculated on an FRS102/IAS19 basis. This is added to the liabilities and is not the same figure as the employer contributions paid to meet these 'new' benefits. It is calculated using assumptions at the start of the accounting year which means that it is not a fixed percentage of payroll and it is expected to vary from year to year as assumptions change.

Under both standards this is a component of the **Service cost** in the P&L.

Curtailment

These will typically be the FRS102/IAS19 equivalent of early retirement costs. The actual strain payments to the Fund are calculated by the administering authority using a different set of assumptions and so the calculation of this amount under FRS102/IAS19 is unlikely to be the same as the strain payment cash amounts.

Under both standards the loss on these is a component of the **Service cost** in the P&L.

Defined benefit obligation

This is the value of the past service liabilities, calculated using service to the accounting date (estimated where necessary) and allows for several assumptions such as future increases to salaries, future mortality rates, future inflation rates etc. The key assumption used to calculate these liabilities is the discount rate.

Discount rate

Pensions and lump sums will be paid at some point in the future and so a rate known as the **discount rate** is used in order to express these expected future payments as a single current value.

It is analogous to a rate of interest; to illustrate this, if we put £100 into a savings account today, it is expected to grow with interest every year to become a higher amount in the future. Similarly, if we are aiming to have £100 at a future date then we only need deposit a smaller amount now which will accumulate with interest to give £100 later.

A higher **discount rate** means that the future payments have a smaller value now i.e. a lower pension liability.

The accounting standards prescribe that the **discount rate** should be based on market yields at the reporting date of a 'high-quality corporate bond' of equivalent currency and **term** to the scheme liabilities.

The discount rate can be derived using a number of different approaches. The current Barnett Waddingham approach is to use the Single Equivalent Discount Rate (SEDR) method which replaced the spot rate approach. For more information please see the "What is the difference between the Single Equivalent Discount Rate (SEDR) and Spot rate approach for deriving the discount rate?" section of the FAQs.

Duration

When we talk about the **duration** of the liabilities we mean the average time to payment of benefits. This is used interchangeably with the **term** of the liabilities.

Further details of the approach used to estimate the duration please see the "How is the employer duration calculated?" section of the FAQs.

Demographic assumptions

These are the assumptions used to generally provide estimates of the likelihood of benefits and contributions being paid and for how long. This consists of all the non-financial assumptions used to value the liabilities including the mortality assumptions (i.e. how long members are likely to live for), the rates of members retiring early and the rate at which members exchange pension for cash at retirement.

The same demographic assumptions may be adopted between triennial funding valuations, however, if there are changes in an employers' membership, or the population as a whole, it may be appropriate to review demographic assumptions.

Interest cost

Over the accounting year the existing pension benefits come closer to payment than they were at the start, and so the value of the liabilities increases as a year's worth of interest is added on. This forms part of the **net interest on defined liability** (in the P&L).

Interest on assets

The expected return on assets has been replaced with an interest on assets item which is calculated with reference to the **discount rate.** It is therefore based solely on the expected returns on corporate bonds. This forms part of the **net interest on defined liability** (in the P&L).

Liabilities

These are also referred to as the **defined benefit obligation**.

Net interest on defined liability

The accounting standards assume that assets increase in line with the **discount rate**. This is combined with the **interest cost** on liabilities to form the net interest on the defined liability which is a component of the P&L.

Past service cost

Additional benefits granted during the accounting year give rise to a **past service cost**, for example, an employer decision to award additional service to a retiring employee.

Under both standards this is a component of the **Service cost** in the P&L.

Present value of defined benefit obligations

This is also referred to as the past service liabilities. This is the value of the benefits accrued by all members to date, calculated using service to the accounting date and allows for several assumptions such as future increases to salaries, future mortality rates, future inflation rates etc. The key assumption used to calculate the value of these liabilities is the **discount rate**.

Re-measurements

Re-measurements are recognised in Other Comprehensive Income and is effectively the total of the **actuarial gains and losses** from the changes in the assets and liabilities over the accounting period. This will include the investment return on the assets in excess of interest, change in assumptions (financial and demographic) as well as any experience adjustments. More detail about this is in the "Gains and Losses" section of the FAQs.

Return on assets less interest/ Return on Fund assets in excess of interest

This item is the investment return on Fund assets above (or below) that which was assumed at the previous accounting date. The investment return on Fund assets is net of investment management expenses and is provided in the 'Assets' section of your report. Under IAS19 and FRS102 the interest/assumed return on assets is the discount rate assumed at the previous accounting date.

If the return on Fund assets is higher than the discount rate assumed at the previous accounting date this will result in an actuarial gain. Conversely, if lower than the discount rate this will result in an actuarial loss.

The magnitude of this item will be dependent on how much the actual return on Fund assets differs from the discount rate at the previous accounting date.

Service cost

Service cost is a component of the P&L and includes current service cost, past service cost and any actuarial gains or losses on settlements and curtailments.

Settlement

A **settlement** will generally occur where there is a bulk transfer of members in to or out of the Fund or an employer's share of the Fund. The **settlement** loss or gain reflects the difference between transferred asset share, and the value of the transferred liabilities when calculated on an FRS102/IAS19 basis. This value may be different when compared to figures calculated for non-accounting purposes due to different assumptions being used.

Under both standards this is a component of the **Service cost** in the P&L.

Term

Please see definition of **duration** above.

Unfunded benefits

Unfunded benefits are pensions arising from additional service awarded on a discretionary basis e.g. Compensatory Added Years (CAY) pensions. Such benefits are usually charged to the employer as they are paid. Other **unfunded benefits** include gratuities and enhanced teacher's pensions which are recharged to the employer, and pensions in respect of some other public sector pension schemes.

This is in contrast to funded pensions, which are paid for out of the assets of the Fund, and which the employer has responsibility for funding by paying contributions to the Fund.

Frequently asked questions (FAQs)

Included in this section:

Balance sheet

How are my assets calculated?

The assets shown are an estimate of the employer's notional share of the total Fund assets at the accounting date. A full assessment of each employer's asset share is made at each triennial valuation. For interim FRS102/IAS19 reporting the approach is to take the asset share at the start of the accounting year and roll this forward to allow for the employer's own cashflows to and from the Fund during the year and actual (or estimated) Fund returns.

Thus, the employer's asset share is not a fixed percentage of the Fund and is expected to vary over time.

The assets will change from year to year: increasing with contributions paid into the Fund and investment returns earned; and decreasing as benefits (such as lump sums and pensions) are paid out of the Fund.

More details on how we calculate employers' assets can be found in the below Appendix

What is the Defined Benefit Obligation and how is this calculated?

The Defined Benefit Obligation is the accounting label for what is usually known as the value of the pension liabilities of the employer. The pension liabilities are the promised benefit payments (e.g. pensions, lump sums) due in the future from the Fund to its members. The Defined Benefit Obligation is the value of these liabilities calculated using a set of assumptions on an FRS102/IAS19 basis, which includes how these payments will increase over time both before and after retirement, how long they will be paid out for (i.e. how long each member is likely to live for) and the **discount rate** to apply to them to give a current value.

The Defined Benefit Obligation depends on the amount of the benefits so will increase as benefits are accrued and reduce as benefits are paid out. The value will also increase or decrease as the assumptions used to calculate their value change. For example, if the **discount rate** assumption decreases, the Defined Benefit Obligation will increase. Therefore, even if your assets have performed well, if the Defined Benefit Obligation increases at a rate faster than the assets increase, then the deficit on the balance sheet will increase.

Do I need to include unfunded benefits on my balance sheet?

Unfunded benefits may be paid through the Fund and recharged to the employer.

FRS102 and IAS19 both state that all retirement benefits should be accounted for when the member earns the benefit and not when it is paid by an employer. Therefore when a member retired and was awarded **unfunded benefits** the value of all future payments should have been taken into account at the point of retirement. This value would generally be expected to reduce over time as the benefits are paid out.

We can only value unfunded benefits that we are aware of and usually these will be those that are paid via the Fund.

Assumptions

What is the difference between assumptions for an ongoing funding valuation and an accounting valuation?

Contributions payable by employers are derived using the assumptions from the ongoing funding valuation and this is essentially the purpose of the ongoing valuation. An accounting valuation is prepared to meet statutory disclosure requirements and is included in the employer's annual accounts. Therefore, the purposes are different.

The results from the two valuation types can be significantly different due to the different assumptions used.

The assumptions adopted for an ongoing funding valuation are set by the Fund Actuary following discussion with the administering authority and in line with the LGPS Regulations. Broadly, they are set with reference to the long-term expected cost of providing LGPS benefits and take into account the investment strategy of the Fund and the expected return on each asset class that the Fund invests in.

In contrast, FRS102 and IAS19 are fairly prescriptive accounting standards which aim to allow employers' pension obligations to be compared with each other.

Generally, the demographic assumptions used for both valuations are the same and determined every three years as part of the ongoing triennial valuation. The main area where funding valuations for our Funds and accounting valuations differ is in the derivation of the **discount rate**.

For ongoing valuations, the **discount rate** adopted is based on the expected investment return of the assets actually held by the Fund. For FRS102/IAS19, the **discount rate** is required to be determined with reference to the market yield on 'high quality' corporate bonds and with consideration of the **duration** of the employer's liabilities. Generally, corporate bond yields will be lower than the return assumed for an ongoing valuation as the Fund is likely to invest in a mixture of assets include higher return seeking assets such as equities and property. Therefore we would expect that employers' costs and liabilities under FRS102/IAS19 to be higher than those calculated in an ongoing funding valuation if the **discount rate** used is lower.

However, it is important to note that the accounting position has no bearing on the amounts that the employers actually pay into the Fund, this being determined with reference to the ongoing funding position with contributions being reviewed every three years as part of the triennial valuation.

What is the difference between the single equivalent discount rate (SEDR) and spot rate approach for deriving the discount rate?

The spot rate is derived by looking at each employer's projected cashflows and determining the duration of these cashflows – broadly speaking the number of years until the average benefit payment is made. The duration is typically 15-20 years. We would then take the annualised Merrill Lynch AA rated corporate bond yield curve and look up the yield at that duration on the curve.

The single equivalent discount rate or SEDR approach has been developed over the last few years. Under this approach, rather than discount future cashflows with a single **discount rate** equal to the spot rate on the yield curve, this approach estimates the single equivalent rate that would produce the same liability as discounting each individual projected cashflow using a yield curve for AA rated bonds. So we use the 1 year yield to discount cashflows in year 1, the 2 year yield for cashflows in year 2 and so on and then see what liability value is then generated and then work out what single equivalent discount rate gives you the same answer.

Depending on the shape of the yield curve, what curve you use in the first place, the bonds underlying that curve and how you fit the curve to the data points, you are unlikely to get the same discount rate under each approach although the difference should not usually be that significant.

In our view either of these approaches satisfy the requirement of paragraph 85 of IAS19 as indeed would some other alternatives. Given the nature of the wording in IAS19, and as with most assumption setting processes, there is no singularly "correct" approach.

We have taken a similar approach to the derivation of the inflation assumption which we refer to as the single equivalent inflation rate (SEIR). For more information please see "Why is the inflation assumption different to current inflation levels?"

Why is the inflation assumption different to current inflation levels?

The current level of inflation that is widely reported each month is a measure of how prices have increased in the recent past, usually over the last year. However, in order to project cashflows to and from the Fund over the future lifetime of the Fund, we are interested in what inflation will do in the future and therefore we have to make an assumption about expected future levels of inflation over the long term. We do this by using information published by the Bank of England.

Similar to the SEDR approach, the SEIR adopted is such that the single assumed rate of inflation results in the same liability value (when discounted using the yield curve valuation described above) as that resulting from applying the BoE implied inflation curve.

How much scope is there for 'tweaking' the assumptions?

One of the objectives of FRS102 and IAS19 is to ensure that organisations all account for pension costs on a consistent market-related basis so there is not intended to be a huge amount of scope to deviate away from typical market assumptions. We do provide a recommended set of assumptions but the employer is ultimately responsible for the assumptions that are adopted.

One key area in which the employer can exercise more control is the assumption about future levels of pay increases and they will have more knowledge of likely future pay awards for their staff.

If you would like more information on the options available to employers regarding bespoke assumptions please feel free to contact publicsector@barnett-waddingham.co.uk or your usual Barnett Waddingham contact.

Pension costs

How are settlements/curtailments/past service costs treated under IAS19?

On 7 February 2018, the International Accounting Standards Board (IASB) issued amendments to the IAS19 standard which now requires that when determining any past service cost or gain or loss on settlement that the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. This applies for all accounting periods starting on or after 1 January 2019.

Common events for LGPS employers that this amendment may apply to include outsourcings, academy conversions and unreduced early retirements.

The amendment complicates the accounting disclosure as additional calculations are required to determine the cost before and after each event, and to rebase the standard roll forward approach on updated assumptions based on each event date. The amendment does, however, note that the extra remeasurement does not need to be applied where the application of that remeasurement is immaterial. The assessment of materiality will be subject to each employer and auditor’s discretion. We can provide additional information to help assess materiality but we cannot conclude whether an event is material or not. If relevant, the employer should also consider any guidance in relation to this set out by The Chartered Institute of Public Finance & Accountancy (CIPFA) in its most recent *Code of Practice on Local Authority Accounting in the United Kingdom*.

Our default approach for IAS19 reports will be to assume that all events are material and therefore will adopt the approach set out in the IAS19 amendment. If the employer does not want to treat all the events in this way then we would strongly recommend the employer reviews the events with their auditor in advance of the preparation of their report.

Please note that there is no explicit requirement to treat events in such a way under the FRS102 standard and therefore our standard approach for FRS102 reports is to not remeasure at each event date but we would be happy to treat differently as required.

Why is the current service cost different from the contributions paid?

Contributions are required from the employer to meet the cost of the benefits being earned by current employees, and to pay off any past service deficit. Minimum contributions are certified when a new employer joins the Fund and then again at each triennial valuation. These certified contributions are calculated using assumptions made at each valuation and reflect, amongst other things, the return assumed to be earned by the assets actually held by the Fund.

The **current service cost** in FRS102/IAS19 only includes the employer cost of benefits being earned by current employees and does not include the cost of paying off any past service deficit. The assumptions used for FRS102/IAS19 are usually different to those used for the triennial valuation. In particular, the **discount rate** is prescribed by FRS102/IAS19 and is unlikely to reflect the Fund’s actual asset allocation. This means the **current service cost** calculated for FRS102/IAS19 is likely to be different to the cost covered by the certified minimum contributions.

Why is the current service cost different from the previous year?

The **current service** cost is the cost of benefits accrued over the period based on the assumptions at the start of the period i.e. the assumptions at the previous accounting date or the most recent remeasurement date.

Therefore this will be affected by:

- the difference in the assumptions adopted at the previous accounting date (and any remeasurement dates) compared to the assumptions adopted at the accounting date preceding the previous accounting date; and
- the change in payroll over the accounting period compared to that over the previous accounting period.

What if the reported contributions paid are different to the actual contributions paid?

The discrepancy may be because cashflows for less than the full twelve months were provided in order to enable us to produce figures in the timescales required. We can revise the disclosure to take account of the actual contributions paid but we recommend that you agree with your auditor that this is necessary on the grounds of materiality.

Gains and losses

What is an experience gain or loss?

Accounting reports are prepared each year using a number of estimates and approximations in the roll-forward process on both the assets and the liabilities. This experience adjustment is essentially a correction of the estimates made in previous accounting reports.

Employers are likely to see an experience item in an accounting report prepared following a full membership valuation, such as a triennial valuation, to allow for actual experience such as member movements and mortality experience.

Alternatively, employers may choose to allow for inflation experience since the last full member valuation. This would result in an experience gain or loss depending on how pension increase experience compared to what was assumed at previous accounting dates.

What does actual less expected return on Fund assets mean?

The “expected” return on the Fund assets for a year is simply based on the **discount rate** assumption at the start of the period (or the last remeasurement date). If actual Fund returns, net of investment management expenses, have been higher than the **discount rate** assumption this figure will be positive but if they were lower this will be negative.

Why is there an experience gain or loss on the assets?

To determine the employer asset share for an accounting report we are provided with various pieces of financial information, including contributions received, benefits paid and a recent total Fund value. These cashflows may only be for part of the accounting year, and the total Fund value may be at a date earlier than the accounting date. This total Fund value will not be a fully audited number and is unlikely to be exactly accurate. We pro rata the cashflows if necessary to get full year numbers, and roll forward the assets with market returns to get an estimate of the asset value as at the accounting date.

However, at a triennial valuation we do get full cashflow data for each year and actual audited Fund asset values. We then determine each employer's asset share accurately at the triennial valuation date and the experience item emerges as the difference between the three years' worth of estimated rolled-forward assets and the accurate figure. At the triennial valuation we may also adjust employer assets if necessary to take into account any transfers or outsourcings that may not have been resolved in time to be included in the relevant accounting years.

Why is there an experience gain or loss on the liabilities?

To determine the value of the employer liabilities for an accounting report we roll forward the results from the most recent funding valuation, using the financial and demographic assumptions set for accounting purposes.

Therefore, after each triennial valuation we recalculate the accounting liabilities using up to date membership data and results. An experience item emerges as the difference between the actual experience of the members of the Fund, and the experience that had been assumed for them in the previous accounting reports. For example, if members died earlier than assumed this will result in an **actuarial gain** as the liabilities will be lower than estimated in the roll forward, or if members received higher than assumed salary increases then there will be an **actuarial loss** as the liabilities will be higher than estimated.

Similarly, employers may choose to allow for inflation experience since the last full member valuation. This would result in an experience gain or loss depending on how pension increase experience compared to what was assumed at previous accounting dates.

What is the change in assumptions?

This is a combination of the impact on the value of the liabilities due to any changes in the financial and demographic assumptions since the previous accounting date. See the change in demographic assumptions and change in financial assumptions sections above for more detail.

Miscellaneous

What is the impact of the Lloyds judgement on past transfer values?

The latest news on the Lloyds Banking Group court case involved a ruling that, in cases where a member exercised their right to a transfer value out of the scheme, the trustee had the duty to make a transfer payment that reflects the member's right to equalised benefits and remains liable if an inadequate transfer payment had been paid.

It is not yet known if, or how, this will affect the LGPS. We await further guidance from CIPFA and MHCLG on this. Our standard approach currently is to make no allowance to reflect this judgement.

What is the impact of the recent GMP indexation consultation response?

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here.

Our standard assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we assume that the Fund will be required to pay the entire inflationary increase. Therefore, our assumption is consistent with the consultation outcome and we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome.

Does the McCloud/Sargeant judgement have any impact on LGPS liabilities?

The recent Court of Appeal judgment on the McCloud and Sargeant cases, relate to age discrimination against the age-based transitional provisions put into place when the new judicial pension arrangements were introduced in 2015. The members argued that these transitional provisions were directly discriminatory on grounds of age and indirectly discriminatory on grounds of sex and race, based on the correlation between these two factors reflected in the judicial membership. The Tribunal ruled against the Government, deeming the transitional provisions as not a proportionate means of achieving a legitimate aim.

The Government subsequently applied to the Supreme Court to appeal the judgement but their application was denied on 27 June 2019. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. The consultation closed on 8 October 2020 and a ministerial statement in response to this was published on 13 May 2021, however a full response to the consultation is still awaited. At the time of producing this briefing note the outcome of these matters is still to be agreed so the exact impact they will have on LGPS benefits is unknown.

The Scheme Advisory Board, with the consent of MHCLG, had commissioned GAD to report on the possible impact of the McCloud case on LGPS liabilities – in particular those liabilities to be included in local authorities' accounts under IAS19 as at 31 March 2019. This followed the April 2019 CIPFA briefing note which said that local authorities should consider the materiality of the impact. GAD have now issued their report dated 10 June 2019, which is intended to help authorities assess that materiality.

The potential cost of the judgement on the liabilities is very much dependent on the membership profile of the employer and assumed future salary increases. For example, for an employer who has a high proportion of active members (and very few deferred and pensioner members), and a salary increase assumption of CPI + 1.5% p.a. the outcome of the McCloud judgement could increase the employer's liabilities by around 3% according to the GAD analysis. However, for an employer with a small proportion of active members and a salary increase assumption equal to (or less than) CPI, the impact of the McCloud judgement is likely to be negligible.

We have taken the view to include an allowance for the McCloud judgement as a default unless an employer chooses to opt out.

Does the outcome of the Goodwin case have any impact on LGPS Liabilities?

Following a case involving the Teachers' Pension scheme, known as the Goodwin case, differences between survivor benefits payable to members with same-sex or opposite-sex survivors have been identified within a number of public sector pension schemes. As a result, the Government have confirmed that a remedy is required in all affected public sector pension schemes, which includes the LGPS.

As this has just recently been announced, we do not yet have an accurate indication of the potential impact this may have on the value of employers' liabilities or the cost of the scheme. Any indication of cost at this stage will only be a rough estimate as in most cases, funds will not have this information or data to hand. It is our understanding that the Government Actuary's Department (GAD) is undertaking a review to assess the potential impact on public sector pension schemes, which we expect will be minimal for LGPS funds.

At the time of producing this briefing note, we do not yet have the results of GAD's review. However, it is our expectation that the impact on the value of LGPS liabilities as a whole, and for the majority of employers participating in the LGPS, will not be material. It is possible that the impact on individual employers will vary depending on their specific membership profile; although any cases resulting in a significant impact are likely to be few and far between.

At this time, we do not intend to make an allowance for the potential impact of this decision. We do not yet have enough information to make an accurate estimate of the potential impact on employers' liabilities.

Is the Projected unit method being used?

We use the Projected unit method in our calculations.

How are Investment expenses allowed for?

Investment expenses are included in the estimated return on fund assets. Therefore, the 'Return on assets less interest' element of the asset reconciliation and includes allowance for Investment expenses.

This is not included in 'Administration expenses' and are therefore not contained within in the Profit and Loss statement but is included in the Re-measurements in other comprehensive income.

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What checks are carried out on the data underlying the liability calculations?

One of the key items of data underlying our calculations is the member data used for the starting point of the liability roll forward. The member data is generally that from the most recent actuarial valuation and therefore has been passed through a vigorous data checking process as part of the valuation. As the member data has been sufficiently cleansed for the purpose of the actuarial valuation, we believe it is also reasonable for the purpose of the accounting roll forward. The key checks carried out on the data include:

- Consistency of static member data items (such as sex and date of birth) to previous valuation
- Consistency of changeable member data items to previous valuation. For example:
    - Reasonable change in salary for active members
    - Reasonable level of accrual for active members
    - Deferred and pensioner member pensions have increased as expected based on LGPS pension increases
- Reconciliation of employer membership to ensure that all previous members accounted for (or no longer in data as expected) and new members look reasonable

How is the employer duration calculated?

The method we use to calculate the duration is to measure the sensitivity of the liabilities to a change in the financial assumptions. Namely to use the formula:

Duration of the liabilities = $LN(PV_2 / PV_1) / LN((1+i_1) / (1+i_1+0.1\%))$

Where:

- PV_1 is the total present value of the liability on a discount rate of i_1
- PV_2 is the total present value of the liability using a discount rate of i_1 +0.1% -

What commutation factor is used in the calculations?

A commutation factor of 12 is adopted for our calculations in line with the benefit structure set out in the LGPS Regulations.

Appendix 1 Employer asset allocation

One of the most common questions we are asked by employers is how their asset amount has been calculated. This short paper sets out exactly how we do this and is aimed at both employers and their advisers.

Notional assets

Assets are not separately held for each employer; the Fund holds assets in respect of all the employers in the Fund and each employer has a notional share of these assets. For example, the contributions an employer makes into the Fund are not paid into a separate employer account and invested independently, but are paid into the Whole Fund along with all other employers' contributions and invested as a whole. However, they are taken into account when calculating a notional asset figure for actuarial valuations and employer work.

Asset Calculation – Actuarial Valuations

Assets are fully re-apportioned at each triennial funding valuation. To do this for an employer, we accumulate the notional market value of assets from the previous funding valuation with respect to the Fund's returns from the published accounts. We also allow for the cashflows in respect of the employer which include employer and employee contributions, pensions and retirement lump sums paid, and transfers in and out etc. If we know the exact date of the cashflow then we allow for this in our calculation, otherwise we assume the cashflow occurs halfway through the year. This will include any notional transfers within the Fund between the employers, even though no actual cash has been paid into or out of the Fund.

We also adjust the assets by a smoothing factor to be consistent with our measurement of the liabilities. We essentially look at the asset value over each day for the six month period around the valuation date (based on published market indices) and take the average.

Asset Calculation – Accounting valuations

In order to calculate asset values for accounting valuations, the starting point is the most recent valuation and the process is then similar to the above but may involve approximations. For example, if the Fund's actual returns have not yet been calculated for any period, we will calculate the notional return based on suitable market indices.

We use the estimated market value for FRS102 and IAS19 calculations therefore no smoothing factor is applied.

Auditor views

Auditors continue to look for greater accuracy in the roll forward approach used to calculate employers' results. This includes the approach used to determine each employer's share of fund assets at the accounting date.

Given the tight timescales for employers to submit their final accounts we appreciate that it is not always possible to wait until a fund's net asset statement at the accounting date is available to begin producing accounting disclosures. As a result, we request details of funds' assets at the most recent date available and, for the remaining period, we assume that returns are in line with relevant market indices.

In order to reduce the chance of having to revise any reports we recommend that employers engage with their auditors and the administering authority of the fund as early as possible to ensure they are comfortable with the information being used to calculate results.

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South Bank University

London Pension Fund Authority Pension Fund

Pension accounting disclosure as at 31 July 2021

Prepared in accordance with FRS102

Barnett Waddingham LLP

10 September 2021

Contents

Introduction

We have been instructed by the London Pensions Fund Authority, the administering authority to the London Pension Fund Authority Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to employees of South Bank University (the Employer) as at 31 July 2021. We have taken account of current LGPS Regulations, as amended, as at the date of this report.

This report is addressed to the Employer and its advisers; in particular, this report is likely to be of relevance to the Employer's auditor.

This acts as a revision to the initial report issued for the Employer, dated 9 August 2021. The reason for the revision is we have been provided with and incorporated the Fund asset information at 31 July 2021, which wasn't available when the initial report was required by,

These figures are prepared in accordance with our understanding of Financial Reporting Standard 102 (FRS102).

This advice complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100).

The figures quoted will form the basis of the balance sheet and funding status disclosures to be made by the Employer as at 31 July 2021 in respect of its pension obligations under the LGPS. The projected pension expense calculations for the year to 31 July 2022 may be used for the purpose of any interim financial reporting during the year to 31 July 2022. However, it may subsequently be necessary to adjust these projections following the occurrence of any material events such as curtailments, settlements or the discontinuance of the Employer's participation in the Fund.

Further information relating to our treatment of GMP is included on page 9 of this disclosure.

The results in this report include an allowance to reflect the Court of Appeal judgement in respect of the McCloud and Sargeant cases which relate to age discrimination within the Judicial and Fire Pension schemes, respectively. This allowance was described in the previous accounting report and incorporated into the accounting results as at 31 July 2019. These results, including the allowance, have been rolled forward and remeasured to obtain the accounting results as at 31 July 2021.

On 31 May 2021, the Government issued a ministerial statement on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. We do not believe there are any material differences between the approach underlying our estimated allowance and the proposed remedy. A more detailed analysis at this stage would require a significant volume of member data which is not yet available. Therefore we have not included any further adjustment in light of the expected changes to the Regulations in this report.

FRS102 also requires the disclosure of any other employer provided pension benefits which are not paid from the Fund itself: examples include additional pensions paid on retirement under the Discretionary Payment Regulations. We have only valued such additional liabilities, which would not be covered in the formal LGPS valuation, to the extent that they have been notified to us and are as disclosed in the Valuation data section of this report.

Characteristics of defined benefit plans and associated risks

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings. Full details of the benefits being valued are as set out in the Regulations as amended and summarised on the LGPS website and the Fund's membership booklet. There are currently uncertainties in relation to LGPS benefits due to the McCloud and Sargeant judgement and the 2016 cost cap process. The Government has published its consultation on a remedy for the McCloud and Sargeant judgement and at the same time announced the unpausing of the 2016 cost cap process which will take into account the remedy for the McCloud and Sargeant judgement. These are yet to be finalised and therefore it remains uncertain what changes may be made to LGPS benefits as a result.

The administering authority for the Fund is the London Pensions Fund Authority. The LPFA Board oversees the management of the Fund whilst the day to day fund administration is undertaken by the Local Pensions Partnership. Where appropriate some functions are delegated to the Fund's professional advisers.

As administering authority to the Fund, the London Pensions Fund Authority, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Investment Strategy Statement. These should be amended when appropriate based on the Fund's performance and funding.

Contributions are set every three years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2022 and will set contributions for the period from 1 April 2023 to 31 March 2026. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

On the Employer's withdrawal from the Fund, a cessation valuation will be carried out in accordance with Regulation 64 of the LGPS Regulations 2013 which will determine the termination contribution due by the Employer, on a set of assumptions deemed appropriate by the Fund Actuary.

In general, participating in a defined benefit pension scheme means that the Employer is exposed to a number of risks:

- Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges;
- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way;
- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation; and
- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the London Pension Fund Authority Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Employer e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

Valuation data

Data sources

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from the London Pensions Fund Authority:

- The results of the valuation as at 31 March 2019 which was carried out for funding purposes and the results of the 31 July 2020 FRS102 report which was prepared for accounting purposes;
- Estimated whole Fund income and expenditure items for the period to 31 July 2021;
- Fund investment returns for the period to 31 July 2021;
- Estimated Fund income and expenditure in respect of the Employer for the period to 31 July 2021;
- Details of any new early retirements for the period to 31 July 2021 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost; and
- Details of any settlements for the period to 31 July 2021.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data. The data has been checked for reasonableness and we are happy that the data is sufficient for the purposes of this advice.

Employer membership statistics

The table below summarises the membership data, as at 31 March 2019 for members receiving funded benefits, and as at 31 July 2018 for any members receiving unfunded benefits.

Member data summary	Number	Salaries/Pensions £000s	Average age
Actives	847	22,012	44
Deferred pensioners	1,785	3,052	41
Pensioners	689	4,604	72
Unfunded pensioners	290	728	78

The service cost for the year ending 31 July 2021 is calculated using an estimate of the total pensionable payroll during the year. From the contribution information provided by the employer, the estimated total pensionable payroll during the year is £28,796,000. The projected service cost for the year ending 31 July 2022 has been calculated assuming the payroll remains at this level over the year.

Scheduled contributions

The table below summarises the minimum employer contributions due from South Bank University to the Fund over this inter-valuation period. The calculated cost of accrual of future benefits is 15.4% of payroll p.a.

Minimum employer contributions due for the period beginning	1 Apr 2020	1 Apr 2021	1 Apr 2022
Percent of payroll	15.4%	15.4%	15.4%
plus monetary amount (£000s)	1,330	1,379	1,429

South Bank University may pay further amounts at any time and future periodic contributions, or the timing of contributions may be adjusted on a basis approved by us.

Early retirements

We requested data on any early retirements in respect of the Employer from the administering authority for the year ending 31 July 2021.

It is our understanding that there were no new early retirements over the year which were not allowed for at the previous accounting date.

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 July 2021 is 15.46% as advised by the Fund.

The estimated asset allocation for South Bank University as at 31 July 2021 is as follows:

Asset breakdown	31 Jul 2021		31 Jul 2020	
	£000s	%	£000s	%
Equities	106,147	56%	86,715	54%
Target Return Portfolio	40,856	22%	38,244	24%
Infrastructure	16,579	9%	11,114	7%
Property	15,780	8%	14,882	9%
Cash	9,790	5%	10,907	7%
Total	**189,152**	**100%**	**161,862**	**100%**

We have estimated the bid values where necessary. Please note that the individual percentages shown are to the nearest percentage point for each asset class and may not sum to 100%. The final asset allocation of the Fund assets as at 31 July 2021 may be different from that shown due to estimation techniques.

Based on the above, the Employer's share of the assets of the Fund is approximately 2.60%.

Actuarial methods and assumptions

Valuation approach

Valuation of the Employer’s liabilities

To assess the value of the Employer's liabilities at 31 July 2021, we have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2019, using financial assumptions that comply with FRS102.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member’s death.

It is not possible to assess the accuracy of the estimated value of liabilities as at 31 July 2021 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 July 2021 should not introduce any material distortions in the results provided that the actual experience of the Employer and the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

As required under the FRS102 accounting standard, we have used the projected unit credit method of valuation.

Valuation of the Employer’s assets

To calculate the asset share we have rolled forward the assets allocated to the Employer at 31 March 2019 allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the Fund by and in respect of the Employer and its employees.

Experience items allowed for since the previous accounting date

Experience items arise due to differences between the assumptions made as part of the roll forward approach and actual experience. This includes (but is not limited to) assumptions made in respect of salary increases, pension increases, mortality, and member transfers. We have allowed for actual pension increase experience for the period from 2018-2021. This assumes that pension increases are in line with the annual pension increases set by HM Treasury Revaluation Order.

As a result of allowing for actual experience, an experience item is observed in the reconciliation to 31 July 2021, as shown in Appendix 3 and Appendix 5.

Guaranteed Minimum Pension (GMP) Equalisation

As a result of the High Court’s recent Lloyds ruling on the equalisation of GMPs between genders, a number of pension schemes have made adjustments to accounting disclosures to reflect the effect this ruling has on the value of pension liabilities. It is our understanding that HM Treasury have confirmed that the judgement “does not impact on the current method used to achieve equalisation and indexation in public service pension schemes”. More information on the current method of equalisation of public service pension schemes can be found here.

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here.

Our valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that the Fund will be required to pay the entire inflationary increase. Therefore, our assumption is consistent with the consultation outcome and we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome.

Demographic/Statistical assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2019, except for the CMI projection model. The post retirement mortality tables have been constructed based on Club Vita analysis. These base tables are then projected using the CMI_2020 Model, allowing for a long-term rate of improvement of 1.25% p.a., smoothing parameter of 7.0, an initial addition parameter of 0.5% p.a. and a 2020 weighting of 25%.

Although the post retirement mortality tables adopted are consistent with the previous accounting date, the mortality improvement projection has been updated to use the latest version of the Continuous Mortality Investigation's model, CMI_2020, which was released in March 2021. This update has been made in light of the coronavirus pandemic and reflects the latest information available from the CMI. The new CMI_2020 Model introduces a "2020 weight parameter" for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results. Our view is that placing too much weight on the 2020 mortality experience would not be appropriate given the abnormality of the 2020 data, however, the overall outlook for best-estimate future mortality improvements looks less positive as a result of the pandemic. Therefore we have updated to use the CMI_2020 Model with a 2020 weight parameter of 25%. At the last accounting date, the CMI_2018 Model was adopted. The effect on the Employer's liabilities of updating to the most recent model is reflected in the Change in demographic assumptions figure in Appendix 3 and Appendix 5, and the effect on the assumed life expectancies is demonstrated in the table below.

The assumed life expectations from age 65, weighted by liability, are:

Life expectancy from age 65 (years)	31 Jul 2021 (after CMI_2020 update)	31 Jul 2021 (before CMI_2020 update)	31 Jul 2020
Retiring today			
Males	21.7	22.0	21.9
Females	24.1	24.3	24.2
Retiring in 20 years			
Males	22.9	23.3	23.2
Females	25.7	25.9	25.8

We have also assumed that:

- Members will exchange pension to get 50% of the maximum available cash on retirement. For every £1 of pension that members commute, they will receive a cash payment of £12 as set out in the Regulations;

- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

Financial assumptions

The financial assumptions used to calculate the results are as follows:

Assumptions as at	31 Jul 2021	31 Jul 2020	31 Jul 2019
	% p.a.	% p.a.	% p.a.
Discount rate	1.60%	1.50%	2.10%
Pension increases	2.80%	2.25%	2.40%
Salary increases	3.00%	3.00%	3.90%

These assumptions are set with reference to market conditions at 31 July 2021.

Our estimate of the Employer's past service liability duration is 22 years.

An estimate of the Employer's future cashflows is made using notional cashflows based on the estimated duration above. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). The Employer requested their own discount rate assumption last year.

Similar to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows described above. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. This is consistent with the approach used at the previous accounting date.

The BoE implied inflation curve may suggest a higher rate of inflation, over longer terms, than actually expected by market participants due to a willingness to accept a lower return on investments to ensure inflation linked returns. To reflect this, we include an Inflation Risk Premium (IRP) adjustment such that our assumed level of future annual RPI increase is 0.25% p.a. lower than the SEIR calculated using the BoE inflation curve alone. This differs from the previous accounting date. The impact of this change in derivation on the liability value is shown in Appendix 3.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.35% p.a. below RPI i.e. 2.80% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods, recent independent forecasts and the duration of the Employer's liabilities. The difference between

RPI and CPI is less than assumed at the previous accounting date. This reflects the anticipated reform of RPI inflation following the UK Statistics Authority's proposal to change how RPI is calculated and subsequent announcements from the Chancellor suggesting this reform is now likely to take effect from 2030. The impact of this change in derivation on the liability value is shown in Appendix 3.

As requested by the Employer, and similar to last year, salaries are assumed to increase at 3.0% p.a.

Past service costs/gains

Past service costs/gains arise as a result of introduction or withdrawal of, or changes to, member benefits. For example, an award of additional discretionary benefits to a member such as added years by a member would be considered a past service cost.

We are not aware of any additional benefits which were granted over the year ending 31 July 2021.

Curtailments

We have calculated the cost of curtailments arising as a result of the payment of unreduced pensions on early retirement. The Employer may also have to account for non-pension related costs (e.g. lump sum payments on redundancy) but for the avoidance of doubt, we have only calculated the cost of curtailments which affect the Employer's LGPS pension liabilities.

We calculate the cost of curtailments at the point of exit, with interest applied to the accounting date accounted for separately.

Over the year, we understand no employees were permitted by the Employer to take unreduced early retirement that they would not otherwise have been entitled to.

Settlements

We are not aware of any liabilities being settled at a cost materially different to the accounting reserve during the year.

Results and disclosures

We estimate that the value of the net liability as at 31 July 2021 is a liability of £158,922,000.

The results of our calculations for the year ended 31 July 2021 are set out in the appendices below:

- Appendix 1 sets out the Statement of financial position as at 31 July 2021;
- Appendix 2 sets out the Statement of profit and loss for the year ended 31 July 2021;
- Appendix 3 details a reconciliation of assets and liabilities during the year;
- Appendix 4 shows a sensitivity analysis on the major assumptions;
- Appendix 5 shows the Remeasurements in other comprehensive income for the year; and
- Appendix 6 contains our estimates of the projected profit and loss account costs for the year ending 31 July 2022. Please note that no allowance has been made for the costs of any early retirements or augmentations which may occur over the year and whose additional capitalised costs would be included in the value of liabilities. It is only an estimate so actual experience over the year is likely to differ. We have not provided balance sheet projections on the basis that they will depend upon market conditions and the asset value of the Fund at the end of the following year.

The figures presented in this report are prepared only for the purposes of FRS102. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

We would be pleased to answer any questions arising from this report.

Liam Drysdale FFA
Actuary

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Appendix 1 Statement of financial position as at 31 July 2021

Net pension asset as at	31 Jul 2021 £000s	31 Jul 2020 £000s	31 Jul 2019 £000s
Present value of the defined benefit obligation	338,572	305,728	260,964
Fair value of Fund assets (bid value)	189,152	161,862	161,649
Deficit / (Surplus)	**149,420**	**143,866**	**99,315**
Present value of unfunded obligation	9,502	10,223	10,420
Unrecognised past service cost	-	-	-
Impact of asset ceiling	-	-	-
Net defined benefit liability / (asset)	**158,922**	**154,089**	**109,735**

The breakdown of the unfunded pension obligation as at 31 July 2021 is given below.

Split of unfunded obligation as at 31 July 2021 Pension commenced:	Before 1 Apr 1989	After 1 Apr 1989	Total
Unfunded pensioners - LGPS	161	1,632	1,792
Unfunded pensioners - Other	-	7,710	7,710
Total	**161**	**9,341**	**9,502**

Appendix 2 Statement of profit and loss for the year to 31 July 2021

The amounts recognised in the profit and loss statement are:	Year to 31 Jul 2021 £000s	Year to 31 Jul 2020 £000s
Service cost	14,508	9,490
Net interest on the defined liability (asset)	2,263	2,245
Administration expenses	210	210
Total loss (profit)	**16,981**	**11,945**

Appendix 3 Asset and benefit obligation reconciliation for the year to 31 July 2021

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to 31 Jul 2021 £000s	Year to 31 Jul 2020 £000s
Opening defined benefit obligation	**315,951**	**271,384**
Current service cost	14,508	9,490
Interest cost	4,708	5,656
Change in financial assumptions	27,208	25,886
Change in demographic assumptions	(3,817)	618
Experience loss/(gain) on defined benefit obligation	(6,232)	6,977
Liabilities assumed / (extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	(5,651)	(5,161)
Past service costs, including curtailments	-	-
Contributions by Scheme participants and other employers	2,127	1,829
Unfunded pension payments	(728)	(728)
Closing defined benefit obligation	**348,074**	**315,951**

The change in financial assumptions item includes the impact of the change in derivation of future assumed RPI and CPI inflation as noted on page 12. These changes have resulted in a loss of £13,802,000 on the defined benefit obligation; comprising a gain of £16,436,000 from the change in assumed IRP and a loss of £30,238,000 from the change in the assumed gap between RPI and CPI inflation.

The change in demographic assumptions figure in the table above reflects the update to use the CMI_2020 Model as set out in the Demographic/Statistical assumptions section of this report.

Reconciliation of opening & closing balances of the fair value of Fund assets	Year to 31 Jul 2021 £000s	Year to 31 Jul 2020 £000s
Opening fair value of Fund assets	**161,862**	**161,649**
Interest on assets	2,445	3,411
Return on assets less interest	22,747	(444)
Other actuarial gains/(losses)	-	(4,077)
Administration expenses	(210)	(210)
Contributions by employer including unfunded	6,560	5,593
Contributions by Scheme participants and other employers	2,127	1,829
Estimated benefits paid plus unfunded net of transfers in	(6,379)	(5,889)
Settlement prices received / (paid)	-	-
Closing Fair value of Fund assets	**189,152**	**161,862**

The total return on the fund assets for the year to 31 July 2021 is £25,192,000.

Appendix 4 Sensitivity analysis

Sensitivity analysis	£000s	£000s	£000s
Adjustment to discount rate	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	340,763	348,074	355,548
Projected service cost	16,095	16,706	17,338
Adjustment to long term salary increase	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	348,566	348,074	347,585
Projected service cost	16,715	16,706	16,697
Adjustment to pension increases and deferred revaluation	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	354,960	348,074	341,329
Projected service cost	17,329	16,706	16,103
Adjustment to life expectancy assumptions	**+1 Year**	**None**	**- 1 Year**
Present value of total obligation	364,598	348,074	332,335
Projected service cost	17,471	16,706	15,971

Appendix 5 Remeasurements in other comprehensive income

Remeasurement of the net assets / (defined liability)	Year to 31 Jul 2021 £000s	Year to 31 Jul 2020 £000s
Return on Fund assets in excess of interest	22,747	(444)
Other actuarial gains/(losses) on assets	-	(4,077)
Change in financial assumptions	(27,208)	(25,886)
Change in demographic assumptions	3,817	(618)
Experience gain/(loss) on defined benefit obligation	6,232	(6,977)
Changes in effect of asset ceiling	-	-
Remeasurement of the net assets / (defined liability)	**5,588**	**(38,002)**

Appendix 6 Projected pension expense for the year to 31 July 2022

Projections for the year to 31 July 2022	Year to 31 Jul 2022 £000s
Service cost	16,706
Net interest on the defined liability (asset)	2,490
Administration expenses	246
Total loss (profit)	**19,442**
Employer contributions	**5,820**

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31 July 2021. These projections are based on the assumptions as at 31 July 2021, as described in the main body of this report.

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South Bank Colleges

London Pension Fund Authority Pension Fund

Pension accounting disclosure as at 31 July 2021

Prepared in accordance with FRS102

Barnett Waddingham LLP

9 September 2021

Contents

Introduction

We have been instructed by the London Pensions Fund Authority, the administering authority to the London Pension Fund Authority Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to employees of South Bank Colleges (the Employer) as at 31 July 2021. We have taken account of current LGPS Regulations, as amended, as at the date of this report.

This report is addressed to the Employer and its advisers; in particular, this report is likely to be of relevance to the Employer's auditor.

This acts as a revision to the initial report issued for the Employer, dated 9 August 2021. The reason for the revision is we have been provided with and incorporated the Fund asset information at 31 July 2021, which wasn't available when the initial report was required by,

These figures are prepared in accordance with our understanding of Financial Reporting Standard 102 (FRS102).

This advice complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100).

The figures quoted will form the basis of the balance sheet and funding status disclosures to be made by the Employer as at 31 July 2021 in respect of its pension obligations under the LGPS. The projected pension expense calculations for the year to 31 July 2022 may be used for the purpose of any interim financial reporting during the year to 31 July 2022. However, it may subsequently be necessary to adjust these projections following the occurrence of any material events such as curtailments, settlements or the discontinuance of the Employer's participation in the Fund.

Further information relating to our treatment of GMP is included on page 9 of this disclosure.

The results in this report include an allowance to reflect the Court of Appeal judgement in respect of the McCloud and Sargeant cases which relate to age discrimination within the Judicial and Fire Pension schemes, respectively. This allowance was described in the previous accounting report and incorporated into the accounting results as at 31 July 2019. These results, including the allowance, have been rolled forward and remeasured to obtain the accounting results as at 31 July 2021.

On 31 May 2021, the Government issued a ministerial statement on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. We do not believe there are any material differences between the approach underlying our estimated allowance and the proposed remedy. A more detailed analysis at this stage would require a significant volume of member data which is not yet available. Therefore we have not included any further adjustment in light of the expected changes to the Regulations in this report.

FRS102 also requires the disclosure of any other employer provided pension benefits which are not paid from the Fund itself: examples include additional pensions paid on retirement under the Discretionary Payment Regulations. We have only valued such additional liabilities, which would not be covered in the formal LGPS valuation, to the extent that they have been notified to us and are as disclosed in the Valuation data section of this report.

Characteristics of defined benefit plans and associated risks

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings. Full details of the benefits being valued are as set out in the Regulations as amended and summarised on the LGPS website and the Fund's membership booklet. There are currently uncertainties in relation to LGPS benefits due to the McCloud and Sargeant judgement and the 2016 cost cap process. The Government has published its consultation on a remedy for the McCloud and Sargeant judgement and at the same time announced the unpausing of the 2016 cost cap process which will take into account the remedy for the McCloud and Sargeant judgement. These are yet to be finalised and therefore it remains uncertain what changes may be made to LGPS benefits as a result.

The administering authority for the Fund is the London Pensions Fund Authority. The LPFA Board oversees the management of the Fund whilst the day to day fund administration is undertaken by the Local Pensions Partnership. Where appropriate some functions are delegated to the Fund's professional advisers.

As administering authority to the Fund, the London Pensions Fund Authority, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Investment Strategy Statement. These should be amended when appropriate based on the Fund's performance and funding.

Contributions are set every three years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2022 and will set contributions for the period from 1 April 2023 to 31 March 2026. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

On the Employer's withdrawal from the Fund, a cessation valuation will be carried out in accordance with Regulation 64 of the LGPS Regulations 2013 which will determine the termination contribution due by the Employer, on a set of assumptions deemed appropriate by the Fund Actuary.

In general, participating in a defined benefit pension scheme means that the Employer is exposed to a number of risks:

- Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges;
- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way;
- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation; and
- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the London Pension Fund Authority Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Employer e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

Valuation data

Data sources

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from the London Pensions Fund Authority:

- The results of the valuation as at 31 March 2019 which was carried out for funding purposes and the results of the 31 July 2020 FRS102 report which was prepared for accounting purposes;
- Estimated whole Fund income and expenditure items for the period to 31 July 2021;
- Fund investment returns for the period to 31 July 2021;
- Estimated Fund income and expenditure in respect of the Employer for the period to 31 July 2021;
- Details of any new early retirements for the period to 31 July 2021 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost; and
- Details of any settlements for the period to 31 July 2021.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data. The data has been checked for reasonableness and we are happy that the data is sufficient for the purposes of this advice.

Employer membership statistics

The table below summarises the membership data, as at 31 March 2019 for members receiving funded benefits, and as at 31 July 2019 for any members receiving unfunded benefits.

Member data summary	Number	Salaries/Pensions £000s	Average age
Actives	131	3,755	45
Deferred pensioners	331	831	46
Pensioners	153	1,155	68
Unfunded pensioners	17	31	76

The service cost for the year ending 31 July 2021 is calculated using an estimate of the total pensionable payroll during the year. From the contribution information provided by the employer, the estimated total pensionable payroll during the year is £3,885,000. The projected service cost for the year ending 31 July 2022 has been calculated assuming the payroll remains at this level over the year.

Constituent employers

This report is in respect of a number of individual employers, details of which are held separately for administrative purposes. Some of these individual employers may be historic and only in respect of deferred and pensioner members for which the Employer is responsible. Others may be in respect of active employers that account as a single entity for accounting purposes.

The table below sets out the individual employers who make up the membership table at 31 March 2019 shown above:

Employers included in membership table

Code	Name
218	Lambeth College
278	South Bank Colleges

Other employers may have transferred to/from the Employer since 31 March 2019 and these will be detailed in the report provided for the respective accounting period.

Scheduled contributions

The table below summarises the minimum employer contributions due from South Bank Colleges to the Fund over this inter-valuation period. The calculated cost of accrual of future benefits is 16.3% of payroll p.a.

Minimum employer contributions due for the period beginning	1 Apr 2020	1 Apr 2021	1 Apr 2022
Percent of payroll	16.3%	16.3%	16.3%
plus monetary amount (£000s)	-	-	-

South Bank Colleges may pay further amounts at any time and future periodic contributions, or the timing of contributions may be adjusted on a basis approved by us.

Early retirements

We requested data on any early retirements in respect of the Employer from the administering authority for the year ending 31 July 2021.

It is our understanding that there were no new early retirements over the year which were not allowed for at the previous accounting date.

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 July 2021 is 15.46% as advised by the Fund.

The estimated asset allocation for South Bank Colleges as at 31 July 2021 is as follows:

Asset breakdown	31 Jul 2021		31 Jul 2020	
	£000s	%	£000s	%
Equities	28,237	56%	23,549	54%
Target Return Portfolio	10,868	22%	10,385	24%
Infrastructure	4,410	9%	3,018	7%
Property	4,198	8%	4,041	9%
Cash	2,604	5%	2,962	7%
Total	**50,317**	**100%**	**43,955**	**100%**

We have estimated the bid values where necessary. Please note that the individual percentages shown are to the nearest percentage point for each asset class and may not sum to 100%. The final asset allocation of the Fund assets as at 31 July 2021 may be different from that shown due to estimation techniques.

Based on the above, the Employer's share of the assets of the Fund is approximately 0.69%.

Actuarial methods and assumptions

Valuation approach

Valuation of the Employer's liabilities

To assess the value of the Employer's liabilities at 31 July 2021, we have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2019, using financial assumptions that comply with FRS102.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated value of liabilities as at 31 July 2021 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 July 2021 should not introduce any material distortions in the results provided that the actual experience of the Employer and the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

As required under the FRS102 accounting standard, we have used the projected unit credit method of valuation.

Valuation of the Employer's assets

To calculate the asset share we have rolled forward the assets allocated to the Employer at 31 March 2019 allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the Fund by and in respect of the Employer and its employees.

Experience items allowed for since the previous accounting date

Experience items arise due to differences between the assumptions made as part of the roll forward approach and actual experience. This includes (but is not limited to) assumptions made in respect of salary increases, pension increases, mortality, and member transfers. We have allowed for actual pension increase experience for the period from 2019-2021. This assumes that pension increases are in line with the annual pension increases set by HM Treasury Revaluation Order.

As a result of allowing for actual experience, an experience item is observed in the reconciliation to 31 July 2021, as shown in Appendix 3 and Appendix 5.

Guaranteed Minimum Pension (GMP) Equalisation

As a result of the High Court's recent Lloyds ruling on the equalisation of GMPs between genders, a number of pension schemes have made adjustments to accounting disclosures to reflect the effect this ruling has on the value of pension liabilities. It is our understanding that HM Treasury have confirmed that the judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes". More information on the current method of equalisation of public service pension schemes can be found here.

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here.

Our valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that the Fund will be required to pay the entire inflationary increase. Therefore, our assumption is consistent with the consultation outcome and we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome.

Demographic/Statistical assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2019, except for the CMI projection model. The post retirement mortality tables have been constructed based on Club Vita analysis. These base tables are then projected using the CMI_2020 Model, allowing for a long-term rate of improvement of 1.25% p.a., smoothing parameter of 7.0, an initial addition parameter of 0.5% p.a. and a 2020 weighting of 25%.

Although the post retirement mortality tables adopted are consistent with the previous accounting date, the mortality improvement projection has been updated to use the latest version of the Continuous Mortality Investigation's model, CMI_2020, which was released in March 2021. This update has been made in light of the coronavirus pandemic and reflects the latest information available from the CMI. The new CMI_2020 Model introduces a "2020 weight parameter" for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results. Our view is that placing too much weight on the 2020 mortality experience would not be appropriate given the abnormality of the 2020 data, however, the overall outlook for best-estimate future mortality improvements looks less positive as a result of the pandemic. Therefore we have updated to use the CMI_2020 Model with a 2020 weight parameter of 25%. At the last accounting date, the CMI_2018 Model was adopted. The effect on the Employer's liabilities of updating to the most recent model is reflected in the Change in demographic assumptions figure in Appendix 3 and Appendix 5, and the effect on the assumed life expectancies is demonstrated in the table below.

The assumed life expectations from age 65, weighted by liability, are:

Life expectancy from age 65 (years)	31 Jul 2021 (after CMI_2020 update)	31 Jul 2021 (before CMI_2020 update)	31 Jul 2020
Retiring today			
Males	21.6	21.9	21.8
Females	24.1	24.3	24.2
Retiring in 20 years			
Males	22.8	23.3	23.2
Females	25.4	25.5	25.4

We have also assumed that:

- Members will exchange pension to get 50% of the maximum available cash on retirement. For every £1 of pension that members commute, they will receive a cash payment of £12 as set out in the Regulations;

- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

Financial assumptions

The financial assumptions used to calculate the results are as follows:

Assumptions as at	31 Jul 2021	31 Jul 2020	31 Jul 2019
	% p.a.	% p.a.	% p.a.
Discount rate	1.60%	1.50%	2.10%
Pension increases	2.80%	2.25%	2.40%
Salary increases	3.00%	3.00%	3.90%

These assumptions are set with reference to market conditions at 31 July 2021.

Our estimate of the Employer's past service liability duration is 20 years.

An estimate of the Employer's future cashflows is made using notional cashflows based on the estimated duration above. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). Last year the discount rate assumption was requested by the Employer.

Similar to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows described above. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. This is consistent with the approach used at the previous accounting date.

The BoE implied inflation curve may suggest a higher rate of inflation, over longer terms, than actually expected by market participants due to a willingness to accept a lower return on investments to ensure inflation linked returns. To reflect this, we include an Inflation Risk Premium (IRP) adjustment such that our assumed level of future annual RPI increase is 0.25% p.a. lower than the SEIR calculated using the BoE inflation curve alone. This differs from the previous accounting date. The impact of this change in derivation on the liability value is shown in Appendix 3.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.35% p.a. below RPI i.e. 2.80% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods, recent independent forecasts and the duration of the Employer's liabilities. The difference between

RPI and CPI is less than assumed at the previous accounting date. This reflects the anticipated reform of RPI inflation following the UK Statistics Authority's proposal to change how RPI is calculated and subsequent announcements from the Chancellor suggesting this reform is now likely to take effect from 2030. The impact of this change in derivation on the liability value is shown in Appendix 3.

As requested by the Employer, and consistent with the previous accounting date, the salaries are assumed to increase at 3.0% p.a.

Past service costs/gains

Past service costs/gains arise as a result of introduction or withdrawal of, or changes to, member benefits. For example, an award of additional discretionary benefits to a member such as added years by a member would be considered a past service cost.

We are not aware of any additional benefits which were granted over the year ending 31 July 2021.

Curtailments

We have calculated the cost of curtailments arising as a result of the payment of unreduced pensions on early retirement. The Employer may also have to account for non-pension related costs (e.g. lump sum payments on redundancy) but for the avoidance of doubt, we have only calculated the cost of curtailments which affect the Employer's LGPS pension liabilities.

We calculate the cost of curtailments at the point of exit, with interest applied to the accounting date accounted for separately.

Over the year, we understand no employees were permitted by the Employer to take unreduced early retirement that they would not otherwise have been entitled to.

Settlements

We are not aware of any liabilities being settled at a cost materially different to the accounting reserve during the year.

Results and disclosures

We estimate that the value of the net liability as at 31 July 2021 is a liability of £25,819,000.

The results of our calculations for the year ended 31 July 2021 are set out in the appendices below:

- Appendix 1 sets out the Statement of financial position as at 31 July 2021;
- Appendix 2 sets out the Statement of profit and loss for the year ended 31 July 2021;
- Appendix 3 details a reconciliation of assets and liabilities during the year;
- Appendix 4 shows a sensitivity analysis on the major assumptions;
- Appendix 5 shows the Remeasurements in other comprehensive income for the year; and
- Appendix 6 contains our estimates of the projected profit and loss account costs for the year ending 31 July 2022. Please note that no allowance has been made for the costs of any early retirements or augmentations which may occur over the year and whose additional capitalised costs would be included in the value of liabilities. It is only an estimate so actual experience over the year is likely to differ. We have not provided balance sheet projections on the basis that they will depend upon market conditions and the asset value of the Fund at the end of the following year.

The figures presented in this report are prepared only for the purposes of FRS102. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

We would be pleased to answer any questions arising from this report.

Liam Drysdale FFA
Actuary

Appendix 1 Statement of financial position as at 31 July 2021

Net pension asset as at	31 Jul 2021	31 Jul 2020	31 Jul 2019
	£000s	£000s	£000s
Present value of the defined benefit obligation	75,702	70,453	63,263
Fair value of Fund assets (bid value)	50,317	43,955	44,108
Deficit / (Surplus)	**25,385**	**26,498**	**19,155**
Present value of unfunded obligation	434	461	465
Unrecognised past service cost	-	-	-
Impact of asset ceiling	-	-	-
Net defined benefit liability / (asset)	**25,819**	**26,959**	**19,620**

Appendix 2 Statement of profit and loss for the year to 31 July 2021

The amounts recognised in the profit and loss statement are:	Year to 31 Jul 2021 £000s	Year to 31 Jul 2020 £000s
Service cost	1,940	1,394
Net interest on the defined liability (asset)	399	403
Administration expenses	57	57
Total loss (profit)	**2,396**	**1,854**

Appendix 3 Asset and benefit obligation reconciliation for the year to 31 July 2021

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to 31 Jul 2021 £000s	Year to 31 Jul 2020 £000s
Opening defined benefit obligation	**70,914**	**63,728**
Current service cost	1,940	1,394
Interest cost	1,056	1,325
Change in financial assumptions	5,565	5,604
Change in demographic assumptions	(847)	389
Experience loss/(gain) on defined benefit obligation	(1,439)	(334)
Liabilities assumed / (extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	(1,299)	(1,415)
Past service costs, including curtailments	-	-
Contributions by Scheme participants and other employers	277	254
Unfunded pension payments	(31)	(31)
Closing defined benefit obligation	**76,136**	**70,914**

The change in financial assumptions item includes the impact of the change in derivation of future assumed RPI and CPI inflation as noted on page 12. These changes have resulted in a loss of £2,777,000 on the defined benefit obligation; comprising a gain of £3,325,000 from the change in assumed IRP and a loss of £6,102,000 from the change in the assumed gap between RPI and CPI inflation.

The change in demographic assumptions figure in the table above reflects the update to use the CMI_2020 Model as set out in the Demographic/Statistical assumptions section of this report.

Reconciliation of opening & closing balances of the fair value of Fund assets	Year to 31 Jul 2021 £000s	Year to 31 Jul 2020 £000s
Opening fair value of Fund assets	**43,955**	**44,108**
Interest on assets	657	922
Return on assets less interest	6,112	(121)
Other actuarial gains/(losses)	-	(450)
Administration expenses	(57)	(57)
Contributions by employer including unfunded	703	745
Contributions by Scheme participants and other employers	277	254
Estimated benefits paid plus unfunded net of transfers in	(1,330)	(1,446)
Settlement prices received / (paid)	-	-
Closing Fair value of Fund assets	**50,317**	**43,955**

The total return on the fund assets for the year to 31 July 2021 is £6,769,000.

Appendix 4 Sensitivity analysis

Sensitivity analysis	£000s	£000s	£000s
Adjustment to discount rate	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	74,651	76,136	77,651
Projected service cost	2,140	2,218	2,298
Adjustment to long term salary increase	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	76,216	76,136	76,056
Projected service cost	2,219	2,218	2,216
Adjustment to pension increases and deferred revaluation	**+0.1%**	**0.0%**	**-0.1%**
Present value of total obligation	77,551	76,136	74,747
Projected service cost	2,297	2,218	2,141
Adjustment to life expectancy assumptions	**+1 Year**	**None**	**- 1 Year**
Present value of total obligation	79,719	76,136	72,718
Projected service cost	2,319	2,218	2,120

Appendix 5 Remeasurements in other comprehensive income

Remeasurement of the net assets / (defined liability)	Year to 31 Jul 2021 £000s	Year to 31 Jul 2020 £000s
Return on Fund assets in excess of interest	6,112	(121)
Other actuarial gains/(losses) on assets	-	(450)
Change in financial assumptions	(5,565)	(5,604)
Change in demographic assumptions	847	(389)
Experience gain/(loss) on defined benefit obligation	1,439	334
Changes in effect of asset ceiling	-	-
Remeasurement of the net assets / (defined liability)	**2,833**	**(6,230)**

Appendix 6 Projected pension expense for the year to 31 July 2022

Projections for the year to 31 July 2022	Year to 31 Jul 2022 £000s
Service cost	2,218
Net interest on the defined liability (asset)	408
Administration expenses	65
Total loss (profit)	**2,691**
Employer contributions	**634**

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31 July 2021. These projections are based on the assumptions as at 31 July 2021, as described in the main body of this report.

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Sections for LSBU Financial Statements for the year ending 31st July 2021

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Contents

Strategic Report

Status and Advisors

This Strategic Report is that of the University and its consolidated subsidiaries, South Bank Colleges, South Bank University Enterprises Limited and SW4 Catering Ltd (The LSBU Group).

London South Bank University (LSBU) was incorporated on 12 August 1970. It is registered at Companies House under number 986761 and its registered address is 103 Borough Road, London, SE1 0AA. LSBU is a company limited by guarantee and has no share capital.

The governing body of the University is responsible for the effective stewardship of the University and has control of the revenue and the property of the University. The University's corporate governance arrangements are described from page 17 and the members of the Board of Governors during the year ended 31 July 2021 are listed from page 2. The Governors are also directors under the Companies Act 2006.

The University is an exempt charity within the meaning of the Charities Act 2011 applying in England and Wales and its principal regulator is the Office for Students (OfS). All Governors are also charitable trustees. The University complies with conditions of grant set out in funding agreements with the relevant grantor.

Solicitors		
Shakespeare Martineau LLP 1 Colmore Square Birmingham B4 6AA	Veale Wasbrough Vizards LLP Narrow Quay House, Narrow Quay, Bristol BS1 4QA	Eversheds 70 Great Bridgewater Street Manchester M1 5ES
Auditor	**Internal Auditor**	**Bankers**
KPMG LLP 15 Canada Square London E14 5GL	BDO LLP Arcadia House Maritime Walk – Ocean Village Southampton SO14 3TL	Barclays Level 12 One Churchill Place London E14 5HP

Structure, Governance and Management

The following were Governors throughout the year ended 31 July 2021 except as noted:

Mr Jerry Cope – Chair

Mr Duncan Brown

Mr John Cole

Mr Michael Cutbill

Professor Peter Fidler CBE

Mr Mark Lemmon

Professor Hilary McCallion CBE Resigned 11/03/2021

Mr Jeremy Parr

Professor David Phoenix OBE (Vice Chancellor and Chief Executive)

Ms Rashda Rana

Ms Deepa Shah Resigned 31/10/2021

Mr Vinaykant Tanna

Mr James Stevenson

Dr Mee Ling Ng Resigned 11/03/2021

Maureen Dalziel appointed 01/03/2021

Mr Max Smith

Ms Harriet Tollerson resigned 30/06/2021

Ms Ruchika Kumar appointed 01/07/2021

Ms Nicola Martin

Mr Tony Roberts resigned 15/10/2021

Members of Group Executive:

David Phoenix, Vice Chancellor and Chief Executive

James Stevenson, Group Secretary

Richard Flatman, Chief Financial Officer

Nicole Louis, Chief Customer Officer

Fiona Morey, Pro Vice Chancellor Compulsory and Further Education and Principal of South Bank Colleges

Paul Ivey, Deputy Vice Chancellor and Chief Business Officer

Pat Bailey, Provost resigned 30/6/21

Tara Dean, Provost from 1/9/21

Deborah Johnston, Pro Vice Chancellor Education

Warren Turner, Pro Vice Chancellor Health and Social Sciences

Marcelle Moncrieffe-Johnson, Chief People Officer

Objectives and Activities

London South Bank University transforms lives, communities, businesses and society through applied education and insight. We were established almost 130 years ago with a mission to improve social mobility for the people of south London by improving their employment opportunities and providing access to the applied knowledge that would advance their businesses. Other than an increasingly global reach, that mission remains almost unchanged today.

At the heart of LSBU Group is high quality applied professional and technical education. This is underpinned by first class academic insight – applied research and knowledge exchange, which provide valued knowledge to employers and currency to the teaching and student experience we offer.

The content and delivery of our education is based on a detailed understanding of employer expectations. Around half of the University's courses are accredited by professional bodies with the other half informed by employers including through a range of employer advisory panels. Employer sponsorship is also integral with around two-thirds of students studying on courses sponsored by over 1500 employer partners. These relationships and the University's experience in delivering part-time courses have formed the basis of LSBU's now extensive higher and degree apprenticeship provision, with the widest offer in the UK and over 2000 apprentices on programme.

Our civic mission means that our work is place-based, whether that place is our home in south London, or around our international partnerships. Our courses, research and other activities are informed by our detailed understanding of local needs. Our international links – such as our partnership with the British University in Egypt - provide global context.

Taken together, the emphasis on place and on professional and technical education is reflected in the University's student demographics and the excellence of the outcomes it achieves for its learners, staff, employer-partners and community. The University is ranked among the top 200 universities in the world in the Times Higher Impact Rankings 2021 (based on the UN Sustainable Development Goals) including 17th overall for 'Gender Equality' (SDG 5) and 25th for 'Reduced Inequalities' (SDG 10). More than half the University's student body (55 per cent) identify as BAME and 38 per cent are the first in their family to attend university (2019/20) but, despite the diversity of our student body, the University was named 'University of the Year for Graduate Employment' by The Times and The Sunday Times Good University Guide in both 2018 and 2019.

LSBU Group
LSBU operates as part of a group structure – the LSBU Group - which was born out of our ongoing commitment to our civic mission. It enables us to create strategies and pathways by which people of all characteristics and talents can be supported through the education system to achieve their full potential, and so contribute their skills, energies and commitment to wider society throughout their lives. LSBU Group comprises: London South Bank University; South Bank Academies (a Multi Academy Trust running South Bank Engineering UTC and The University Academy of Engineering, South Bank), South Bank University Enterprises; and South Bank Colleges (comprising Lambeth College and South Bank Technical College [under development]). These organisations work to a shared mission, set of values and educational framework to achieve shared outcomes.

LSBU sponsors South Bank Academies which, whilst not consolidated in these accounts, has a close working relationship with LSBU Group and was established in 2013 in accordance with its mission.

Lambeth College joined LSBU Group on 1st February 2019 when its assets were transferred to South Bank Colleges, a wholly owned subsidiary of LSBU. The acquisition arose out of a strategic decision to create an educational group which could more broadly serve the local community and which reflects the University's long-standing commitment to transforming lives, businesses, communities and society.

Lambeth College is a medium sized General Further Education College with nearly 400 staff and over 8000 students. It is based across two sites, its main centre at Clapham Common and an ESOL facility at Brixton Hill. It offers a wide choice of industry-recognised, highly-regarded courses ranging from Entry Level and Level 1 courses that are accessible to all, regardless of past experience and education, through to Level 4 advanced qualifications. These cover key areas of local employment including Health and Social Care, Construction and Engineering, Science, Business and Accounting, Creative Arts and Media.

Utilising *Skills for Londoners Capital Funding* from the Greater London Authority, LSBU Group has begun construction of South Bank Technical College on land owned by Lambeth College in Nine Elms, Vauxhall. It will be the UK's first purpose-built comprehensive technical college for a generation, with the first building being open to students in autumn 2022.

Mission
The mission of LSBU is to be recognised as an enterprising civic university that addresses real world challenges. In 2020, the University launched its new Corporate Strategy 2020-2025, which has four key outcomes:

- **Student success:** Ensuring we are externally recognised for providing a personalised and high calibre education which equips graduates for employment and prepares them to make a positive contribution to society.

- **Real world impact:** Ensuring we provide dynamic evidence-based education which is underpinned by highly applied research and enterprise activity.
- **Access to opportunity:** Building opportunity through partnership: ensuring we are actively widening participation, engaging with our communities and are a partner of choice.
- **Fit for future:** Ensuring we operate as one customer-centred organisation, which is accountable, efficient and effective.

2020/21 has seen a number of important strategic developments and some positive outcomes for LSBU Group. Highlighted below are key updates and examples of our work underpinning our core corporate objectives:

Student Success

We aim to ensure that our teaching remains highly applied, professionally accredited and demonstrably linked to research and enterprise, delivering the attributes that will make our graduates highly sought after. Students are seen as participants in their learning and their voices are encouraged and listened to. We provide students with an individualised learning experience to develop the skills and aspirations that enable them to enter employment, further study or start their own business.

- LSBU was rated 25th among apprenticeship training providers on Rate My Apprenticeship 2020-21. LSBU apprentices also won or were shortlisted for: Apprentice of the Year at the 2020 London Borough Apprenticeship Awards; the CIBSE Building Services Apprentice Awards 2020; the construction category of the BAME Apprenticeship Awards; and Employee of the Year at the Worshipful Company of Chartered Architects Apprenticeship Awards.
- LSBU was ranked joint 17th among UK universities for graduate starting salaries at 1 year after graduation (Longitudinal Educational Outcomes Data 2018-19 [Published 2021])
- The School of Business won awards for Employability Excellence and Teaching Excellence at the first-ever CIMA Excellence Awards 2021
- LSBU Nursing and Midwifery students are among the top 10% of earners among graduates in their profession (Longitudinal Educational Outcomes Data 2018-19 [Published 2021]) and the University is the top provider of nursing qualifiers in London with over a fifth of the capital’s new nurses graduating from the university in 2019/2020
- Film Practice students in the School of Arts and Creative Industries won the Best Short Film and Best Editing Awards at the Royal Television Society (RTS) London Student Television Awards 2021.
- LSBU's Employability and Placements Service won a prestigious College and University Business Officers (CUBO) award for Business Partnership of the Year.
- A team of LSBU Mechanical Engineering students beat more than 500 teams to win the Mayor of London’s Entrepreneur Competition with their design for a space-efficient electric vehicle charging station.
- Lambeth College was shortlisted for the ‘Best Teaching and Learning Initiative’ and ‘Best Support for Learners’ Awards at the TES FE 2021 Awards
- South Bank UTC undertook a ‘Year 14’ pilot, the first of its kind to be attempted in the UK

Academic Recognition

This year, the excellent work of our academic staff has once again been recognised in research successes and other accolades.

- The National Institute for Health Research awarded a £1.7m grant to Lynne Dawkins, Professor of Nicotine and Tobacco Studies from the Centre for Addictive Behaviours Research, for a world-first trial to test the efficacy of supplying free e-cigarette starter kits at centres for people experiencing homelessness.
- Dr Rita de Oliveira was asked by the British Association of Sport and Exercise Sciences to join a panel of experts presenting evidence to the Department of Culture, Media and Sports Select Committee on major cultural and sporting events.
- PhD student Eric Ballestero was awarded the Young Person’s Award for Innovation in Acoustical Engineering 2021.
- Emeritus Professor Bridget Shield received an MBE in the Queen’s Birthday Honours for her ‘services to Acoustic Science and to inclusion in Science and Engineering’.

- An LSBU team, led by Catarina Marques, won the Institute of Refrigeration's Kenneth Lightfoot Medal for best technical paper for their project paper *GreenSCIES – Green Smart Community Integrated Energy Systems – Integration with Data Centres*.
- Professor Yunting Ge won a £60,000 grant from Innovate UK and a separate £979,290 grant from the Engineering and Physical Sciences Research Council for projects related to hydrogen power.
- Professor Karin Moser was appointed European Commission Senior Expert Adviser to the European Asylum Support Office Strategic Network.
- The Institute of Acoustics created a new award to recognise excellence in teaching, learning or other education activities, in the name of former LSBU Acoustics Academic, Dr Bob Peters.

Real World Impact
We aim to deliver outstanding economic, social and cultural benefits from our intellectual capital, by connecting our teaching and research to the real world through commercial activities and social enterprise.

- The Institute for Health and Social Care at LSBU, with the Royal College of General Practitioners and Modality Partnership have launched the first 'new to Partnership' GP leadership programme to provide primary care leaders with the knowledge and skills they need lead at executive level.
- Professor Simon Philbin has undertaken a research project designed to create a range of models, processes and analytical tools to measure the SDG impact of infrastructure projects. The research findings are being actively applied on the £4.9billion Thames Tideway Tunnel and by the Environment Agency in its new £5.2billion portfolio of projects.
- The Clarence Centre for Enterprise and Innovation is the University's hub for enterprise and innovation providing workspaces for more than 60 businesses that engage in curriculum development, guest lecturing, student engagement and research projects. It was ranked in the top 15 worldwide of university-run business incubators in the UBI Global World Rankings 2017/18. Over the last year our tenant community produced £60m combined income; has created 40 jobs; raised £7m in finance; and hosted 8 LSBU interns.
- 73% of LSBU research is rated 3* and 4* for Impact in the most recent Research Excellence Framework (REF 2014). LSBU has commercial research partnerships with over 150 British SMEs and major companies.
- In 2016 LSBU was named Entrepreneurial University of the Year at the Times Higher Education Awards.

Applied research with local and international impact:
Our internationally renowned researchers this year contributed to the understanding of a number of economic and social issues.

- Dr Charles Graham of the LSBU Business School undertook a survey looking into the number of Independent and Black, Asian and Minority Ethnic (BAME) businesses on Lewisham's high streets – commissioned by Lewisham Council. After speaking to 94% of independent businesses through student researchers, Dr Graham made a series of recommendations including a programme of support and advice from the Council, individual high street marketing strategies, and a view to encourage innovation and entrepreneurship to tackle shop vacancies.
- Professor Alison Leary, Chair of Healthcare and Workforce Modelling, led a team seeking to examine the feasibility of extracting data from Prevention of Future Death coroners reports to evaluate if learning was possible from them. The team found that systemic analysis of PFD reports at a macro level could provide significant recommendations to healthcare providers, and others, in amending systems, processes and staffing to prevent future deaths.
- Nicola Thomas, Professor of Kidney Care, launched a project to train barbers in eight barbershops in Croydon to measure and give advice about blood pressure to their customers in a UK-first project. Around 30% of men in the UK currently have high blood pressure, around half of these are not diagnosed or receiving treatment. High blood pressure is the third biggest cause of disease in the UK, leading to kidney disease, vascular dementia and mobility problems, costing the NHS £2 billion every year. The London barbershop project will target Black and Asian men who are more likely to have high blood pressure and less likely to be diagnosed than the general population.

LSBU's Clarence Centre for Research and Enterprise
LSBU is home to over 60 small businesses, start-ups and entrepreneurs, based across Technopark and the Clarence Centre for Enterprise and Innovation. In 2017/18 the Clarence was ranked 2nd in the UK, 4th in Europe and 15th globally for innovative business development in the UBI's Global 2018 world rankings. Over the last year our

tenant community produced £60m combined income; has created 40 jobs; raised £7m in finance; and hosted 8 LSBU interns.

Southwark Health Skills Centre
This year, LSBU Group opened the Southwark Health Skills Centre, in partnership with Guy's and St Thomas's NHS Trust. The Centre, created in partnership with Guy's and St Thomas' NHS Foundation Trust and Health Education England, provides the people of Southwark and surrounding boroughs with access to career pathways in health and social care, whatever their age or educational starting point. Its aim is both to educate and train new recruits and to upskill existing staff. It offers a range of opportunities for all, from schoolchildren through to existing health and social care employees, including health sector outreach; careers inspiration; recruitment and education advice; and health sector specific employability programmes. The Centre will also play a central role in supporting the Trust's strategy to develop local talent and build a workforce pipeline that reflects the diversity of the population that it serves.

Passmore Centre
In November 2018 the University opened the Passmore Centre for Professional and Technical Education. The Centre, made possible by a £5m grant from Southwark Council, is a hub for professional and technical education and provides access for local people and businesses to high quality apprenticeships and other forms of employer-supported study. The opening of the Centre was linked to further investment of £7m, including £3m from HEFCE, in LSBU's laboratory facilities to enhance its professional and technical offer. Since its opening, the University now has over 1500 higher and degree apprentices enrolled on over 40 apprenticeship standards, making us one of the leading providers in the country.

Access to Opportunity
LSBU works with partners to provide opportunities for students with the potential to succeed. LSBU is ranked in the top 200 universities in the world for Social Impact, 17th for gender equality and 25th for reducing inequality (Times Higher Education Impact Rankings 2021).

Year 14 Pilot
This year, South Bank UTC undertook a pilot to test the efficacy of providing a Year 14. Around a dozen students at the UTC were unable to take their places on engineering apprenticeships at the start of this academic year, due to the employers putting in place hiring freezes in response to the impact of coronavirus.

The UTC worked with the University to enhance their existing Level 3 BTEC in Engineering to meet the HNC requirement at Level 4; with the University providing scholarships to cover the fees for all students that wish to enter themselves for the qualifying exam. Pupils that achieved a merit in the requisite elements of the HNC were then given the option to transfer directly into the second year of the University's mechanical engineering degree. This has provided these pupils with the opportunity to achieve a Level 4 qualification in a home setting at no cost to them while simultaneously opening a pathway up to degree level study.

Supporting adults to achieve basic skills
Lambeth College receives funding from the Adult Education Budget each year largely in order to provide these learners with a second chance – teaching Entry Level 1 functional skills through to GCSEs in Maths and English. The courses are provided as flexibly as possible – including part-time, short-courses and teaching at evening and weekends – to ensure as many local residents as possible are able to benefit. In 2020/21 the College supported 1,359 adults to achieve a Maths and/or English qualification. For many of them, this will have been one of their first experiences of achievement – attributable in part to the consistent and focused support the College provides.

In addition to this, the College teaches ESOL (English for Speakers of Other Languages) courses at its Brixton Centre – providing an opportunity for those who have recently moved to the UK (including refugees) to achieve a sufficient level of English, as well as knowledge about life in the UK and British values, to enable them to integrate into society. Upon completing the course, many learners go on to follow careers in areas such as health and social care, utilising skills and qualifications they acquired in their home countries. 1993 adults completed ESOL courses at the Brixton Centre.

ERDF (European Structural Funds) Start-up and SME programmes
LSBU is the leading HE provider of ERDF funded business and innovation support programmes in London. Although the UK has now left the European Union, LSBU is continuing to deliver seven programmes, covering a range of sectors from health tech to food tech, with previously committed funds. Through these programmes over the next three years we aim to support over 1500 SMEs, create 140 jobs, bring over 250 new products/services

to firms/markets and create over 170 long term collaborations with innovative SMEs. The University is actively exploring utilising new domestic funds going forward such as the Help to Grow Fund and the UK Shared Prosperity Fund.

Local Stakeholders

LSBU plays a key role in the community, working closely with borough councils, schools, businesses and other organisations to provide local residents and employers with the education, skills and knowledge they need. LSBU also supports its local communities across many other areas including health and wellbeing, legal advice, business growth and secondary education.

Over the last academic year, the pandemic provided an impetus for the University to strengthen its partnerships with its local Councils (the London Borough of Southwark and Lambeth) by signing of new Memorandums of Understanding (MOUs) with them. The new MOU with Lambeth Council, signed in October 2020, looks to work in partnership to deal with the effects of the coronavirus crisis, particularly for young people, and to stimulate recovery across the borough. It is hoped that it will help to provide greater opportunities for local residents to learn new skills through the LSBU Group; that LSBU research and insight can be used to help Lambeth businesses grow; and that together we can support the Council’s target to be carbon neutral by 2030. With Southwark, the new MOU, signed June 2021, commits LSBU to increase the number of training and development opportunities for residents, as well as making Southwark a leading London borough for health and life sciences.

The University also signed a new MOU with Orbital South Colleges, to support students in making choices which suit their interests and abilities, support their development and maximise career progression opportunities. The new co-operative relationship has five objectives including, ‘fast track articulation to LSBU’ for suitable East Surrey College and John Ruskin College students and joint activities to promote apprenticeships.

International

LSBU’s collaboration with the British University in Egypt (BUE) offers an exemplar for transnational education partnerships in practice. As the largest collaboration in the MENA region, the University validates 24 undergraduate and postgraduate courses for over 4,500 students. LSBU also has joint supervisions for PhD students, engages in shared research activities, and has developed a range of Study Abroad and Summer School opportunities enabling student mobility in both directions.

LSBU’s world-leading Confucius Institute delivers Chinese language teaching to over 60 schools, conducting education, research and business engagement with Chinese universities and institutions and acting as a hub of cultural and academic activities. It is the largest Confucius Institute in the world, and one of the largest Chinese language testing centres in Europe. Over 25,000 people have attended cultural events performances, workshops and art exhibitions organised by the CI since 2017/18.

Fit for Future

The University is making targeted investments into our staff and both virtual and physical infrastructure and processes, helping to ensure we operate as one customer-centred organisation, which is accountable, efficient and effective.

- LSBU became the first university to be independently accredited as meeting national Quality Standards for Services Supporting Male Victims / Survivors of Sexual Violence.
- LSBU launched an ambitious new policy to increase support for staff who experience the menopause. The policy aims to enable employees to continue being effective in their jobs and to raise wider awareness and understanding among all staff about the menopause.
- LSBU joined a small number of UK higher education organisations, businesses and charities in publishing its ethnicity pay gap data for the first time. Analysis showed that the University’s ethnicity pay gap has shrunk by 3.4% since 2017 and, at 12.2%, is in line with the sector average (among published institutions) of 12%.
- In April 2020 the University was awarded an Athena SWAN Bronze Charter by professional membership body AdvanceHE, for achieving a strong foundation in addressing gender bias and developing an inclusive culture that values all staff within the University.
- We’ve seen our gender pay gap steadily reduce from 13.25% in 2009 to 4.4% in 20202 – significantly out-performing the higher education sector as a whole.

London Road Building Refurbishment

The University is refurbishing its London Road Building on the Southwark Campus, to transform the use and experience of the building to make it suitable for 21st Century higher education. The new structural elements of the building are provided through lightweight steel interventions which are suspended from roof level avoiding the need for additional concrete columns or foundations. This strategy creates larger and lighter learning areas that are more appropriate in meeting modern educational needs. It also allows for column free areas of the building, enhancing the long-term flexibility and adaptability of the building. The redevelopment adds approximately 1000sqm of floor area to the building however, due to the enhanced fabric of the building, no additional carbon emissions are anticipated compared with the existing building.

Upon completion for Semester 2 of the 2021/22 Academic Year (January 2020), the renovated London Road building will become a new Learning Hub including a Library and Learning Resources space, space for group work, quiet space, open access computer rooms, bookable study rooms with AV, small group work rooms and a reconfigured Academy of Sport and catering facilities. The building will also provide a new cycle park with changing, locker and shower facilities.

South Bank Technical College

In May 2021, the University began work building the UK's first purpose-built comprehensive technical college for a generation. London South Bank Technical College, opening to students in 2022/23, will train the next generation of engineers and scientists from its site in Nine Elms.

The building has been joint-funded by a £21 million grant from the Mayor of London's Skills for Londoners Capital Fund, through the London Economic Action Partnership (LEAP). The first phase will deliver a 9-storey building for students to study technology, construction, engineering, and science in hi-tech classrooms and workshops. This first building will open in 2022/23 and other blocks will open in the following years enabling specialisms in health science and business.

LSBU Croydon

In September 2021, the University will open a new campus in the London Borough of Croydon. Given the significant nursing shortage in South London and South East England, LSBU Croydon will largely focus on healthcare, utilising the University's expertise in training nurses through our links with over 60 NHS Trusts. The building will feature brand new, specialist facilities including simulated nursing wards and Chiropractic suites. In addition to degrees in adult nursing and mental health nursing, the campus will offer the only Chiropractic Master's Degree available in Greater London. By 2030 we hope to have around 8,000 students studying at LSBU Croydon, with the campus playing a major role in our vision to transform lives, communities, businesses and society through applied education and insight.

External Environment

The higher education sector has seen significant policy upheaval over the last decade that shows no signs of abating. The delivery and regulation of higher education in England has been transformed by the tripling of the fee cap and removal of student number controls and the subsequent Higher Education Act 2018 which created the Office for Students and enabled new market entrants.

In 2019, the Government released the *Post-18 review of education and funding: independent panel report* (The Augar Review) which made a number of wide-ranging recommendations regarding the funding of tertiary education. The Government released an interim response to the review in January 2021 which did not rule out either a cut in the tuition fee cap (recommended in the Augar Review to be reduced to £7,500) or in the introduction of a minimum level of achievement (for example three D grades equivalent at A-Level or a Grade 4 in GSCE maths and English) for access to student finance. Both proposals could have very significant impacts on higher education income and the University is awaiting the full response, expected in autumn 2021 as part of the Government Comprehensive Spending Review. In the interim the Government has continued to make changes to university finances with amendments to the funding rates of the Teaching Grant for certain subjects within the B1 funding band and the removal of the London weighting. Simultaneously, the Office for Students is developing proposals on quality and standards, which may see the introduction of minimum baselines in continuation and outcomes across all higher education institutions (regardless of student demographics), which will pose challenges for many universities.

However, alongside these challenges there are opportunities for the LSBU Group. In January 2021 the Government also released the *Skills for Jobs White Paper* which contained a number of proposals including the creation of a Life Long Learning Entitlement to support provision of Level 4 and 5 qualifications and micro-credentials as well as opening up the student finance system to FE Colleges. This would enable the University to utilise its group structure to introduce greater flexibility within its provision and develop new learning pathways, including in partnership with other FE colleges within London. The Government is continuing its rollout of Higher Technical Qualifications (HTQs), in response to which the University is actively developing qualifications to put forward for kitemark status. The Institute for Apprenticeships and Technical Education has also announced proposals to strengthen elements of provision within degree apprenticeships, which LSBU continues to invest in.

In order to take advantage of these opportunities the Group will need to remain adaptable while continuing to differentiate ourselves through providing a high quality and truly applied academic environment linked to employers and ensuring that we are seen as an enterprising civic university that addresses real world challenges – a university that truly transforms lives, communities and business.

Going concern statement

The board of Governors is required to produce a statement in the annual accounts that the University Group continues to be a going concern. The draft statement in the 2020/21 accounts is below:

Cash flow forecasts have been prepared for a period of 4 years from the date of approval of these financial statements. The Group always plans to have sufficient liquid assets to meet its liabilities as they fall due and monitors and reports cashflow balances and covenant compliance on a regular basis. Cash balances, bank deposits and investments at 31/7/21 were £29.7m and are forecast to decrease to £21.4m by 31/7/22 as the Group continues to deliver its current capital programme. Two revolving credit facilities totalling £45m have been established to provide sufficient cashflow to meet the Group's ongoing capital investment programme and working capital requirements. Drawdown against this facility began April 2021 and was repaid in June 2021 and further drawdowns are forecast in 2021/22. Current borrowing facilities are considered adequate to meet current operational plans.

A small budget surplus has been approved for 2021/22, and cashflow from operations of £21.6m is forecast, reflecting the need for continued financial control whilst maintaining appropriate levels of investment to drive the necessary corporate strategic outcomes. At this early stage of the year, whilst accepting that there may be variations on individual budget lines, we are not moving away from agreed budget outcomes. although Covid-19 continues to present challenges and risks to delivery. Recruitment and re-enrolment are both looking positive although we will continue to monitor the position carefully over the next few months.

As is always the case, a comprehensive mid-year budget review is planned during the first semester of 2021/22. This will look closely at recruitment, re-enrolment and associated income forecasts.

We will continue to monitor the position carefully over the next few months. The principal risks to successful financial delivery in 2020/21 relate to the sustainability of current pension schemes, meeting student recruitment targets, growth from Research and Enterprise, affordability of capital investment plans, the financial impact of Covid-19 and the financial turnaround of South Bank Colleges. In relation to Covid related risks, we remain committed to providing a blended learning environment and a rich student experience.

After taking all of these matters into consideration, the Board of Governors is confident that the Group and parent University will have sufficient funds to continue to meet their liabilities as they fall due for at least 12 months from the date of approval of the financial statements (the going concern assessment period) and therefore have prepared the financial statements on a going concern basis.

Principal risks and uncertainties

At a corporate level, risks are identified and managed through the University Group's risk management processes as described in the statement on internal control.

The Corporate Risk Register is the subject of careful and frequent review, and is aligned to the Corporate Strategy. The principal risks which the institution faces in the short and medium term, considering external factors in the main, and the associated mitigation strategies are as follows:

Risk Category	Risk	Controls and Mitigation
Financial	Sustainability of current pension schemes	• Regular review and consideration of potential options for future provision, including the modelling/ scenario analysis of future costs and projected movements in assets & liabilities • Group defined contribution scheme for professional services staff. • Strict controls over early access to pensions
	Meeting student recruitment targets	• Ongoing marketing, recruitment and conversion activities focussed on domestic students, including plan for clearing • Pipeline continually monitored
	Income growth from Research and Enterprise unrealised	• Regular reporting to Enterprise Advisory Board • Focus on STEM, Health and Inclusive Growth as dominant sectors of interest
	Affordability of capital investment plans	• Capex reporting embedded into management accounts provided to Finance, Planning and Resources Committee • Estates project methodology controls & governance • Financial Regulations require Board approval for spend greater than £2m • Exploring alternative funding options
	Financial impact of Covid-19	• Regular review of financial impact of Covid-19 • Cost control measures
	Financial turnaround of South Bank Colleges	• Development of operating and funding model for LSB Technical College • Banking covenants tied to LSBU performance
	Cash funds are not available to fund expenditure	• Rolling 12 month cashflow forecasts • Active debtor management
Academic Activity	OfS Thresholds not met in relation to Condition of Registration on Quality / Student Outcomes	• Monitoring of performance against OfS thresholds in relation to Condition of Registration on Quality / Student Outcomes • Interventions to improve student progression and employability are priorities in short and medium term
Reputation	Impact of assurance activity & new initiatives fails to address issues around student experience	• NSS action plan to drive improvement of the student experience • Student Tracker implemented in conjunction with the Students' Union, to monitor issues raised by students and actions taken in response
	Alignment of estate with sector requirements across the Group	• Group wide estates strategy, aligned with professional and technical curriculum needs • Creation of Employer Advisory Board, to ensure facilities in line with sector/industry standards
	Capability to respond to change in policy or competitive landscape including funding changes	• Development of the 2025 strategy, with input sought from multiple stakeholders • Regular performance assessment in sector context
	League table rank deterioration / reputational impact	• Prioritisation of students outcomes in our corporate strategy, including progression and employability • Review process of external returns, contributing to league table performance

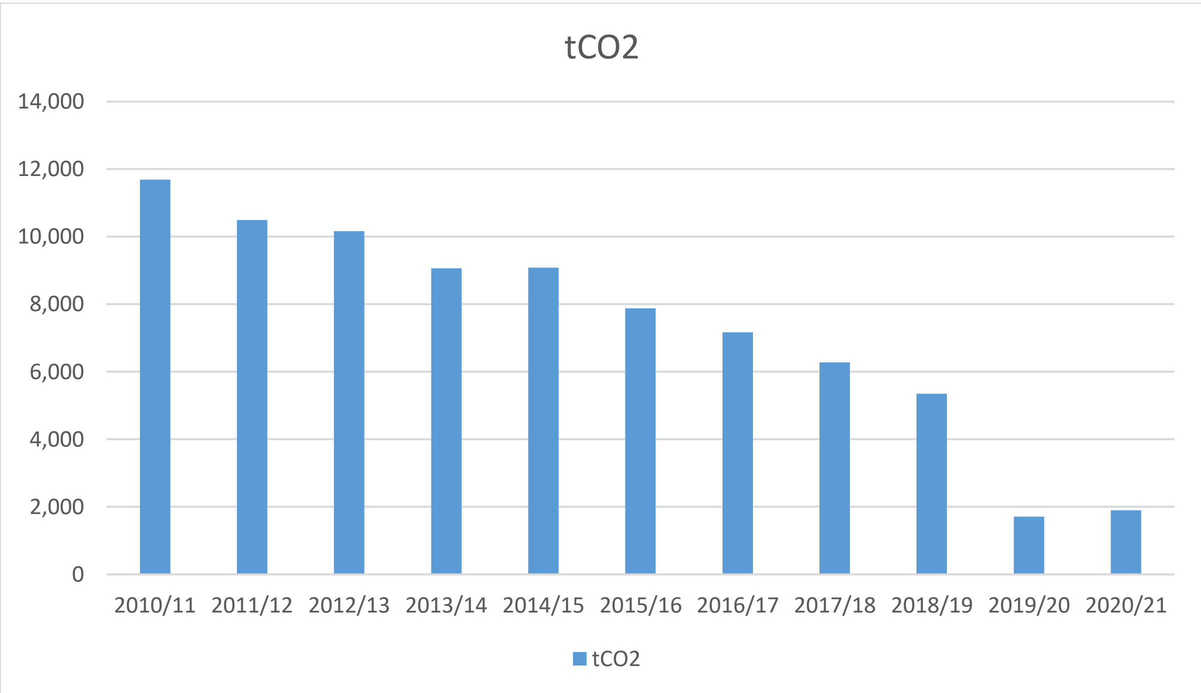
Energy and Carbon Report

LSBU is dedicated to protecting our planet and society. We promise to become a university of the future – one that is conscious, one that is responsible and one that is sustainable. As part of our 2025 Corporate Strategy we aim to:

- Use our estate effectively and efficiently with a utilisation rate of 50%
- Reduce our carbon foot print by 25% between 2020 and 2025, with the goal of achieving zero carbon emissions by 2050.
-

We will do this through environmental sustainability and literacy, with this being embedded through the reduction of carbon emissions, landfill use and increased recycling.
The data below relates to periods from 1 August – 31 July

Electricity Consumption		18/19	19/20	20/21	
		12,438,493	**10,044,742**	**9,744,719**	KWhr
Gas Consumption		18/19	19/20	20/21	
		10,039,318	**9,025,689**	**10,234,403**	KWhr
Carbon Emissions (with REGO since 2019)	2010 Baseline	18/19	19/20	20/21	
	11,694	**5,352**	**1,711**	**1,904**	tCO^2
Intensities	2010 Baseline	18/19	19/20	20/21	
	0.079	**0.036**	**0.011**	**0.013**	tCO^2/m^2



During, 2020/21, LSBU added the Non Half Hourly Electricity supply contracts to the Renewable Electricity contract (REGO) with its current energy supplier, allowing the University to report zero carbon emissions for electricity consumption across the campus. LSBU now uses 100% REGO. Total calculated carbon emissions

(scope 1 & 2) relate to the energy consumptions and the appropriate carbon factors being applied. Reference to baseline relates to that agreed with HEFCE and is based upon 2010 data and calculated carbon emissions. The agreed HEFCE target at that time was for LSBU to reduce its scope 1 & 2 emissions by 34% by 2020. This was revised in 2017 to 50% reduction. Current position is a reduction of 84% since 2010 baseline.
COVID has had an impact on energy consumption and ultimately carbon reduction has remained fairly static. LSBU remains committed to remove any reliance on fossil fuels going forward decarbonisation technologies and their benefits are being investigated.

The University has a commitment to construct any new build to Building Research Establishment Environmental Assessment Method (BREEAM) rating Excellent and any major refurbishment to BREEAM rating Good. Our ZONES learning environment transformation programme aims for BREEAM rating Very Good. It will include improved insulation, utilising natural light and space for bicycle storage. Our contractors are committed to purchasing products from responsible sources with limited environmental impact, to reducing construction related impacts such as noise, dust and odours, procuring 100% FSC/PEFC sustainable materials, reducing dependency on natural resources such as energy and water, reducing construction waste and preserving and enhancing the local biodiversity.

London South Bank University (charity) Public Benefit statement

LSBU is an exempt charity within the meaning of the Charities Act 2011. Its principal regulator is the Office for Students (OfS).

The accounts of South Bank Colleges (SBC), an exempt charity within the meaning of the Charities Act 2011, form part of these accounts. Further details on how SBC meets its public benefit obligations are set out in SBC's own accounts.

Charity Commission Guidance on Public Benefit

The members of the Board of Governors are the charitable trustees of LSBU. In undertaking its duties, the Board of Governors has regard to the Charity Commission's guidance on public benefit.

Charitable Objects

The charitable objects (under s.3 Charities Act 2011) of LSBU, as set out in its Articles of Association, are to:

- conduct a university for the public benefit for the advancement of education, promotion of research and dissemination of knowledge;
- provide full time and part time courses of education at all levels; and
- provide facilities to promote these objects and provide associated support and welfare for students.

LSBU's objects are applied solely for the public benefit, as follows.

LSBU advances education for the public benefit by:
- providing teaching to its students in the form of lectures, seminars, personal tuition and online resources;
- delivering many courses accredited by recognised professional bodies, full and part time;
- setting and marking assessments, giving feedback to students and providing evidence of achievement by the awarding of degrees, diplomas and certificates.

LSBU promotes research and the dissemination of knowledge by:
- undertaking academic research and publishing the results;
- publishing articles in peer-reviewed journals;
- maintaining an online and physical academic library with access for students, staff and guests;

LSBU provides support and services for students through:
- wellbeing services, including support for students with disabilities and mental health issues. This includes a counselling service;
- student advice and guidance services via a one-stop-shop and student helpdesks

- employability services, supporting students who are working while studying, helping students source work experience and graduate opportunities;
- money advice, including debt management;
- specific support services for particular groups of students, including care leavers, carers and pregnant students;
- mentoring and coaching;
- providing student accommodation;
- funding some individual students' education through bursaries and fee waivers; and
- providing funds to London South Bank University Students' Union (LSBUSU).

Beneficiaries

In carrying out its objects, LSBU benefits its students and future students through teaching and learning activities either directly or through the support of its subsidiaries (SBA and SBC). LSBU also benefits the wider public, through research and knowledge transfer.

The trustees affirm that the opportunity to benefit is not unreasonably restricted. The benefits of learning at LSBU are open to anyone whom it believes has the potential to succeed. Throughout its history, LSBU has enabled wider access to education. Its 2020-2025 Strategy, sets clear targets to focus on three key areas, all directly related to providing public benefit: student success; real world impact; access to opportunity. The fourth key area; fit for the future, recognises the need for LSBU to adapt to the digital world, its new organisational structure and changing stakeholder expectations.

Like other universities, LSBU must charge tuition fees. However, tuition fee and maintenance loans are available to home undergraduates who have applied for funding via Student Finance England. In addition, the University offers financial assistance in the form of scholarships, bursaries and charitable funds to students in need.

The University has one "linked" exempt charity: the LSBU consolidated charitable fund for the welfare of students. This fund was worth £951,096.09 on 31 July 2021 (31 July 2020: £862,387). The funds are managed with the aim of securing capital growth and an annual income. In 20/21 the income received was £27,395.65 (2019/20: £16,192). The income is allocated for distribution by the University's Hardship Panel to students in financial difficulty.

The University's curriculum is firmly rooted in professional courses supported by accreditation from professional, statutory and regulatory bodies that enhance employability and career success. In 2020, 74.6% of graduates were in graduate employment and/or further study 15 months after leaving (Graduate Outcomes survey results 2018/19).

The University also contributes to the wider public benefit through the publication of research. The University performed well in the Research Excellence Framework 2014, with the majority of its research graded as "Internationally Excellent" and "Recognised Internationally". LSBU is committed to Open Access, sharing scholarly works with industry, the professions and wider public through LSBU Research Open and providing an Open Access Fund to pay Open Access publication costs.

LSBU is London's largest university contributor to community-based enterprise, evidenced by involvement in some £15m of ERDF and ESF projects. The commitment to local enterprise education and SME development is recognised internationally, from working with refugee groups across South London to operating commercially in Borough Market.

LSBU: Access and Participation Plan statement 2020-21

As part of LSBU's registration with the Office for Students, an Access and Participation Plan for the 2020-2025 academic years was approved by the OfS and made publicly available by LSBU on our website: https://www.lsbu.ac.uk/about-us/policies-regulations-procedures (file held here).

In the plan, we assessed our performance across access, student success, and progression, set out our ambition and strategy, and outlined our intended activity and measures supported by an investment summary which demonstrated our commitment to our overarching mission of social mobility.

As set out later in the financial accounts, we spent a total of £1,923,833.11 across the 2020-21 academic year across three categories: access investment, financial support provided to students, and research and evaluation. This figure both meets and exceeds the commitment we set out in our investment summary: we had projected a total spend of £1,753,500.

During 2020, LSBU joined the world in responding to the Covid-19 pandemic which extended across the 20-21 academic year. We were keenly aware of the disproportionate direct and indirect impact coronavirus was having on many of the student groups already identified as facing disadvantage. We rapidly responded with an increased package of targeted emotional, safety, practical, study, and financial support, considering the needs of students most vulnerable to the effects of the pandemic. For example, the direct financial support funded by LSBU and distributed to students within the 2020-21 academic year was £551,360, an increase of 112% more than our intended investment.

The total investment has supported the delivery of our plan this year across both general and targeted access, success and progression activity, including active research to eliminate the race awarding gap through our What Works programme, widening participation and outreach, specialist support services, enhanced transition and study skills, financial student support, period poverty, and care experienced and estranged student support.

As stated by the Office for Students, the investment summary and forecast below in access, financial support and research and evaluation does not represent not the total amount spent by LSBU in these areas. The OfS does not require providers to report on investment in success and progression and therefore investment in these areas is not represented. The figures below are not comparable to previous access and participation plans or access agreements as data published in previous years does not reflect latest provider projections on student numbers. The spend on support for disabled students (directly funded costs, for example an educational psychologist's assessment, specialist mentor, or sign language interpreter) have been included in the investment summary for completeness but this spend was not requested to be forecast by the OfS.

LSBU: Access and Participation Plan investment summary 2020-21

Access and participation plan investment summary (£)	Actual spend: Academic year 2020-21
Access investment (access)	£1,275,033.71
Financial support provided to students	£551,360
Research and evaluation	£97,439.40
Total investment	**£1,923,833.11**
Support for disabled students	£295,532.12

(Investment plan from 2020-25 Access and Participation Plan for 2020-21)

Access and participation plan investment summary (£)	*Investment plan: Academic year 2020-21*
Access investment	*£1,400,000*
Financial support	*£260,000*
Research and evaluation	*£93,500*
Total planned investment	***£1,753,500***

Placeholder: Financial Review

Subsidiaries

South Bank University Enterprises Limited (SBUEL) provides consultancy and other services to a range of commercial organisations. SBUEL has entered into Gift Aid arrangements in order that its taxable profits can be donated to the University. SBUEL donated £xm in gift aid to the University (2020: £0.2m).

South Bank Colleges acquired the assets of Lambeth College on 1 February 2019. The College delivers a wide range of courses and apprenticeships that open doors to career opportunities and further study.

SW4 Catering is a wholly owned subsidiary of South Bank Colleges.

Disclosure of information to auditors

At the date of making this report each of the Governors, as set out from page 2, confirm the following:

- So far as each Governor is aware, there is no relevant information needed by the University's auditors in connection with preparing their report of which the University's auditors are unaware; and
- Each Governor has taken all the steps that he or she ought to take as a Governor in order to make him or herself aware of any relevant information needed by the University's auditors in connection with preparing their report and to establish that the University's auditors are aware of that information.

Auditor

The Board of Governors has confirmed that KPMG UK LLP shall continue as auditor of the University for the financial year, 2021/22.

Directors Report

This Strategic Report also serves as the University's Directors' Report for the purposes of the Companies Act 2006.

Approval

Approved by the Board of Governors and signed on behalf of the Board by:

Mr Jeremy Cope (Chair)

Professor David Phoenix (Vice Chancellor and Chief Executive)

Placeholder: Statement of Board of Governors Responsibilities in respect of the Strategic Report and the Financial Statements

Placeholder: Corporate Governance Statement

Placeholder: Statement of Primary Responsibilities of the Board of Governors

Placeholder: Statement of Internal Control

Placeholder: Annual Remuneration Report

Placeholder: Independent Auditors report to the Board of Governors of London South Bank University

Principal Accounting Policies

The following principal accounting policies adopted, have been applied consistently in both the current and prior year in dealing with items which are considered material in relation to the Group's financial statements.

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2019 and in accordance with Financial Reporting Standard FRS 102. They have also been prepared in accordance with the 'carried forward' powers and duties of previous legislation (Further and Higher Education Act 1992 and the Higher Education Act 2004) and the new powers of the Higher Education and Research Act 2017 during the transition period to 31 July 2019, the Royal Charter, the Accounts Direction issued by the Office for Students (OfS), the Terms and conditions of funding for higher education institutions issued by the Office for Students and the Terms and conditions of Research England Grant.

The University is a public benefit entity and therefore has applied the relevant public benefit requirement of the applicable UK laws and accounting standards.

The financial statements are prepared on the going concern basis which the Board considers appropriate for the following reasons:

~~The Board of Governors have prepared cash flow forecasts for a period of 4 years from the date of approval of these financial statements. After reviewing these forecasts, the Board of Governors are of the opinion that, taking account of severe but plausible downsides, including the anticipated impact of Covid-19, including a 5% reduction in Home & EU Recruitment and a 40% reduction in Overseas recruitment, an increase in in-year withdrawals of 50% (from £4.5m to £7m), and a reduction in student related income of 10%, the Group and parent University will have sufficient funds to meet their liabilities as they fall due over the period of 12 months from the date of approval of the financial statements (the going concern assessment period).~~
~~The Group always plans to have sufficient liquid assets to meet its liabilities as they fall due and monitors and reports cashflow balances and covenant compliance on a regular basis. Cash balances, bank deposits and investments at 31/7/20 were £52.1m and external borrowings £34.4m with £1.9m due less than one year from the balance sheet date.~~

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the University's accounting policies.

Consolidation of accounts

The financial statements incorporate the financial statements of London South Bank University and its subsidiary undertakings; South Bank University Enterprises Limited (SBUEL), South Bank Colleges and SW4 Catering Limited, a subsidiary of South Bank Colleges.

The University sponsors South Bank Academies, which operates UAE South Bank and Southbank UTC . The funds of South Bank Academies are restricted to its own purpose and will not be available to the creditors of the

University, for example in the event of the University's insolvency. If South Bank Academies were to become insolvent, the University would not receive its assets or reserves. Therefore, the accounts of South Bank Academies are not consolidated into the University accounts.

Consolidation of subsidiaries is based on the equity method. Intragroup loans or balances are recognised at fair value.

Income recognition

Income from the sale of goods and services is credited to the Statement of Comprehensive Income and Expenditure when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Fee income is stated gross and credited to the Statement of Comprehensive Income and Expenditure over the period in which students are studying. Where the amount of the tuition fee is reduced by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for as gross expenditure and not deducted from income.

Revenue Government grants, including funding council block and research grants from government sources are recognised within the Statement of Comprehensive Income and Expenditure over the periods in which the University recognises the related costs for which the grant is intended to compensate. Where part of a Government grant is deferred, it is recognised as deferred income within creditors and allocated between creditors due within one year and due after more than one year as appropriate.

Other grants and donations from non-government sources, including research grants from non-government sources, are recognised within the Statement of Comprehensive Income and Expenditure when the University is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions is deferred on the Balance Sheet and released to the Statement of Comprehensive Income and Expenditure in line with such conditions being met.

Government capital grants are recognised in income over the expected useful economic life of the asset. Other capital grants are recognised in income when the University is entitled to funds subject to any performance related conditions being met.

Donations and endowments with donor imposed restrictions are recognised within the Statement of Comprehensive Income and Expenditure when the University is entitled to the income. Income is retained within the restrictive reserve until such a time that it is utilised in line with such restrictions at which point the income is released to general reserves through a reserve transfer. Any realised gains or losses from dealing in the related assets are retained within the restricted reserve in the Balance Sheet and reported in the Statement of Comprehensive Income and Expenditure.

Donations with no restrictions are recorded within the Statement of Comprehensive Income and Expenditure when the University is entitled to the income.

Investment income is credited to the Statement of Comprehensive Income and Expenditure on a receivable basis.

Intangible assets

Software costing less than £10,000 per individual item or group of items is written off to the Statement of Comprehensive Income and Expenditure in the year of acquisition. All other software is capitalised as an intangible asset and amortised at 25% per annum.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Certain items of fixed assets that have been revalued to fair value on the date of transition to the 2015 FE HE SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation. Properties are not carried under the valuation method and therefore regular revaluations of assets are not undertaken by the University.

Freehold land and buildings, long leasehold and short leasehold premises are included in the financial statements at cost or valuation together with subsequent refurbishment expenditure, less amounts written off by way of depreciation. Freehold land is not depreciated. Finance costs that are directly attributable to the construction of land and buildings are not capitalised.

Assets in the course of construction are accounted for at cost, based on the value of Quantity Surveyors' certificates and other direct costs incurred to the end of the year. They are not depreciated until they are brought into use.

Equipment costing less than £10,000 per individual item or group of items is written off to the Statement of Comprehensive Income and Expenditure in the year of acquisition. All other equipment is capitalised.

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Freehold buildings	2% per annum
Long leaseholds	Period of lease
Short leaseholds	Period of lease
Building improvements	6.7% per annum

IT equipment	25% per annum
Other equipment and motor vehicles	20% per annum
Furniture	6.7% per annum

As LSBU is not a research intensive University, all equipment purchased with research grants is assumed to have a life equal to the length of the research project and will be depreciated accordingly. Assets purchased using research funds, including computers and software, costing less than £10,000 per individual item or group of related items are written off in the year of acquisition in line with the University's normal accounting policy regarding depreciation of fixed assets. All other items are capitalised and depreciated over the remaining life of the research project.

Freehold land is not depreciated as it is considered to have an indefinite useful life. No depreciation is charged on assets in the course of construction.

At each financial year end the carrying amounts of tangible assets are reviewed to determine whether there is any indication that those assets have suffered a diminution in value. If any such indication exists, the recoverable amount of the asset, which is the higher of its fair value and its value in use, is estimated in order to determine the extent of the impairment loss.

Investments

Investments in subsidiaries and associated undertakings are shown in the University's Balance Sheet at cost less any provision for impairment in their value.

Endowment Asset Investments are included in the Balance Sheet at fair value.

Stocks

Stocks are valued at the lower of cost and net realisable value.

Pension costs

The University contributes to the Teachers' Pensions Scheme (England and Wales), the London Pension Fund Authority Pension Fund (LPFAPF) and the Universities Superannuation Scheme (USS). These schemes are administered by Teachers' Pensions (on behalf of the Department for Education), the London Pension Fund Authority and USS Ltd respectively and are all of the defined benefit type.

Where the University is unable to identify its share of the underlying assets and liabilities in a scheme on a reasonable and consistent basis, it accounts as if the scheme were a defined contribution scheme, so that the cost is equal to the total of contributions payable in the year. The TPS and USS are multi-employer schemes for which is not possible to identify the University's share of assets and are therefore reported as if they were defined contribution schemes, so that the cost is equal to the total of contributions payable in the year. Contractual obligations relating to these schemes including any agreements to pay additional contributions to fund a deficit are calculated at net present value and are included in provisions.

For other defined benefit schemes, including the LPFAPF, the University's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that return on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the University. The University recognises a liability for its obligations under defined benefit plans net of plan assets. This net defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, discounted to determine its present value, less the fair value (at bid price) of plan assets. The calculation is performed by a qualified actuary using the projected unit credit method. Where the calculation results in a net asset, recognition of the asset is limited to the extent to which the University is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

The University has a defined contribution pension scheme for employees of subsidiary companies SBUEL, and SW4 Catering Ltd. From April 2021, the LPFA pension scheme is closed to new professional services staff across the group and those staff are entitled to join the defined contribution scheme The University pays contributions into a separate legal entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Employment benefits

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the University. Any unused benefits are accrued and measured as the additional amount the University expects to pay as a result of unused entitlement.

Taxation status

The University is an exempt charity within the meaning of part 3 of the Charities Act 2011, and as such is a 'charity' within the meaning of Section 467 of the Corporation Tax Act (CTA) 2010. Accordingly, the University

is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 478 of the CTA 2010 and Section 256C of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.
The University receives no similar exemption in respect of Value Added Tax. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.
The University's subsidiary company SBUEL is subject to corporation tax and is therefore required to account for deferred tax and current tax.
South Bank Colleges is considered to pass the test set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, South Bank Colleges is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax 2010 or Section 256 of the Taxation of Chargeable Gains Acts 1992, to the extent that such income or gains are applied exclusively to charitable purposes. It is partially exempt in respect of Value Added Tax, so it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

Deferred tax is provided in full on timing differences which result in an obligation at the Balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent they are regarded as more likely than not they will be recovered. Deferred tax assets and liabilities are not discounted.

Agency arrangements

Funds the institution receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of the institution where the institution is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Leases

Operating lease rentals are charged to income in equal annual amounts over the lease term.
Leases in which the University assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease and the corresponding lease liabilities are initially recognised at an amount equal to the lower of the fair value and the present value of the minimum lease payments at inception of the lease.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The Finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Maintenance

Maintenance expenditure is charged to the Statement of Comprehensive Income and Expenditure in the period in which it is incurred.
Refurbishment expenditure on a property is deemed to be of a capital nature if it either enhances the property's operational capabilities, or if it significantly upgrades the mechanical or electrical infrastructure of that property. To the extent that the expenditure is of a capital nature, it is capitalised and written off over its useful economic life. Refurbishment expenditure that does not meet either of these criteria is treated as maintenance expenditure.

Reserves

Reserves are allocated between restricted and unrestricted reserves. Restricted endowment reserves include balances which, through endowment to the University, are held as a permanently restricted fund as the University must hold the fund in perpetuity. Other restricted reserves include balances through which the donor has designated a specific purpose and therefore the University is restricted in the use of these funds.
Where fixed assets were revalued prior to the implementation of FRS 102, the gain or loss on revaluation was credited or debited to the revaluation reserve. Where depreciation on the revalued amount exceeds the corresponding depreciation based on historical cost, the excess is transferred annually from the capital reserve to the income and expenditure reserve.
The pension reserve represents the pension liability in respect of the defined benefit pension schemes (see note 26).

Cash flows and liquid resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within twenty-four hours without penalty.

Liquid resources comprise assets which in normal practice are generally convertible to cash and cash equivalents. They include term deposits held as part of the University's treasury management activities. They exclude any such assets held as endowment asset investments.

Financial instruments

A financial asset and a financial liability are offset only when there is a legally enforceable right to set off the recognised amounts and it is intended either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Judgements and estimates

Material Judgements and estimates

Accounting policies are supplemented by estimation techniques where judgement is required to establish the monetary amounts of assets, liabilities, gains and losses included in the financial statements and the estimates and associated assumptions are believed to be reasonable and prudent. In all cases these judgements and estimates are either based on past experience or are prepared by qualified advisors. In preparing these financial statements management have made the following judgements and estimates:

The present value of the London Pension Fund Authority Pension Fund (LPFAPF) and defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost for pensions include the discount rate, salary, pension and price increase and any changes in these assumptions, which are disclosed in note 28, will impact the carrying amount of the pension liability.

Land was revalued at 31 July 2014 resulting in a one off adjustment to increase the deemed cost of land by £41,946,000. The valuation was prepared by qualified valuers in accordance with the Red Book. The fair value depends on the classification of assets and a number of material assumptions including the condition of properties, ground and services, estimated market value and estimated rental income at the date of valuation.

A determination is undertaken to identify whether there are indicators of impairment of the Group's tangible assets, including goodwill. Factors taken into consideration in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash generating unit, the viability and expected future performance of that unit.

As of 1 February 2019 South Bank Colleges acquired the assets and liabilities of Lambeth College. In line with FRS102 land and buildings were revalued to fair value using indices as used by professional valuers. These assets will be held at deemed costs and depreciated over their useful economic life in line with the accounting policy for fixed assets.

Non Material Judgements and Estimates

The Provision for bad debt is calculated based on the University's past experience of collecting student and other debt. It is estimated that, at the date of signing the financial statements and after making deductions where a repayment arrangement has been agreed with the debtor, 90% of remaining debt will not be recoverable.

A determination has been made as to whether leases entered into by the Group either as a lessor or a lessee are operating or finance leases. These decisions depend on an assessment of whether the risks and rewards of ownership have been transferred from the lessor to the lessee on a lease by lease basis.

Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year-end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when the University has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is discounted to present value where the time value of money is material. The discount rate used reflects current market assessments of the time value of money and reflects any risks specific to the liability.

Contingent liabilities are disclosed by way of a note, when the definition of a provision is not met and includes three scenarios: possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets arise where an event has taken place that gives the University a possible asset whose existence will only be confirmed by the occurrence or otherwise uncertain future events not wholly within the control of the

University. These are disclosed by way of a note, where there is a probable, rather than a present asset arising from a past event.

Excel Doc: Consolidated and University Statement of Comprehensive Income and Expenditure

Excel Doc: Consolidated and University Statement of Changes in Reserves

Excel Doc: Consolidated and University Balance Sheets

Excel Doc: Consolidated Statement of Cashflows

Excel Doc: Notes to the Accounts

	CONFIDENTIAL
Paper title:	Draft 2020/21 Corporate Governance Statement
Board/Committee	Group Audit and Risk Committee
Date of meeting:	5 October 2021
Author:	Kerry Johnson, Governance Officer
Sponsor:	James Stevenson, Group Secretary
Purpose:	For information
Recommendation:	The committee is requested to note the draft 2020/21 corporate governance statement for inclusion in the annual report and accounts.

Executive Summary

The Corporate Governance Statement is intended to assist readers of the financial statements in obtaining an understanding of the governance and legal structure of the University. It sets out the governance and legal structure of the University and how the Board complies with the Higher Education Code of Governance (CUC, 2014) and the OfS's public interest governance principles.

This draft statement is a work in progress, with some updates still to be made following a review of the new CUC Higher Education Code of Governance, published on 15 September 2020, and a review of the Board's standing orders. The standing orders were approved at the 15 October 2020 meeting of the Board.

A final version will be considered at the next meeting of 11 November 2021.

Recommendation

The committee is requested to note the draft 2020/21 corporate governance statement for inclusion in the annual report and accounts.

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Corporate Governance Statement

The following statement is given to assist readers of the accounts in understanding the governance and legal structure of the University. The accounts of South Bank Colleges (SBC) and South Bank University Enterprises Ltd form part of these accounts (South Bank Academies is also within the LSBU Group but is not consolidated). Further details on the corporate governance arrangements of these companies are included in their own accounts.

The University's Board of Governors is committed to maintaining the highest standards of corporate governance. In carrying out its duties it follows:

- The Directors' duties as set out in sections 170 – 177 of the Companies Act 2006
- The CUC Higher Education Code of Governance
    - Higher Education Senior Staff Remuneration Code
    - Higher Education Audit Committees Code of Practice
- The Office for Students (OfS) Terms and conditions of funding for higher education institutions and the Audit Code of Practice (March 2018)
- The OfS Public Interest Governance Principles
- The Charity Commission's Guidance on Public Benefit and its duties as charity trustees of compliance, prudence and care
- The University's Articles of Association and standing orders
- The seven principles of standards in public life
- Other legislative requirements of corporate and Higher Education bodies

Governance and Legal Structure

London South Bank University is a company limited by guarantee and an exempt charity within the meaning of the Charities Act 2011. Its objects and powers are set out in its Articles of Association. The Articles provide the governance framework of the University and set out the key responsibilities of the Board of Governors and its powers to delegate to committees, the Vice Chancellor and the Academic Board.

Compliance with the Public Interest Governance Principles

The University demonstrated its compliance with the OfS's Public Interest Governance principles when registering with the OfS and they continue to be upheld by LSBU through the current governance structures reported in this section and the university's relevant published policies.

Compliance with the CUC Higher Education Code of Governance

The Board has materially complied with all aspects of the revised Higher Education Code of Governance (CUC, September 2020) during the year under review, as demonstrated below. References to paragraphs of the code are shown in brackets below.

Decision making

London South Bank University is led by a Board of Governors, which is collectively responsible for the strategic direction of the University, approval of major projects and partnerships and ensuring that the potential of every student is maximised (1.1).

The Board has agreed a Schedule of Matters Reserved which establishes the responsibilities of the Board and its committees. The Board, and where appropriate, its committees make decisions by consensus at meetings or electronically. The schedule is reviewed on an annual basis. The schedule has been updated to reflect the new group structure of LSBU.

During the year, the Board met six times (five times in 2019/20). In addition, the Board held three strategy days (two in 2019/20) allowing further time to discuss and debate longer-term strategic challenges for the University. All governors are expected to attend meetings and to contribute effectively. Attendance at meetings is recorded and monitored by the Chair. In the year under review, there was a 93% (2019/20: 92%) attendance rate at Board meetings.

Due to the national coronavirus pandemic, the majority of Board and committee meetings took place online via video-conferencing software between March 2020 and July 2021. Attendance at these virtual meetings remained high and governors continued to engage well with discussion. Following relaxation of most national coronavirus restrictions the July 2021 Board meeting was successfully held in person, and all future Board and committee meetings are expected to take place face-to-face.

During May 2021one additional meeting of the Group Audit and Risk Committee was held in order to examine the response to the December 2020 cyber incident.

The Board has due regard to Charity Commission guidance on public benefit when making decisions (see separate statement of public benefit on page [•] (1.2.) The Board receives an annual reminder on Charity Commission guidance (most recently, 21 October 2021). It receives assurance that the institution meets the requirements of the *Terms and conditions of funding for higher education institutions* with OfS through the Group Audit and Risk Committee (2.6).

Compliance

All governors and members of the Executive are required to declare their interests on appointment, on an annual basis and are required to declare any interests which relate to decisions at meetings. During the year under review, all declared interests were authorised by the Board. No conditions were attached to any of these interests (3.2). The governing body affirms that it makes decisions without any undue pressure from external interest groups, which is assured through the declaration of interests' process (3.3).

The Board receives annual reports on the institution's compliance with key legislation, for example health and safety; equality, diversity and inclusion; and otherwise by exception reporting (1.2). In addition, independent governors have the right to external, independent advice at the University's expense where necessary in order to fulfil their duties. Material adverse change and reportable events are reported to the OfS when discovered and annually as part of the Accountability and Assurance statement (6.3). One reportable event was reported (the cyber incident of December 2020), and no material adverse changes were reported to the OfS during the year.

The Board receives annual reports from the Students' Union in relation to its democratic processes and finances (3.6).

Sustainability

The Board is responsible for the financial sustainability of the institution and approves the annual budget, which is aligned to the five year corporate strategy (2.2). The Board oversees the performance and financial sustainability of the institution by regularly reviewing Key Performance Indicators, management accounts and five year forecasts (2.3). Overall financial control is delegated to the Chief Financial Officer, who is a member of the Executive and has regular access to the Vice Chancellor, as and when required (2.6).

Academic governance

The Board has oversight of academic governance across the institution, receiving an annual assurance report from the Academic Board, covering its Quality, Research and Student Experience Committees.

The Board has regard to the principle of academic freedom (2.7).

External activities

The Board reviews all proposals for all significant, external activities and independent legal advice is sought, if necessary. Due diligence is conducted when entering into major projects that have significant risk associated with them (2.6).

Equality and Diversity

The Board receives an annual report on equality, diversity and inclusion (EDI), and compliance with the public sector equality duty under the Equality Act 2010 (4.1, 4.3). Following its sEDI workshop with an external facilitator in summer 2020, the Board has continued to prioritise EDI development at a strategy session, resulting in the approval of the new Group EDI Strategy at its meeting of 21 October 2021.

The Board regularly reviews its composition and considers equality and diversity in its appointments. The Nomination Committee has agreed that in the event of underrepresentation of any group, targeted recruitment would be used to address this (4.4, 5.3). During winter 2020/21 a recruitment firm that specialises in equality and diversity was used to recruit one new governor and one new co-opted committee member. During September 2021 the Board Apprentice Scheme was utilised to recruit apprentice governors from diverse backgrounds. .

Structures and processes

The Board when fully complemented consists of 18 governors: 13 independent governors, the Vice Chancellor, two student governors and two members of the Academic Board. Governors serving for the period are listed on page (•.) The Board determines the number and composition of the Board of Governors within parameters set by the University's Articles of Association. Staff and student governors were not excluded from any items at Board meetings during the year (1.4).

Under the Articles, the Board has the power to remove any governor from office if they breach their terms of office (5.9). On appointment, governors also agree to act in accordance with the seven principles of public life and the university values. (1.3, 3.1). All members of the Board have access to the services of the Clerk. The appointment or removal of the Clerk is a matter for the Board as a whole under the Articles (5.1).

Following the publication of the OfS Public Interest Governance Principles in 2018, all governors have confirmed that they meet the 'fit and proper' definitions as set out by the OfS.

Committees

The Board delegates authority to a number of committees. All committees are formally constituted with appropriate terms of reference, which are reviewed annually. Terms of reference and membership of each committee are available on the governance pages of the University's website. Each committee has a majority of independent governors. The chairs of each committee are independent governors and are set out below under Key Individuals.

The following principal committees met throughout the year:

- Appointments Committee
- Group Audit and Risk Committee
- Finance, Planning and Resources Committee
- Major Projects and Investment Committee
- Nomination Committee
- Remuneration Committee
- Honorary Awards Joint Committee

The Nomination committee is responsible for recruiting new independent governors (5.10). Recommendations are made to the Appointments Committee, which makes the final decision on appointment. A written description of the role and capabilities required of governors has been agreed by the Nomination Committee. Candidates are judged against the capabilities required and the balance of skills, experience currently on the Board. The balance of skills, experience and diversity of independent governors is kept continually under review by the Nomination Committee.

The Group Audit and Risk Committee oversees LSBU's audit activities including auditing the financial statements, appointing the internal and external auditors and advising the Board on the effectiveness of the internal control system.

The CUC published its HE Audit Committees Code of Practice in May 2020. The Group Audit and Risk Committee has reviewed this Code and is satisfied that all requirements are met.

As previously agreed by the Board, the Group Audit and Risk Committee has a Group-wide remit. Membership of the Group Audit and Risk Committee is between three and four independent governors, and a co-opted external member. Following OfS requirements, the committee produces an annual report for the Board, which gives an annual opinion on risk management control and governance; economy, efficiency and effectiveness; and management and quality assurance of data submitted to external bodies. The committee reviews the effectiveness of the systems of control in place across the institution. The committee receives an annual report on the quality of data submitted to external bodies. The committee receives assurance annually from the external auditor that public funds have been spent appropriately.

Under the new Audit Code, the Group Audit and Risk Committee conducted a substantive effectiveness review during Summer 2021, led by the Senior Independent Governor (SIG). The results of the review were positive, and respondents agreed that the committee was properly constituted with appropriate membership, and is effective in addressing its duties and reporting requirements.

The Finance, Planning and Resources Committee provides for the Board in-depth review of the University's in-year financial performance, financial position including cashflow, the performance against the corporate strategy, treasury management and the proposed annual budget. The committee also reviews student recruitment and retention figures, the implications of the Group strategy for human and physical resources, and receives oversight of the value added by Group entities. Membership of the Finance, Planning and Resources Committee is up to five independent governors including the Chair of the Board, plus the Vice Chancellor, one student governor and one staff governor. The committee terms of reference were updated in 2020 to clarify that it will receive high-level reports on the overall performance and value to the LSBU Group of its subsidiaries.

The Major Projects and Investment Committee is authorised by the Board to approve investment decisions within authorisation levels as set out in the Financial Regulations. The committee also reviews investment decisions above its level of authority and recommends approval to the Board. In addition, the Major Projects and Investment Committee reviews 'master plans' for estate and infrastructure and monitors the delivery of major projects. Membership consists of up to five independent governors including the Chair of the Board, the Vice Chancellor, one student governor and one staff governor. During the year, a key focus of the Major Projects and Investment Committee was to scrutinise investment in Project LEAP.

There is a Remuneration Committee which decides the remuneration of senior executives, including the Vice Chancellor (2.10). Membership of the committee is four independent governors, including the Chair of the Board. No individual is present for discussions that directly affect them. The Vice Chancellor is not a member of the committee. The committee considers comparison information and use of public funding when deciding remuneration.

Further details on the work of the committee are included in the annual remuneration report below (at pages x to x).

The Honorary Joint Awards Committee is a joint committee with the Academic Board. It has delegated authority from the Board of Governors to select recipients for the conferment of an honorary degree or an honorary fellowship based on procedures and criteria as approved by the Academic Board. Its membership comprises independent governors, and staff and student governors who are also members of the Academic Board.

Governance effectiveness review

During 2018/19, the Board completed a full effectiveness review which was reported to the July 2019 Board meeting (the previous review was conducted in 2015 in line with 7.12 of the CUC Code). Following this review no major changes to the Board's structure were proposed. The review was undertaken internally but was quality assured by PwC (7.11), who concluded that they "did not identify any issues with the way in which the process was run by the governance team. We are comfortable that the process was free of bias and was conducted appropriately".

The main recommendations arising out of the review were:

1. to review both assurance and reporting from the Academic Board to the Board to enable greater visibility of the work done by the Academic Board;
2. that agendas for Board meetings and Strategy Days provide greater focus on strategic discussions and a reduction of operational papers; and
3. continued focus on finalising ‘Group’ governance arrangements and structure and for the Board of Governors to be assured of its responsibilities and potential liabilities in relation to it.

As reported to the Board in July 2020, the action plan is now complete.

The next full effectiveness review is expected to be carried out in calendar year 2023.

LSBU Group

With the creation of the LSBU Group in 2018/19, group governance structures continue to be developed. Both South Bank Academies and South Bank Colleges have their own Boards of Trustees who are responsible for the success of their companies. The LSBU Board continues to oversee LSBU but also has oversight of the value that both SBA and SBC bring to the LSBU Group. The Chairs of the Group Boards and the Group CEO meet formally twice yearly to discuss matters affecting the three educational institutions. One of the annual strategy days is reserved to cover Group strategy.

Key Individuals

Position	**Name**
Chair of the Board of Governors	Jeremy Cope
Vice Chair of the Board of Governors	Michael Cutbill
Senior Independent Governor	Peter Fidler (from 25 March 2021) Hilary McCallion (until 24 March 2021)
Group CEO (Vice Chancellor and Chief Executive)	David Phoenix
Chair of Group Audit and Risk Committee	Duncan Brown
Chair of Finance, Planning and Resources Committee	Michael Cutbill

Chair of Major Projects and Investment Committee	Rashda Rana
Chair of Nominations Committee	Jeremy Cope
Chair of Appointments Committee	Jeremy Cope
Chair of Remuneration Committee	Jeremy Parr
Group Secretary and Clerk to the Board of Governors	James Stevenson

Key individuals can be contacted through the office of the Group Secretary and Clerk to the Board of Governors, Mr James Stevenson, at London South Bank University, 103 Borough Road, London SE1 0AA. Published documents are available on the governance section of the University website.

Statement of Primary Responsibilities of the Board of Governors
(based on the CUC Guide for Members of Higher Education Governing Bodies in the UK)

1. To set and agree the mission, strategic vision and values of the university with the Executive.
2. To review the overall performance and alignment to LSBU's mission and charitable objectives of each of South Bank Colleges, South Bank Academies and South Bank University Enterprises Ltd.
3. To agree long-term academic and business plans and key performance indicators and ensure that these meet the interests of stakeholders, especially staff, students and alumni.
4. To ensure that processes are in place to monitor and evaluate the performance and effectiveness of the university against the strategy, plans and approved key performance indicators, which should be, where possible and appropriate, benchmarked against other comparable institutions.
5. To delegate authority to the HoI for the academic, corporate, financial, estate and human resource management of the university, and to establish and keep under regular review the policies, procedures and limits within such management functions as shall be undertaken by and under the authority of the Vice Chancellor.
6. To ensure the establishment and monitoring of systems of control and accountability, including financial and operational controls, risk assessment, value for money arrangements and procedures for handling internal grievances and managing conflicts of interest.
7. To establish processes to monitor and evaluate the performance and effectiveness of the governing body itself.
8. To conduct its business in accordance with best practice in HE corporate governance and with the principles of public life drawn up by the Committee on Standards in Public Life.
9. To safeguard the good name and values of the university.
10. To appoint the Vice Chancellor as Chief Executive and to put in place suitable arrangements for monitoring their performance.
11. To appoint a Secretary to the governing body and to ensure that, if the person appointed has managerial responsibilities in the university, there is an appropriate separation in the lines of accountability.
12. To be the employing authority for all staff in the university and to be accountable for ensuring that an appropriate human resources strategy is established.

13. To be the principal financial and business authority of the university, to ensure that proper books of account are kept, to approve the annual budget and financial statements, and to have overall accountability for the university's assets, property and estate.

14. To be the university's legal authority and, as such, to ensure systems are in place for meeting all the university's legal obligations, including those arising from contracts and other legal commitments made in the university's name. This includes accountability for health, safety and security and for equality, diversity and inclusion.

15. To receive assurance that adequate provision has been made for the general welfare of students.

16. To act as trustee for any property, legacy, endowment, bequest or gift in support of the work and welfare of the university.

17. To ensure that the university's constitution is always followed, and that appropriate advice is available to enable this to happen.

18. To promote a culture which supports inclusivity and diversity across the university.

19. To maintain and protect the principles of academic freedom and freedom of speech legislation.

20. To ensure that all students and staff have opportunities to engage with the governance and management of the university.