

**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**

**BT PENSION SCHEME MANAGEMENT LIMITED**

**FOR THE YEAR ENDED 30 JUNE 2022**



**Registered No. 05154287**

# **BT PENSION SCHEME MANAGEMENT LIMITED**

## **ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED 30 JUNE 2022**

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## **BT PENSION SCHEME MANAGEMENT LIMITED**

### **RECOGNITION OF BTPS IN THE YEAR TO 30 JUNE 2022**

#### **European Pension awards – Pension Scheme Administrator of the Year**

"This pension scheme has worked hard to push the boundaries when it comes to administration to develop a fresh proposition that sets the bar high for the industry"

#### **Pension AGE awards – DB Scheme of the Year**

"BTPS stood out for its strong environmental, social and governance (ESG) focus and member satisfaction and truly set the bar high in the DB arena"

The Judges also felt that the Scheme "had risen to the investment and regulatory challenges facing the DB pension space, serving as an inspiration to other schemes in the pensions marketplace"

#### **IPE AGE Awards – UK Country award**

"BTPS is a top UK fund not just in size but in innovation, such as the vehicle to deal with trapped surplus, while its ambition to be net zero by 2035 is well ahead of the industry"

## **BT PENSION SCHEME MANAGEMENT LIMITED**

### **ORGANISATIONAL PURPOSE**

BT Pension Scheme Management Limited's (BTPSM) purpose as an organisation is "working together for a better future". This purpose captures that BTPSM exists to work on behalf of our stakeholders, whether that is the Trustee, our sponsor, our colleagues, the Scheme's members, their dependents or wider society. More information on how we serve our stakeholders can be found in the Section 172 statement on page 21. This purpose informs our vision as an organisation, and from this vision our corporate objectives are defined. These corporate objectives set out the outcomes we wish to achieve as an organisation, alongside enabler objectives which help to define our ambition for the way in which we want to achieve these outcomes. Our corporate objectives ultimately support the service delivery outcomes we aim to achieve across our funding and fiduciary services, member services and trust and advisory business units. More information on our business units can be found on page 9.

To support our purpose and objectives, BTPSM has developed organisational values. These values, responsible, impactful, supportive and expert, are essential in ensuring BTPSM is committing to core ethics and principles; inspiring colleagues' best efforts; setting appropriate workplace behaviour; and building a culture we are proud of.

"Working together for a better future"

#### **Sustainable funding**

Funding remains on track despite market volatility.

Supporting BTPS 2035 net zero target:

Target to reduce BTPS carbon emissions by at least 25% by 2025

BTPSM net zero 2035 target set

#### **Service quality**

Member satisfaction score improved to 83% in our latest survey.

100,000 members registered for the BTPS online portal. Over 425,000 calculations have been run online.

The Scheme's CEM service score in 2021 was 78 (upper quartile). This is an increase from 48 (bottom quartile) in 2018 when services were brought in-house.

#### **Value for money**

Investment costs below peer median benchmark. Overall costs below our 5-year plan.

As a result of investment in our administration platform, BTPSM remains on track to achieve its 5-year cost per member target, whilst retaining its top-quartile service quality score. BTPSM remains on track to achieve its 5-year cost per member target, whilst retaining its top-quartile service quality score.

#### **Advisory excellence**

BTPSM has provided bespoke advisory services and training to the Trustee on:

Sustainable investment and climate change

Policy and regulatory change

Corporate event planning

Investment and liability management

Support to the Trustee with sponsor and regulators management

## BT PENSION SCHEME MANAGEMENT LIMITED

### ORGANISATIONAL VALUES AND OBJECTIVES

Our organisational values underpin the way we deliver on our corporate objectives, and our corporate objectives support our client service delivery outcomes:

**Responsible:** We take individual responsibility for making things happen. We take ownership of the decisions we make. We never walk past a problem. We are both open and brave - supporting and challenging each other to resolve issues.

**Impactful:** We are driven to do all that we can to create a better future for our members. We recognise that the way we invest can benefit wider society. We constantly strive to make a difference.

**Supportive:** We work together across teams to deliver the best outcomes for members and wider society. We support each other when taking difficult decisions and are always respectful, thoughtful, and helpful.

**Expert:** We set very high standards, constantly looking at how we can be better and bolder – whether serving members, improving how we work, or invest. We are constantly innovating – challenging ourselves to find new ideas. We use our commercial acumen to deliver value for members and wider society.

As an organisation BTPSM has seven corporate objectives; seven central goals that we aim to achieve in the coming years. They reflect our ambition for the quality of the services we provide, as well as what we, as an organisation need to do in order to meet our ambition.

#### Scheme delivery outcomes

- Sustainable Scheme funding
- Funding and Investment value for money
- Top-quartile member service quality
- Member service value for money
- Effective Trust & Advisory service delivery

#### BTPSM Objectives

##### Outcome Objectives

- 1) Excellence in service delivery – Deliver agreed outcomes for our clients across our funding and fiduciary, member services, and trust and advisory business units.
- 2) Cost effectiveness – Achieve value for money for our clients and shareholders through ongoing challenge, scrutiny and optimisation of our cost base.
- 3) Deliver long term sustainable financial benefits to our shareholder, BTPS – Achieve sustainable long-term growth by exploring innovative business model opportunities.

##### Enabler Objectives

- 4) Embed sustainability into everything we do – Minimise our impact on the environment and conduct our business in a way which delivers sustainable outcomes for our stakeholders and has a positive impact on wider society.
- 5) Develop our people and build industry-leading teams – Recruit and retain talented people who live the BTPSM values and provide opportunities for them to develop in their roles and reach their potential.
- 6) Leverage systems, data, and processes - Maximise the effectiveness and operational resilience of our business by using the right technology, high quality data, and robust business processes.
- 7) Explore innovative business model opportunities - Leverage our people, processes, systems and networks to find new and innovative solutions to the challenges posed by the pensions sector today and into the future.

## **BT PENSION SCHEME MANAGEMENT LIMITED**

### **CHIEF EXECUTIVE OFFICER'S REVIEW**

Reflecting on the year since we published our last report, it's hard to comprehend how much the world has changed. At home, the UK faces inflation running at a 40-year high and overseas, Russian military forces continue to occupy parts of Ukraine.

Over the summer, the UK saw record high temperatures bringing closer to home the physical effects of climate change. This comes against the backdrop of a global economy still recovering from the pandemic.

As the primary service provider to BTPS, BTPSM provides investment advice, funding and fiduciary management services, covenant oversight, member services and operational and secretariat services.

During the past year, our focus has been broad. We've supported the Scheme through the current global geopolitical and economic uncertainty, worked to ensure we are well prepared for any corporate activity that may affect the Scheme's covenant, realised the benefits of investments we've made in technology, continued to develop our leadership position on sustainable investment and enhanced the capability and resilience of our team.

#### **Supporting the Scheme in uncertain times**

Inflation affects both Scheme assets and liabilities. Over the past decade, we have de-risked the portfolio and built our interest rate and inflation hedges in-house. This, coupled with BTPSM's active management and the enduring funding agreement the Scheme agreed with BT Group, mean BTPS is well placed to weather the economic storms.

But we are far from complacent and continue to work closely with the BTPS Trustee Board to refresh our inflation stress tests and scenario analysis in order to understand the impact of inflation shocks on our portfolio. This helps ensure we appropriately monitor and manage inflation risk via the tools of diversification, real asset exposure and tail hedges.

When the war in Ukraine broke out, institutional investors were quick to respond, divesting from Russian assets in support of the UK government's sanctions and objective to economically isolate Russia.

The Scheme's exposure to Russian securities had always been relatively small due to governance concerns and ownership rights associated with the region and since January 2022, BTPSM had been working closely with our investment managers to minimise this exposure in a disciplined manner.

#### **Corporate event planning**

BTPS is a very substantial stakeholder for BT Group and has a significant level of reliance on the strength of the BT employer covenant – that is, the BT Group's ongoing legal obligation and financial ability to support the scheme now, and in the future. As such, the Scheme takes a strong interest in all matters relating to the ownership and corporate structure of BT Group.

In light of the speculation regarding a potential bid for the BT Group, BTPSM and the Trustee Board have together undertaken detailed scenario analysis and event planning and are well prepared to react should there be any change of control which could impact the corporate and capital structure of the BT Group.

Any change of control impacting the corporate and capital structure of the BT Group would lead the Trustees to reassess the strength of the covenant going forwards and determine appropriate funding and investment plans based on that covenant and the associated level of risk that is appropriate. The Trustee response would depend on the extent to which the covenant would be weakened and on mitigants that would be provided. The Scheme is well prepared to react should there be any change of control which could impact the corporate and capital structure of the BT Group.

## **BT PENSION SCHEME MANAGEMENT LIMITED**

### **Chief Executive Officer's review - *continued***

#### **Variation of BTPSM's regulatory permissions**

In July 2022, BTPSM received authorisation from the Financial Conduct Authority (FCA) to vary its regulatory permissions. The variation will remove the current Occupational Pension Scheme (OPS) restriction and means we will become a full scope MiFID Investment firm. BTPSM applied for this change in our permissions in order to give us greater flexibility in the investment services we provide.

#### **Realising the benefits of our investments in technology**

Following a period of intense business transformation for BTPSM, over the past 12 months we've focussed on fully realising the benefits of the investments made in these new technologies.

During the year, we rolled out a new trading and investment platform for funding and fiduciary services. With enhanced automation and a simplified end to end operating model, it further enhances our ability to manage risk for the Scheme and provides a robust platform to effectively support our "one portfolio investment approach" for the Scheme.

In May 2021, BTPSM implemented Procentia's IntelliPen pension administration system and launched a new Scheme website and member portal. The response from members has been hugely positive. From a standing start, we now have over 100,000 members registered to manage their BT pension online and since launch 60% of newly retired members have committed to confirming their retirement choice using the portal.

The Scheme's annual member survey conducted in January 2022 found continued improvements in member satisfaction across all areas. It was particularly pleasing to see the improvements in satisfaction with the Scheme's online services given the focus in this area.

Due to significant investment in our platform, pension administration costs (on an absolute basis) have remained stable year on year based on our latest CEM Benchmarking results. We remain on track to achieve our 5-year cost per member target, whilst retaining our top-quartile service quality score.

#### **Equality, Diversity and Inclusion**

Earlier this year BTPSM joined 19 other signatories who have committed to holding their investment managers to account on diversity and inclusion to improve the asset management industry's performance on this important issue.

Diversity and inclusion will form part of BTPSM's manager selection, and the Scheme will monitor its managers' efforts on an ongoing basis to encourage positive broader industry change.

In addition, BTPSM has joined the Diversity Project which is a cross-company initiative championing a more inclusive culture within the savings and investment profession. This will be a great way for us to learn from others who have been on similar journeys and best practice generally, as well as contributing to shaping industry change. Equality, diversity and inclusion is an area for continuous improvement which links to our growth strategy and BTPSA's recent launch of the Pension Academy Training programme represents a key step in further infusing these themes in our organisation.

## **BT PENSION SCHEME MANAGEMENT LIMITED**

### **Chief Executive Officer's Review - *continued***

#### **New range of Additional Voluntary Contributions funds**

In early May 2021, BTPSM transitioned 5,500 Scheme members with Additional Voluntary Contributions (AVCs) from four existing providers to funds managed by LGIM. The new range of 12 funds offers a broader investment choice for members and follows improved sustainable investing practices.

#### **Investing in our people**

This year, we launched a company-wide leadership development programme with the purpose of developing greater leadership capability at all levels. All colleagues across our London and Chesterfield offices took part in workshops over a number of months. Feedback was overwhelmingly positive with 78% of colleagues who completed a feedback survey stating that the programme had been effective in developing the leadership capability across the company.

#### **Sustainable investment and BTPSM net zero goal**

During the year we continued to develop our work in support of BTPS' 2035 net zero goal. Since setting the goal, BTPSM has been working closely with the Scheme's managers to ensure that investment mandates are aligned with the Scheme's goal and have been actively engaging with the highest emitting companies in the portfolio.

There are different credible routes to a net zero future, but every route requires strong commitments, trade-offs and increased policy action from governments and regulatory bodies worldwide. Institutional investors have a key role to play, supporting companies that have credible transition plans and providing funding to those that are helping to create a greener future. BTPSM continued to take an active role in advocacy, working with other institutional investors to help advance the discussion on sustainable investment and net zero.

Whilst the Scheme's focus has primarily been on climate risk, BTPSM has been giving consideration to whether additional risks relating to long-term sustainable investment should be recognised by the Trustee and incorporated into the Scheme's investment strategy and its implementation. In May, we agreed two new investment risks with the Trustee Board that should have more prominence in our risk assessment: Scarce and Impaired Natural Resources and Geopolitical Instability including inequality.

We also reached an important milestone in BTPSM's journey towards net zero, as we finalised the baselining of the CO2 emissions of the BTPSM corporate group. Although BTPSM is small relative to the total BTPS portfolio, we see our corporate net zero ambition as an important component of the Scheme's emissions target. Our ultimate aim is to achieve net zero across scope 1, 2 and 3 emissions. We realise this will be a multi-year journey however, and we will continue to offset our scope 1 and 2 and business travel emissions as a step towards this goal. More details on the timeline and approach for reducing our net emissions to zero, and our priorities for the year ahead, are included on page 16.

In October 2021, in support of our corporate net zero goal, BTPSM launched an electric vehicle salary sacrifice scheme with Tusker where colleagues can purchase a brand-new Electric or Plug-in Hybrid Electric car with payments taken direct from their salary. BTPSM also participates in the government's Cycle to Work Scheme.



## **BT PENSION SCHEME MANAGEMENT LIMITED**

### **Chief Executive Officer's Review - *continued***

#### **An award-winning pension scheme**

Over the past 12 months, BTPS won three leading industry awards: Pension Scheme Administrator of the Year at European Pensions Awards, Defined Benefit (DB) Scheme of the Year at the Pensions Age awards and the UK Country Award at the Investments & Pensions Europe (IPE) Awards.

These awards are testament to BTPSM's focus on delivering the best outcomes for the Scheme's members and the hard work of everyone at BTPSM together with our Board of Trustees and our Scheme sponsor BT Group. I'm very proud of all we've achieved.

We are honoured to support the Scheme and the Trustees in delivering members' promised pensions every step of the way to, and through, their retirement. This ongoing responsibility is one we carry out with care, diligence and great pride and I hope that is evident in the pages of this report.



Morten Nilsson

BTPSM Chief Executive Officer

Over the past 12 months, BTPS won three leading industry awards

# BT PENSION SCHEME MANAGEMENT LIMITED

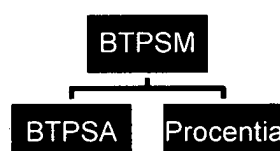
## STRATEGIC REPORT

### Business review and principal activities

BTPSM is the primary service provider (providing fiduciary management services, member services, operational and secretariat services) to BTPS. This is expected to continue for the next financial year. The Company is regulated by the Financial Conduct Authority (FCA) (reg. 486368). As highlighted in the CEO's statement on the 4th July 2022, FCA approved the removal of the OPS restriction for BTPSM. BT Pension Scheme Administration Limited ("BTPSA") is a wholly-owned subsidiary of BTPSM. The principal activity of BTPSA is to provide pension administration services to BTPS which includes providing benefits administration and pension payroll services to its members.

BTPSM owns a majority stake in Procentia Limited ("**Procentia**"), a pensions applications service provider based in the UK (Bristol). Procentia's wholly-owned US subsidiary, Procentia Inc., is based in Chicago, and provides services to the pensions and benefits industry in North American markets

### Group structure



Our core service lines are delivered across each of these group services or business units:

### Funding and Fiduciary Services

Funding and fiduciary services include direct market implementation, investment research and solutions, funding and covenant management, and corporate finance. These services are delivered and overseen by our specialist investment teams at BTPSM in London.

### Member Services

Member services includes our core pension administration business, communications, and our member contact centre. Procentia provides the pension administration IT platform that supports the administration service operated at BTPSA in Chesterfield, whilst the overall service is overseen by the Member Services Committee on behalf of the BTPSM Board.

### Trust and Advisory Services

Trust and advisory services provided to BTPS comprise scheme specific tailored legal, funding, and investment advice, governance and secretariat support, supplier management, scheme strategic development support, stakeholder management, and PR. This support is delivered across funding and fiduciary services, member services, and other business support functions at BTPSM.

### Procentia

Procentia Group (Procentia Limited and Procentia Inc) provide development, maintenance and support of software to the pensions and benefits industry. The group has offices in Bristol and Chicago and services clients across the globe. Procentia has an independent Board, which includes representatives from BTPSM.

**Strategic report - *continued***

**Financial review**

As shown in the consolidated statement of comprehensive income, BTPSM, BTPSA, Procentia and Procentia Inc. (together the "Group") recorded an operating profit for the year ended 30 June 2022 of £2,808,324 (2021: £1,356,993). The Company's balance sheet shows net assets of £48,980,587 at 30 June 2022 (2021: £46,189,071). The Group has net assets of £48,034,007 (2021: £44,728,180). No dividend has been proposed or paid during the year (2021: £nil).

BTPSM and BTPSA receive a fee for services from BTPS on a mark-up basis that has been determined at arm's length. For this reason, the company's Board of Directors (the "Board") believes that further financial key performance indicators ("KPIs") related to costs, revenue and profit for these companies are not necessary or appropriate for an understanding of the development, performance, or position of the business.

Procentia has selected operating margin, revenue per employee and operating profit per employee as KPIs for monitoring performance. One of the Procentia board's objectives is to monitor performance over time and achieve optimal revenue growth and operational efficiency.

Procentia's KPIs comprise:

- Operating margin, defined as operating profit as per the statement of comprehensive income (excluding dividends received, impairment charges, and exceptional items), as a percentage of revenue. Operating margin for the year was (10.5%) (2021: 4.2%);
- Revenue per employee, defined as revenue divided by average staff numbers for the year. Revenue per employee for the year was £96.2k (2021: £111.3k); and
- Operating profit per employee, defined as operating profit per the statement of comprehensive income (excluding dividends received, impairment charges, and exceptional items), divided by average staff numbers for the year. Operating margin per employee for the year was (£10.1k) (2021: £4.7k).

The Board are pleased with the 2022 financial performance and are comfortable with the long-term plans for all group companies.

## **BT PENSION SCHEME MANAGEMENT LIMITED**

### **Strategic report – *continued***

#### **Risk management**

BTPSM manages risk in accordance with its risk management framework. This includes the identification and assessment of key risks; mitigation of risks through the control environment; and ongoing monitoring and reporting to the Board and its Committees. The framework is supported by BTPSM's policies, procedures and governance structure.

The Board is ultimately responsible for the oversight of risk management for BTPSA and, as such, is responsible for setting and periodically reviewing the risk strategy in relation to its key areas of risk. It defines these as strategic, operational and financial risk. Further detail on our risk governance approach is included below.

Procentia's Board of Directors is responsible for the oversight of risk management for Procentia. BTPSM has appointed representatives on the Procentia Board and monitors Procentia in relation to its risk monitoring and management through updates at Procentia's Board meetings. Based on this information, the Board understands the nature of risks Procentia is exposed to and is satisfied these are appropriately managed and monitored by the Procentia Board.

#### **BTPSM risk governance approach**

BTPSM's approach to risk governance is underpinned by the Board and its committees, as outlined on page 17. The Board sets the direction on how the Company approaches and addresses strategic, operational and financial risks at BTPSM. It delegates day to day management to the Company to the Board Executive Committee (the Exco). All Board committees are chaired by a board member. All committees have a senior management representation and is responsible for the management of the risks and issues which fall within the scope of its terms of reference.

In addition to the Board and committees, BTPSM also has dedicated Legal, Risk and Compliance functions.

The Legal function provides a full suite of legal advice and support to both BTPSM and the Trustee on all relevant laws & regulations including financial services, and investment, pensions, corporate, employment and other matters as applicable. This includes monitoring of relevant changes and developments within the legal and regulatory environment and advising the Trustee and the Board on the impact of these on both the Scheme and BTPSM.

The Compliance function has responsibility for monitoring and providing advice to both BTPSM and the Trustee on compliance with regulatory requirements relevant to BTPSM and the management of the Scheme. This includes all aspects of compliance, establishing and monitoring firmwide conduct of business requirements (such as personal account dealing and gifts and hospitality); development and oversight of compliance policies; and ongoing compliance monitoring activities, including post trade surveillance.

The Risk function is responsible for maintaining effective risk management across both BTPSM and the Scheme in line with the Risk Management Framework. This includes establishing and implementing relevant policies; providing oversight of the control environment; and making recommendations for change based on risk and control reviews, risk appetites, self-assessments, and risk events.

The internal audit function, under an outsourcing agreement with BDO UK LLP, conducts a rolling programme of independent control reviews and investigations. Further detail on the risk management activities of the Board and its committees is included on page 18.

## **BT PENSION SCHEME MANAGEMENT LIMITED**

### **Strategic report – *continued***

BTPSM's general approach to risk management is to:

- Embed a strong and cohesive risk management culture across all operations to enable the effective management of risks.
- Enable decisions taken by BTPSM and the Board to be informed by appropriate risk and reward considerations.
- Enable business units to identify the main risk areas that they are exposed to and document controls contained within its control environment.
- Ensure compliance with applicable laws, regulations and policies

BTPSM's policies, procedures and processes in relation to the Scheme assets are designed to ensure that:

- Assets are managed prudently and in accordance with the Scheme's wishes with respect to funding objectives, investment style and risk profile;
- Assets are adequately safeguarded;
- All due benefits accrue to the Scheme; and
- Appropriate regulations are adhered to and best practice is followed.

**Strategic report – *continued***

**Principal risks and uncertainties**

As a fully functioning investment manager and pensions administrator BTPSM is exposed to a wide variety of risks that could impact its ability to service BTPS. The risks outlined below represent the key risks faced by BTPSM.

As the primary service provider to BTPS, BTPSM also manages the Scheme's principal risks on behalf of the Trustee. These risks are described in more detail within the BTPS annual report, available at [www.btps.co.uk](http://www.btps.co.uk)

**1. Service delivery risk** - The risk that transaction errors and other data processing failures could occur due to poor process design, inadequate operating procedures or execution mistakes. BTPSM manages this risk by ensuring that all critical processes are properly supported via a combination of clear documentation, ongoing training and the application of controls and escalation procedures. The day-to-day activities are supplemented by the risk and compliance frameworks are regular reporting to BTPSM's Executive Management. BTPSM recognises that there is a degree of concentration risk in relation to the investment management and member administration services it provides to its owner, BTPS. BTPSM manages this risk by applying policies and procedures that are closely aligned to the requirements of the scheme thereby ensuring that all the key service assurance measures are met.

**2. People Risk** – The risk that BTPSM does not maintain sufficient staff with the necessary levels of competency and experience. This could arise from poorly managed personnel policies that contradict BTPSM's values. BTPSM manages people risk through continuous management training, clearly defining its expected values and behaviours and regular management check-ins with employees.

**3. Legal & Regulatory** – The risk that BTPSM fails to comply with UK law or breaches the regulatory obligations set by The Financial Conduct Authority. To manage this risk BTPSM employees experience legal and compliance professionals and applies a structured compliance monitoring programme which includes extensive training for staff to ensure they are familiar with the prevailing regulatory requirements e.g. information security, market abuses, bribery and corruption etc. With regards to investment related activities, BTPSM utilises technology to monitor trading activities versus investment guidelines and restrictions.

**4. Supplier performance failure risk** – The risk that a third party appointed directly by BTPSM fails to deliver a business-critical service resulting in financial or reputational damage. BTPSM manages this risk via a rigorous supplier management framework which covers supplier selection, ongoing performance monitoring and taking remedial action where necessary. Business critical suppliers are also required to have business continuity plans in place that are aligned to the scheme's expectations.

**5. Operational Resilience** - including technology and change related risks – This is the risk that BTPSM's ability to deliver services to clients on a consistent and reliable basis is compromised due to disruption to its IT infrastructure and/or a failure to deliver changes to business operations in an effective manner. BTPSM manages this risk through a rigorous approach to deploying technology solutions and by having appropriate Business Continuity Plan (BCP) and Disaster Recovery (DR) plan in place. Extensive 2nd and 3rd line monitoring of the operational environment is also performed to assure clients and other stakeholders.

## **BT PENSION SCHEME MANAGEMENT LIMITED**

### **Strategic report – *continued***

#### **BTPSM Board and Committees**

##### **BTPSM Board**

- **Sets the appetite** for taking risk against the Company's strategy, whilst day to day management of risk sits within the Company's governance framework
- **Promotes** an effective risk culture
- **Oversees** the Risk Management Framework through the Board, Risk, Audit and Compliance Committee (RACC)
- **Monitors** efficiency and effectiveness of BTPSM's system of internal controls; the effectiveness of the systems for internal financial controls and financial reporting in relation to the Annual Report and Accounts; the effectiveness, performance and objectivity of the internal and external auditors; the completeness and integrity of the BTPSM financial statements
- **Reviews and assesses** the effectiveness of BTPSM's risk management framework, compliance arrangements, systems, processes, procedures and controls
- **Escalates** any relevant Scheme material issues to the BTPS Audit and Risk Committee.

##### **BTPSM ExCo**

- **Monitors** financial reporting
- **Reviews** the operation of BTPSM's risk management framework, compliance arrangements, systems, processes, procedures and controls
- **Escalates** any relevant material issues to the Board or the RACC, as appropriate.

##### **BTPSM Risk, Audit and Compliance Committee (RACC)**

- **Approves** changes to the Risk Register on the Board's behalf
- **Oversees** the firm's risk management arrangements, compliance monitoring, and advisory framework making recommendations for action when required
- **Monitors** and oversees reporting on all risk and compliance activities within both BTPSM and BTPSA
- **Advises** the Board on the continued appropriateness of the firm's risk appetite statements, and on the identification, assessment, mitigation, and monitoring of current and emerging risks
- **Supports** the business in managing risk and achieving compliance with relevant regulatory requirements to ensure that the business is well placed to deliver against its corporate objectives
- **Approves** the consolidated Internal Audit Annual Plan, and monitors performance against the plan including oversight of progress, actions providing feedback to the Board

##### **BTPSM Remuneration Committee**

- **Oversees** the remuneration arrangements at BTPSM to ensure alignment to the Company's purpose and values and clearly links to the successful delivery of the Company's long-term strategy
- **Sets** remuneration policy and awards to evoke the aims of the FCA's Remuneration Code
- **Ensures** the Company's approach to remuneration promotes sound and effective risk management, including setting to avoid conflicts of interest; and setting performance measures to appropriate adjustments for the risks taken to achieve that performance
- **Escalates** to the BTPS Remuneration & Nomination Committee or the Board.

**Strategic report – continued**

**Stewardship and corporate social responsibility**

**Supporting BT Pension Scheme's responsible investment activity**

We are committed to supporting the BTPS Trustee in integrating material environmental, social and governance (ESG) factors into its investment decisions, and our business operations. BTPSM's purpose as an organisation is 'working together for a better future'. The importance placed on doing the best for the BTPS members over the long term is inextricably linked to responsible investment and stewardship, and we support the Trustee of BTPS to achieve the Scheme's Responsible Investment ("RI") mission statement:

**"The Scheme's investments should be managed to create sustainable long-term value, supporting the generation of optimal investment returns to ensure the Scheme can pay all benefits in full."**

This mission reflects the Scheme's need for sustainable investment returns so that it can pay members' pensions, but also the importance for our members to have a healthy world into which they can retire. You can read more about stewardship activity at BTPS in the 2021/22 Responsible Investment & Stewardship Report: <https://www.btps.co.uk/SustainableInvestment>

**BTPSM's carbon emissions**

As well as working with the BTPS Trustee to measure emissions relating to the Scheme's investments, we also measure emissions from our offices, energy and transport. In 2022 BTPSM offset 98 tonnes of carbon dioxide (2021: 77 tonnes). To help mitigate the impact of our footprint, we work with ClimateCare, a specialist environmental and social impact company to invest in climate and development projects to offset emissions and deliver positive social outcomes in developing communities. Further details on our carbon emissions for the current year are included within the directors' report in on page 18.

One of our corporate objectives is to 'Embed sustainability into everything we do'. During the year we have baselined our carbon emissions, choosing to use 2019, pre pandemic data. This has confirmed the groups carbon emissions in the main (99%) come from scope 3, from our suppliers. Following this exercise, the next steps are to refine our strategy and re calculate the carbon footprint for current year, obtaining more accurate data from suppliers where possible. These strategies will include direct control, indirect influence and partnering and lobbying to ensure the corporate aligns with the Scheme's net zero targets. This year the company have two green benefits for employees, a new electric car scheme and continue to offer cycle to work scheme.

**Employees**

The company takes colleague satisfaction and wellbeing very seriously as demonstrated by a how colleagues are supported and listened too. We have a range of items in place supporting this including:

- An excellent range of colleague benefits including an employee assistant programme, healthcare and generous pensions and insurance benefits
- A programme of constantly refreshed wellbeing resources available to all colleagues.
- A regular colleague satisfaction survey enabling frequent leadership listening and corrective action
- A program of leadership development that reaches throughout the organisation
- An employee social group who further support educational and social activities for colleagues.



## **BT PENSION SCHEME MANAGEMENT LIMITED**

### **Strategic report – *continued***

The Company has put in place a comprehensive framework of policies and practices to keep employees informed on matters relevant to them as employees. The Board is ultimately responsible for the oversight of policies and practices in respect of employees of BTPSM and BTPSA, while Procentia's board of directors retains responsibility in respect of Procentia employees. In setting remuneration for BTPSM and BTPSA staff, the Board is conscious of the spirit and aims of the FCA's Remuneration Code as well as the retention and motivation of colleagues. The Board, therefore, aims to set remuneration policy and the awards under that policy within the following structures:

- the policy and awards are consistent with and promote sound and effective risk management;
- the policy and awards are consistent with the Group's strategy, objectives, values and the long-term interests of our beneficiaries;
- the policy and awards are set to avoid conflicts of interest;
- performance measures for awards are subject to appropriate adjustments for the risks taken to achieve that performance;
- performance is assessed over a multi-year period and portions of pay awards are deferred and track the returns of the BT Pension Scheme; and
- no guaranteed variable remuneration is available.

#### **Stewardship Code**

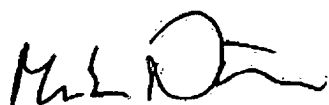
The Group is fully committed to complying with the requirements of the Financial Reporting Council's (FRC) Stewardship Code and further details can be found on its website <https://www.btpensions.net/information/investment/responsible-investment>.

As an FCA-regulated entity, BTPSM provides certain defined services, including overseeing the Scheme's stewardship activities.

#### **Modern Slavery Act**

The Group is fully committed to complying with the requirements of the Modern Slavery Act and a statement is available on the website. [www.btps.co.uk/ModernSlaveryPolicy](http://www.btps.co.uk/ModernSlaveryPolicy)

Approved by the Board and signed on behalf of the Board.



M Nilsson  
Director  
4 October 2022

## **BT PENSION SCHEME MANAGEMENT LIMITED**

### **Governance**

BT Pension Scheme Management Limited (BTPSM) is regulated and authorised by the Financial Conduct Authority (FCA). BTPSM's corporate governance framework supports the BTPSM board of directors (the Board) through oversight of the Company's purpose of working together for a better future, which is integral to the business. The framework demonstrates the Board's commitment to high standards of governance. On the 4<sup>th</sup> July 2022, the FCA granted a variation to the Company's regulatory permissions, removing the Occupational Pension Scheme (OPS) restriction. BTPSM is now a full scope MiFID Investment firm and as a result, our governance framework was reviewed to ensure it continued to meet the FCA's expectations and supports our strategy. This led to the creation of a Board level Risk, Audit, and Compliance Committee and adjustments to the ExCo membership.

### **BTPSM Board**

The Board is collectively responsible for the Company's long-term sustainable success within a framework of prudent and effective controls. To support the Board in its oversight and leadership, there is an established committee framework outlined in the following section.

Currently the Board consists entirely of executive directors, however it is intended that the membership will change during 2022 as part of the Company's change in regulation permissions. The Board is also responsible for reporting and providing assurance to the Trustee that the Scheme is well managed and aligned to the Trustee's objectives.

### **BTPSM Board Members**

**Morten Nilsson**, CEO, joined BTPSM in September 2018 and is responsible for leading all aspects of the business in its support of the Trustee of the Scheme and its members. Morten has spent most of his career in financial services. He joined the pensions and investment industry in 2001 and spent over 10 years with the £90 billion Danish pension scheme ATP, where he held different senior positions across administration, investments, product and business development. In 2010 he moved to London where he founded NOW: Pensions and, as CEO, grew the business to become one of the largest defined contribution providers in the UK.

**Wyn Francis**, CIO, joined BTPSM in 2008 and was confirmed as CIO on 1 January 2021 after serving as Deputy CIO since 2014. Wyn is responsible for advising the Trustee on the investment strategy and implementing that strategy within an agreed delegated authority. Prior to joining BTPSM, Wyn was, most recently, a Consulting Director at PwC where he managed teams responsible for providing market and trading risk management advice. Previously, he held roles in banks, structuring and trading interest rate derivatives and managing fixed income portfolios.

**Gillian Haselden**, Chief Legal Officer (CLO), joined BTPSM in 2014 and is responsible for leading and advising on all legal and compliance matters for the organisation. Gillian also acts as Legal Counsel to the Board. Before joining BTPSM, Gillian held the role of Deputy Global General Counsel at E&Y for 10 years and, prior to that, was European Counsel for Deloitte for 5 years. She is a qualified solicitor.

**Simon Langworthy**, Chief Administration Officer, joined BTPSM in 2010 and is responsible for Member Administration Services. He is also a Director of BT Pension Scheme Administration Ltd (BTPSA). Simon previously spent 6 years at Barclays Global Investors (BGI) running global operations functions, including asset services, client order management and product development. Simon was Managing Director of Europe Integration at Blackrock, where he led the migration of the BGI products in Europe (cash, fixed income, index equity, etc) onto the Blackrock Aladdin Platform and COO of Europe Business Operations, before joining BTPSM.

## BT PENSION SCHEME MANAGEMENT LIMITED

### Governance – *continued*

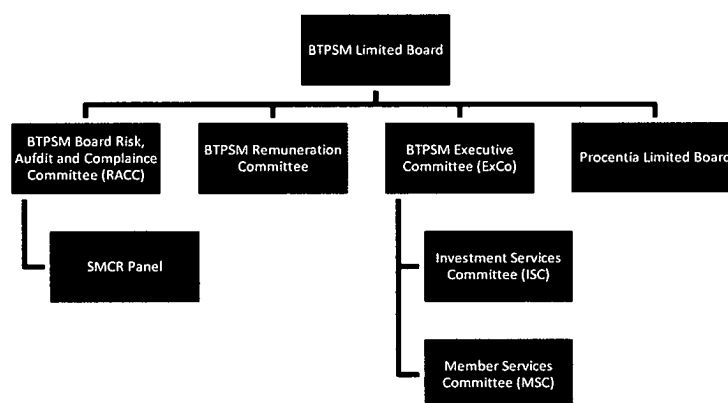
**Martin Tully**, Chief Operating Officer, joined BTPSM in January 2020 and leads on all key investments operational work and leading on risk related matters for the Company. Martin's previous roles include senior management positions with Ashmore, Rothschild, Citigroup and HSBC. Martin has over 25 years' experience in the banking, asset management and pensions sectors and has worked as a consultant with the in-house asset management divisions of pension funds in both the UK and overseas.

### BTPSM Governance structure

The BTPSM governance structure and main activities is set out below

#### BTPSM Limited Board

The Board is responsible for the overall strategy, oversight of financial and operational performance, key risks, and regulatory compliance. The Board reserves certain matters to itself but delegates others to its committees.



#### BTPSM Board, Risk, Audit and Compliance Committee (RACC)

Chaired by the COO, in his capacity Head of Risk the key purpose is to provide oversight and advice to the Board in relation to the current and potential future risk profiles and exposures of BTPSM and BTPSA, including the risk appetite, and on the effectiveness of the Enterprise.

Wide Risk Management Framework (ERM) and the internal controls required to manage risk. The RACC also assists the Board in carrying out its responsibilities relating to accounting policies/approaches, internal controls (eg Compliance and Audit) and financial reporting functions, including consideration of any relevant non-financial disclosures or related controls which may impact the financial statements

- **Senior Manager and Certification Regime ("SMCR") Panel** – Chaired by the CIO in his capacity as the Senior Manager who holds responsibility for performance of its obligations under the SMCR. The panel is responsible for oversight, challenge and escalation in relation to the SMCR and the Conduct Rules.

## **BT PENSION SCHEME MANAGEMENT LIMITED**

### *Governance – continued*

#### **BTPSM Board Remuneration Committee (“RemCo”)**

The purpose of the RemCo is to ensure that the Board and BTPS Remuneration & Nomination Committee are supported in the common aim of ensuring that BTPSM's remuneration arrangements are aligned to the successful delivery of BTPSM's long-term strategy. The BTPSM CEO chairs the RemCo. Independent oversight of CEO and executive remuneration is provided by the BTPS Remuneration and Nomination Committee.

#### **BTPSM Executive Committee (“ExCo”)**

The day to day management of the Company is delegated to the Executive Management team, who is in charge of this responsibility via the ExCo. It functions as the executive decision-making body for all entities within BTPSM, with the exception of Procentia. Each member of the ExCo has individual responsibility for business areas within BTPSM, and the members are the BTPSM Board plus the interim Chief People Officer (Ulrik Langermann), the Chief Technology Officer (Kevin Samborn) and the Chief Investment Administration Officer (Peter James). In order to support the ExCo in managing the business, ExCo have delegated oversight of certain business activities to the following committees:

- **Investment Services Committee (“ISC”)** - Chaired by the Chief Investment Administration Officer (CIAO), the ISC oversees progress on achieving the Trustee investment and funding objectives, including reviewing KPIs; oversight of BTPSM's FCA-regulated activities; and the delivery of investment operational activities.
- **Member Services Committee (“MSC”)** – Chaired by the CAO's leadership team on a rotational basis, the MSC is designed to oversee all areas of member services detailed in the Executive Service Agreement between BTPSM and the Scheme, including the strategic approach to delivering the required levels of service to members. This covers a number of areas including business development, people, systems, technology and member engagement.

#### **Procentia Limited Board**

Procentia's board has overall responsibility for the management of the Procentia group of companies, including monitoring the effectiveness of the company's operating, financial and other business plans, and the execution of its strategy and objectives. The board is collectively responsible to the shareholder for the long-term success of the company. The BTPSM CEO sits as a non-executive chair of the Procentia board.

## BT PENSION SCHEME MANAGEMENT LIMITED

### DIRECTORS' REPORT

Directors: W Francis  
G Haselden  
S Langworthy  
M Nilsson  
M Tully

Secretary: Britel Fund Trustees Limited

Registered office: One America Square, 17 Crosswall, London EC3N 2LB

Registered number: 05154287

The Directors' present their annual report and the audited consolidated financial statements for the year ended 30 June 2022.

### Energy and Carbon Report

In 2022 BTPSM and BTPSA offset their carbon emissions from business travel and scope 2 activities of 98 tonnes (2021: 77 tonnes offset)

		2022	2022	2021	2021
		t CO <sub>2</sub>	kWh	t CO <sub>2</sub>	kWh
<b>Total Group Emission:</b>					
<b>Direct Emissions</b>					
Combustion of gas and use of fuel for transport		-	-	-	-
	<b>Scope 1</b>	-	-	-	-
<b>Indirect Emissions (for own use)</b>					
Purchase of electricity		94.2	284,055	86.9	252,387
	<b>Scope 2</b>	94.2	284,055	86.9	252,387

No fuel usage is reported for the year as all business-related transport is operated by a third party (rail, taxi, air) which the Group is not responsible for the fuel usage. For electricity usage, the kWh amount is obtained from utility bills throughout the year, and the tonnes CO<sub>2</sub> amount is calculated using a conversion factor based on the Department for Business, Energy and Industrial Strategy ("DBIS") August 2019 greenhouse gas ("GHG") Conversion Factors for Company Reporting.

As a reference, the total emission level is equivalent to 0.30 (2021: 0.28) tonnes CO<sub>2</sub> per employee.

In the financial year 2022, the Company's emissions were broadly in line with the lower emission seen in 2021. Whilst we expect this situation will be a one-off reduction, future working practice changes may well result in lower ongoing emissions going forward. More information in relation to our activities to reduce the carbon impact of the Company is included in the Strategic Report.

### Going concern

The Group has sufficient financial resources and, as a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. BTPSM and BTPSA's sole provider of income is the Scheme, therefore the Directors have considered the Scheme's ability to continue as a going concern.

## **BT PENSION SCHEME MANAGEMENT LIMITED**

### **Directors Report – *continued***

With this in mind, and having made all reasonable enquiries and having respect to the nature of the Group and its activities, the Directors are satisfied at the time of approving the financial statements, that there is a reasonable expectation that the Group can meet its liabilities for the next 12 months from the date of approval of these financial statements.

The resources available to the Group, and forecast expenses and income, have been considered in arriving at the going concern conclusion.

#### **Dividend**

No dividend has been proposed or paid during the year (2021: £nil).

#### **Political contributions**

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year (2021:£nil)

#### **Charity donations**

During the year the Company donated £7,000 to Disasters Emergency Committee, funded by the employee social budget and subsidiaries donated £3,950 to various charities voted by their employees for their 20<sup>th</sup> anniversary (2021: £nil)

#### **Directors' indemnities**

Qualifying third party indemnity provisions, which were made during the year for the benefit of the directors, remain in force at the date of this report.

#### **Statement on disclosure of information to the auditor**

The Directors' confirm that:

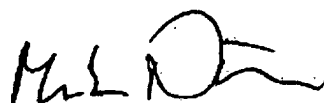
- so far as they are aware, there is no relevant audit information of which the Group's auditor is unaware; and
- they have taken all reasonable steps they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

#### **Auditor**

The auditor was reappointed in accordance with Part 16 of the Companies Act 2006 and KPMG LLP will, therefore, continue in office.

Approved by the Board and signed on behalf of the Board.



M Nilsson  
Director  
4 October 2022

## BT PENSION SCHEME MANAGEMENT LIMITED

### SECTION 172 STATEMENT

This statement outlines the Board directors' performance in relation to Section 172(1) of the Company's Act 2006. The Act requires that each company director acts in a way that they, in good faith, consider would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, s172 requires that directors consider, amongst other matters:

- the likely long-term consequences of any decision
- the interests of the Company's employees
- the need to foster the Company's business relationships with suppliers, customers and others
- the impact of the Company's operations on the community and the environment
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The Board is supported in the discharging of its duties by the Governance and Secretariat function. In 2021, BTPSM refreshed its governance framework in anticipation of the FCA granting a change to its regulatory permissions. For the year ending 30 June 2022, the Board of BTPSM Limited considers that, individually and collectively, it acted in accordance with s172.

Actions taken by the Board are made within a landscape of competing stakeholder priorities. We acknowledge that decisions could result in a more favourable outcome for one stakeholder group over another. By framing our decisions within the parameters of our purpose, values, and strategic priorities, our aim is to ensure our outcomes remain consistent. The Board understands the value of stakeholder engagement beyond its statutory obligations. Therefore, the examples illustrate a broad view of how we pay regard to, and interacted with, some of our key stakeholders during the year.

Stakeholder	Area of Focus / Outcomes
Client	<p>The Board continued to focus on maintaining and enhancing services for our client, the BTPS Scheme during the year. Supporting activities included improving Scheme costs, developing a new one portfolio investment approach, undertaking member surveys and advising the Trustee on its approach to RPI reform.</p> <p>Additionally, the Board maintains a holistic view of the risks to which our client, is exposed. The Board's continued focus on risk management for the Company and the Scheme led to the approval of an enriched Enterprise Risk Management framework.</p>
Environment	<p>In 2021, the Board explored ways to reduce the Company's environmental impact. During the year, the business finalised the baselining of the CO2 emissions of the BTPSM corporate group. One of the intended benefits from the new Member platform approved by the Board was to reduce the amount of paper-based communications with the enhanced functionality of the Member online portal.</p> <p>BTPSM also aims to be a thought leader, participating in the global debate, and offering insights on ESG and Responsible Investing,</p>
Regulators	<p>The Board is transparent in its dealings with its regulator, the FCA. During the year, the Board agreed to make an application to change BTPSM's regulatory permissions. As part of this work, the Board maintained an open dialogue with the FCA, resulting in a successful application.</p> <p>BTPSM has continued to provide advice and support to the Trustee in its engagement with The Pensions Regulator (TPR).</p>
Colleagues	<p>As outlined in the CEO's statement, a company-wide leadership development programme was launched during the year, with the purpose of developing greater leadership capability at all levels. Colleagues across both sites took part in workshops over a number of months. One of the planned outcomes of the programme was to develop the leadership capability across the Company. This commitment to developing colleagues is indicative of the Board's continued focus on ensuring the company has a highly qualified workforce and of the well-being of colleagues..</p>

More information on our work during the year for our Members, and our ESG targets and our risk framework can be found in the front section of this report

## **BT PENSION SCHEME MANAGEMENT LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The Directors have elected to prepare the Group and parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under UK company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the Group's profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and,
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's parent website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BT PENSION SCHEME MANAGEMENT LIMITED**

## **Opinion**

We have audited the financial statements of BT Pension Scheme Management Limited ("the Company") for the year ended 30 June 2022 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Cashflow Statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 June 2022 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the parent Company or to cease their operations, and as they have concluded that the Group and the parent Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group and parent Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group or the parent Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the parent Company will continue in operation.

#### **Fraud and breaches of laws and regulations – ability to detect**

Identifying and responding to risks of material misstatement due to fraud.

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes for management.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards and taking into account our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the calculation of the revenue is non-judgemental and straightforward, limited judgements necessary, with limited opportunity. We did not identify any additional fraud risks.

We also performed procedures including identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included material post year end closing journals.

#### **Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations**

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the parent Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies' legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: antibribery, employment law, data protection, anti-money laundering, market abuse regulations and financial services regulations, and specific areas of regulatory capital and liquidity and certain aspects of the parent Company's legislation recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

#### **Context of the ability of the audit to detect fraud or breaches of law or regulation**

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

#### **Strategic report and Directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated

or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

#### **Directors' responsibilities**

As explained more fully in their statement set out on page 24, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities**

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

**The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent Company and the parent Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**Fang Fang Zhou (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square  
London, E14 5GL

6 October 2022

**BT PENSION SCHEME MANAGEMENT LIMITED**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 30 JUNE 2022**

	Notes	30 June 2022 £	30 June 2021 £
TURNOVER	3	58,964,999	59,808,581
Administrative expenses		(56,437,222)	(58,804,538)
Other income		280,547	352,950
OPERATING PROFIT		2,808,324	1,356,993
Interest receivable	4	68,683	5,684
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	5	2,877,007	1,362,651
Tax on profit on ordinary activities	8	336,964	(1,004,088)
Profit for the financial year		3,213,971	358,589
OTHER COMPREHENSIVE INCOME			
Foreign Currency Translation Adjustment		91,856	(21,026)
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		3,305,827	337,563
<b>Profit for the financial year attributable to:</b>			
Owners of the parent		3,426,854	178,010
Non-controlling interests		(212,883)	180,579
<b>Total profit</b>		3,213,971	358,589
<b>Total Comprehensive income for the financial year attributable to:</b>			
Owners of the parent		3,490,731	162,241
Non-controlling interests		(184,904)	175,322
<b>Total comprehensive income</b>		3,305,827	337,563

There are no recognised gains or losses other than the profit on ordinary activities for the year disclosed above. Accordingly, no statement of other comprehensive income is presented.

All of the results are derived from continuing operations.

The notes on pages 35 to 50 form part of these financial statements.

# BT PENSION SCHEME MANAGEMENT LIMITED

## CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2022

	Notes	30 June 2022 £	30 June 2021 £
<b>FIXED ASSETS</b>			
Goodwill	9	9,865,970	17,533,544
Intangible assets	9	8,307,573	9,213,864
Tangible assets	10	1,957,479	1,674,610
		<b>20,131,022</b>	<b>28,422,018</b>
<b>CURRENT ASSETS</b>			
Debtors	11	10,393,663	6,192,495
Cash at bank		33,649,695	35,786,774
		<b>44,043,358</b>	<b>41,979,269</b>
<b>CURRENT LIABILITIES</b>			
Creditors – amounts falling due within one year	12	(13,879,097)	(16,159,553)
<b>NET CURRENT ASSETS</b>		<b>30,164,261</b>	<b>25,819,716</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>50,295,283</b>	<b>54,241,734</b>
Creditors – amounts falling due after one year	12	(1,724,801)	(1,504,006)
Provisions for liabilities and charges	13	(536,475)	(8,009,548)
<b>NET ASSETS</b>		<b>48,034,007</b>	<b>44,728,180</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	37,800,000	37,800,000
Profit and loss account		8,367,358	4,876,627
		<b>46,167,358</b>	<b>42,676,627</b>
Non-controlling interests		1,866,649	2,051,553
		<b>48,034,007</b>	<b>44,728,180</b>

The notes on pages 35 to 50 form part of these financial statements.

These financial statements were approved by the Board and authorised for issue on 4 October 2022.

Signed on behalf of the Board



M Nilsson

Director

# BT PENSION SCHEME MANAGEMENT LIMITED

## COMPANY BALANCE SHEET

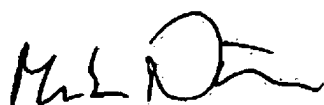
AS AT 30 JUNE 2022

	Notes	30 June 2022 £	30 June 2021 £
<b>FIXED ASSETS</b>			
Investment in Subsidiaries		22,354,584	29,827,657
Intangible assets	9	3,927,981	3,720,433
Tangible assets	10	1,299,747	796,381
		<b>27,582,312</b>	<b>34,344,471</b>
<b>CURRENT ASSETS</b>			
Debtors	11	5,320,097	5,856,083
Cash at bank		26,829,563	25,901,670
		<b>32,149,660</b>	<b>31,757,753</b>
<b>CURRENT LIABILITIES</b>			
Creditors – amounts falling due within one year	12	(8,888,350)	(10,596,864)
<b>NET CURRENT ASSETS</b>		<b>23,261,310</b>	<b>21,160,889</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>50,843,622</b>	<b>55,505,360</b>
Creditors – amounts falling due after one year	12	(1,523,825)	(1,504,006)
Provisions for liabilities and charges	13	(339,210)	(7,812,283)
<b>NET ASSETS</b>		<b>48,980,587</b>	<b>46,189,071</b>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	37,800,000	37,800,000
Profit and loss account		11,180,587	8,389,071
<b>SHAREHOLDER'S FUNDS</b>		<b>48,980,587</b>	<b>46,189,071</b>

The notes on pages 35 to 50 form part of these financial statements.

These financial statements were approved by the Board and authorised for issue on 4 October 2022.

Signed on behalf of the Board of Directors.



M Nilsson  
Director

Registered No. 05154287



# BT PENSION SCHEME MANAGEMENT LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Called up share capital £	Profit and loss account £	Amount attributable to owners of the parent £	Non- controlling interest £	Total £
<b>At the beginning of the year 1 July 2020</b>	<b>37,800,000</b>	<b>4,698,616</b>	<b>42,498,616</b>	<b>1,870,975</b>	<b>44,369,591</b>
Profit for the year	-	162,241	162,241	175,322	337,563
Foreign exchange movements	-	15,770	15,770	5,256	21,026
<b>At the beginning of year 1 July 2021</b>	<b>37,800,000</b>	<b>4,876,627</b>	<b>42,676,627</b>	<b>2,051,553</b>	<b>44,728,180</b>
Profit for the year	-	3,426,854	3,426,854	(212,883)	3,213,971
Foreign exchange movements	-	91,856	63,877	27,979	91,856
<b>At the end of the year 30 June 2022</b>	<b>37,800,000</b>	<b>8,395,337</b>	<b>46,167,358</b>	<b>1,866,649</b>	<b>48,034,007</b>

## COMPANY STATEMENT OF CHANGES IN EQUITY

	Called up share capital £	Profit and loss account £	Total £
<b>At the beginning of the year 1 July 2020</b>	<b>37,800,000</b>	<b>5,991,381</b>	<b>43,791,381</b>
Profit for the year		2,397,690	2,397,690
<b>At the beginning of the year 1 July 2021</b>	<b>37,800,000</b>	<b>8,389,071</b>	<b>46,189,071</b>
Profit for the year	-	2,791,516	2,791,516
<b>At the end of the year 30 June 2022</b>	<b>37,800,000</b>	<b>11,180,587</b>	<b>48,980,587</b>

The notes on pages 35 to 50 form part of these financial statements.

# BT PENSION SCHEME MANAGEMENT LIMITED

## CONSOLIDATED CASHFLOW STATEMENT

YEAR ENDED 30 JUNE 2022

	Notes	30 June 2022 £	30 June 2021 £
<b>Net cash (outflow) / inflow from operating activities</b>	16	<b>(544,132)</b>	<b>10,195,756</b>
<b>Cashflows from Investing Activities:</b>			
Payments made to acquire intangible assets		(906,995)	(6,019,124)
Payments made to acquire tangible fixed assets		(941,504)	(1,055,391)
<b>Cashflows from Financing Activities:</b>			
Interest received		51,428	13,038
Proceeds from sale of tangible assets		-	(110,918)
Repayment of borrowings		-	(239,139)
Equity dividends paid		-	(127,908)
Effects of exchange rates on cash		204,125	(56,911)
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS IN THE YEAR</b>		<b>(2,137,078)</b>	<b>2,599,403</b>

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

YEAR ENDED 30 JUNE 2022

	30 June 2022 £	30 June 2021 £
(Decrease) / increase in cash and cash equivalents in the year	(2,137,078)	2,599,403
<b>MOVEMENT IN NET FUNDS IN THE YEAR</b>	<b>(2,137,078)</b>	<b>2,599,403</b>
Net funds at 1 July	35,786,774	33,187,371
<b>NET FUNDS AT 30 JUNE</b>	<b>33,649,696</b>	<b>35,786,774</b>

Net Funds at 30 June 2022 comprised cash and cash equivalents of £33,649,696 (2021: £35,786,774).

The notes on pages 35 to 50 form part of these financial statements.

# BT PENSION SCHEME MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS

### YEAR ENDED 30 JUNE 2022

#### 1. ACCOUNTING POLICIES

##### a) Accounting convention

The Company is a private company incorporated, domiciled and registered in England in the U.K. The registered number is 05154287 and the registered address is One America Square, 17 Crosswall, London EC3N 2LB.

The Group (including BTPSA, Procentia Limited and Procentia Inc) and parent Company financial statements have been prepared under the historical cost convention, in accordance with applicable United Kingdom law and accounting standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS102").

The principal accounting policies, which have been applied consistently in both the current and preceding year, are set out below.

##### b) Going Concern

The Group has sufficient financial resources and, as a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. BTPSM and BTPSA's sole provider of income is the Scheme, therefore the Directors have considered the Scheme's ability to continue as a going concern.

With this in mind, and having made all reasonable enquiries and having respect to the nature of the Group and its activities, the directors are satisfied at the time of approving the financial statements, that there is a reasonable expectation that the Group can meet its liabilities for the next 12 months from the date of approval of these financial statements.

As part of the Directors' assessment on whether the going concern assumption was appropriate, it considered the ongoing impact of the coronavirus pandemic. It was determined that the impact of the pandemic on BTPSM relates primarily to our invocation of our business continuity plan (including disruption of employee working arrangements), the potential disruption to key suppliers, and any associated regulatory considerations. Throughout the reporting period the Group monitored the status of these risks and determined that the impact of these did not cast significant doubt on the Group's ability to continue as a going concern.

The resources available to the Group, and forecast expenses and income, have been considered in arriving at the going concern conclusion.

##### c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to the 30 June 2022. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertaking, Procentia group are included in the consolidated statement of comprehensive income. Control is established when the Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The Group has taken exemption from preparing a Company-only profit and loss account in line with Section 408 of the Companies Act 2006.

# BT PENSION SCHEME MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS

### YEAR ENDED 30 JUNE 2022 (continued)

d) Turnover

Turnover is recognised on an accruals basis. To the extent that fees are recognised in advance of billing they are included as accrued income. Service fees are charged to the ultimate parent undertaking, BTPS, based on costs charged at arm's length.

e) Other income

Other income relates to income received from sub-letting office space.

f) Taxation

UK and US corporation tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that 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 tax 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 the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

g) Bonus costs

Provision is made for bonuses attributable to performance up to the year end. Deferred bonuses are accrued evenly over the period to vesting.

h) Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rates at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the period end rate. Translation differences are dealt with in the statement of comprehensive income.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, sterling, at foreign exchange rates ruling at the balance sheet date.

i) Operating leases

Rental expenses in respect of operating leases are charged to the income statement on a straight-line basis over the period of the lease.

j) Pension benefits

For the defined contribution scheme, the amount charged to the profit and loss account in respect of pension costs is the contribution payable in the year.

Differences between contributions payable in the year and contributions actually paid are shown either as creditors or debtors in the balance sheet.

## BT PENSION SCHEME MANAGEMENT LIMITED

### NOTES TO THE ACCOUNTS

#### YEAR ENDED 30 JUNE 2022 (continued)

k) Business combinations

Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the entity. At acquisition date, the cost is measured as the aggregate of fair value of assets and liabilities, plus costs attributable to the business combination. The excess of the cost of the business combination over the acquirer's interest in the net assets of the business is recognised as goodwill. Goodwill is amortised over ten years.

l) Intangible assets

Intangible assets acquired separately are capitalised at cost at the date of acquisition. Intangible assets are stated at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is charged on a straight-line basis over the estimated useful life of the asset as follows:

Intellectual property, software and licences - five to ten years  
Goodwill – ten years

Amortisation is charged on assets with finite lives and this expense is taken to the statement of comprehensive income through the administrative expenses line item. Intangible assets with finite lives are only tested for impairment, either individually or at the cash-generating unit level, where there is an indicator of impairment. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

m) Tangible fixed assets

Fixed assets are stated at cost less any accumulated depreciation and any accumulated impairment losses. Fixed assets are depreciated on a straight-line basis over the useful economic lives of the assets as follows:

Computer hardware	-	Three years
Office equipment and furniture	-	Four years
Leasehold improvements	-	Period of the lease

n) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

**NOTES TO THE ACCOUNTS**

**YEAR ENDED 30 JUNE 2022 (continued)**

**2. ACQUISITIONS AND DISPOSALS OF BUSINESSES**

**Fair Value**

There was no adjustment needed to fair value the assets on acquisition. The expected useful life of goodwill stemming from this acquisition is 10 years.

**Contingent consideration**

Consideration which is contingent on future events is recognised based on the estimated amount if the contingent consideration is probable and can be measured reliably. Any subsequent changes to the amount are treated as an adjustment to the cost of the acquisition.

**Goodwill**

On acquisition of Procentia Limited, BTPSM also acquired the software code for the proprietary pension administration solution. However, owing to the complex nature and embedded knowledge within the Procentia business, the software code is inextricably linked to the business and after adjusting for the costs associated with transition of that knowledge, it is deemed to have a nil value. As a result, excess proceeds over the fair value of assets acquired have been classified as goodwill and depreciated over the 10 year useful economic life.

Goodwill in respect of Procentia Limited's 100% subsidiary Procentia Inc, which was acquired by Procentia Limited immediately prior to BTPSM's acquisition of Procentia Limited is recognised on the balance sheet and depreciated over the 10 year useful economic life.

# BT PENSION SCHEME MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS

### YEAR ENDED 30 JUNE 2022 (continued)

#### 3. TURNOVER

Turnover, exclusive of value added tax is analysed geographically between markets as follows:

	30 June 2022 £	30 June 2021 £
UK	55,473,222	55,944,410
USA	1,910,622	2,036,620
Rest of the world	1,581,155	1,827,551
	<u>58,964,999</u>	<u>59,808,581</u>

Turnover, exclusive of value added tax is analysed by turnover as follows:

	30 June 2022 £	30 June 2021 £
Executive advisory, pension administration and investment management services	49,817,164	50,360,328
Development, maintenance, and support of software	9,147,835	9,448,253
	<u>58,964,999</u>	<u>59,808,581</u>

#### 4. INTEREST RECEIVABLE AND PAYABLE

Interest receivable, mainly derived from short-term cash investments, is analysed as follows:

	30 June 2022 £	30 June 2021 £
Short-term deposit interest receivable	69,271	12,428
Interest payable	(588)	(6,744)
	<u>68,683</u>	<u>5,684</u>

Interest payable and similar expenses includes interest payable and similar on bank loans and overdrafts of £nil (2021: £nil) and on all other loans of £nil (2021: £nil)

## BT PENSION SCHEME MANAGEMENT LIMITED

### NOTES TO THE ACCOUNTS

#### YEAR ENDED 30 JUNE 2022 (continued)

##### 5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging the following:

	30 June 2022 £	30 June 2021 £
Amortisation of intangible fixed assets (note 9)	3,875,996	3,184,104
Depreciation of tangible fixed assets (note 10)	691,830	471,202
Rentals under operating leases	1,011,062	1,012,639
Fees payable to the Group's auditor in respect of:		
Audit services	131,540	125,276
Other services	13,627	12,978

##### 6. DIRECTORS' EMOLUMENTS

The total emoluments granted and paid to the directors in respect of the year were £3,357,111 (year ended 30 June 2021: £3,705,800). The Group provides a co-investment/bonus deferral scheme whereby a portion of bonuses awarded in respect of the year are deferred. The full value of deferred awards granted to directors in respect of the year has been included in the figure above, although they will only become payable after the directors satisfy future service conditions.

The highest paid director received emoluments in the year in respect of services to the Group, amounting to £919,851, which includes £20,000 pension contributions. (year ended 30 June 2021: £782,356, including £25,500 pension contributions).

##### 7. STAFF COSTS

Staff costs for the year in respect of directors and employees were as follows:

	30 June 2022 £	30 June 2021 £
Wages and salaries	26,852,606	25,403,151
Social security costs	3,447,606	3,166,211
Other pension costs	2,120,735	2,020,783
	<b>32,420,947</b>	<b>30,590,145</b>

Other pension costs are in respect of the defined contribution pension scheme.

The average number of employees, including directors and non-executive directors, for the year ended 30 June 2022 was 310 (2021: 307).



# BT PENSION SCHEME MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS

### YEAR ENDED 30 JUNE 2022 (continued)

#### 8. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES FOR GROUP

The Finance Act 2021 which was substantively enacted on 24 May 2021 and includes provisions to increase the rate of corporation tax from 19% to 25% effective from 1 April 2023. As these rate changes were substantively enacted prior to the Balance Sheet date, the deferred tax balances have been recognised at the relevant rate for the period in which the utilisation / unwinding is expected.

##### a) Analysis of tax charged in the year:

	30 June 2022 £	30 June 2021 £
Current tax:		
UK corporation tax	686,860	907,672
Adjustment in respect of prior periods	(983,140)	43,933
Overseas taxation	95,151	156,780
Total current tax charge	(201,129)	1,108,385
Deferred tax:		
Origination and reversal of timing differences	(142,262)	(42,951)
Adjustments in respect of prior period	100,790	7,531
Effect of tax rate change on opening balance	(94,363)	(68,877)
Total deferred tax charge	(135,835)	(104,297)
<b>Total tax charge on profit on ordinary activities</b>	<b>(336,964)</b>	<b>1,004,088</b>

##### b) The tax charge in the period differs from that resulting from applying the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%). The differences are explained below:

	30 June 2022 £	30 June 2021 £
Profit on ordinary activities before tax	2,877,007	1,362,651
Profit on ordinary activities at the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%)	546,631	258,904
Expenses not deductible for tax purposes	180,527	713,981
Effect of tax rates in foreign jurisdictions	25,069	56,289
Enhanced capital allowances / Income not taxable	(38,140)	(7,673)
Adjustments in respect of prior periods – current tax	(883,630)	51,464
Income not taxable	(73,058)	-
Tax rate changes	(94,363)	(68,877)
<b>Total tax charge on profit on ordinary activities</b>	<b>(336,964)</b>	<b>1,004,088</b>

# BT PENSION SCHEME MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS

### YEAR ENDED 30 JUNE 2022 (continued)

#### c) Deferred tax:

	Provided June 2022 £	Provided June 2021 £
Deferred tax liabilities/(assets):		
Accelerated capital allowances	(76,163)	111,825
Short term timing differences	719,666	487,138
Losses and other deductions	90,507	-
Total deferred tax assets	<u>734,010</u>	<u>598,963</u>

	30 June 2022 £	30 June 2021 £
Net deferred tax assets at 1 July	598,963	494,668
Amounts charged to income statement arising from:		
Fixed asset timing differences	(187,988)	22,764
Short-term timing differences	232,528	81,531
Losses and other deductions	90,507	-
Net deferred tax assets at 30 June	<u>734,010</u>	<u>598,963</u>

#### 9. CONSOLIDATED INTANGIBLE FIXED ASSETS

	Goodwill £	Intellectual Property £	Software Development £	Total £
Cost:				
At 1 July	20,627,699	2,200,000	9,306,864	32,134,563
Additions	-	-	906,935	906,935
Disposals	-	(2,000,000)	-	(2,000,000)
Release of deferred consideration	(7,473,073)	-	-	(7,473,073)
At 30 June	<u>13,154,626</u>	<u>200,000</u>	<u>10,213,799</u>	<u>23,568,425</u>
Accumulated amortisation:				
At 1 July	(3,094,155)	(2,075,000)	(218,000)	(5,387,155)
Charge for the year	(2,062,770)	(20,000)	(1,793,226)	(3,875,996)
Disposals	-	2,000,000	-	2,000,000
Charge on deferred consideration	1,868,268	-	-	1,868,268
At 30 June	<u>(3,288,656)</u>	<u>(95,000)</u>	<u>(2,011,226)</u>	<u>(5,394,882)</u>
Net book value:				
At 30 June 2022	<u>9,865,970</u>	<u>105,000</u>	<u>8,202,573</u>	<u>18,173,543</u>
At 30 June 2021	<u>17,533,544</u>	<u>125,000</u>	<u>9,088,864</u>	<u>26,747,408</u>

# BT PENSION SCHEME MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS

YEAR ENDED 30 JUNE 2022 (continued)

### COMPANY INTANGIBLE FIXED ASSETS

	Software development costs	Total
	£	£
Cost:		
At 1 July	3,783,491	3,783,491
Additions	892,594	892,594
At 30 June	4,676,086	4,676,086
Amortisation:		
At 1 July	(63,058)	(63,058)
Charge for the year	(685,046)	(685,046)
At 30 June	(748,105)	(748,105)
Net book value:		
At 30 June 2022	3,927,981	3,927,981
At 30 June 2021	3,720,433	3,720,433

To be amortised over 5 years on completion of the project.

**BT PENSION SCHEME MANAGEMENT LIMITED**

**NOTES TO THE ACCOUNTS**

**YEAR ENDED 30 JUNE 2022 (continued)**

**10 CONSOLIDATED TANGIBLE FIXED ASSETS**

	<b>Leasehold improvements</b>	<b>Office equipment and furniture</b>	<b>Computer hardware</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Cost:</b>				
At 1 July	<b>1,831,303</b>	<b>671,906</b>	<b>692,166</b>	<b>3,195,375</b>
Additions	649,164	-	341,832	990,996
Transfer		(20,336)	20,336	-
FX	470	34,447	-	34,917
<b>At 30 June</b>	<b>2,480,937</b>	<b>686,018</b>	<b>1,033,998</b>	<b>4,200,952</b>
<b>Accumulated depreciation:</b>				
At 1 July	<b>(648,771)</b>	<b>(374,596)</b>	<b>(497,398)</b>	<b>(1,520,765)</b>
Charge for the year	(427,151)	(71,477)	(193,202)	(691,830)
FX	-	(30,878)	-	(30,878)
<b>At 30 June</b>	<b>(1,075,922)</b>	<b>(476,951)</b>	<b>(343,398)</b>	<b>(2,243,473)</b>
<b>Net book value:</b>				
<b>At 30 June 2022</b>	<b>1,405,015</b>	<b>209,067</b>	<b>343,398</b>	<b>1,957,479</b>
<b>At 30 June 2021</b>	<b>1,182,532</b>	<b>297,310</b>	<b>194,768</b>	<b>1,674,610</b>

**BT PENSION SCHEME MANAGEMENT LIMITED**

**NOTES TO THE ACCOUNTS**

**YEAR ENDED 30 JUNE 2022 (continued)**

**COMPANY TANGIBLE FIXED ASSETS**

	<b>Leasehold improvements</b>	<b>Office equipment and furniture</b>	<b>Computer hardware</b>	<b>Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Cost:</b>				
At 1 July	<b>941,094</b>	<b>122,203</b>	<b>225,760</b>	<b>1,289,057</b>
Additions	624,919	167,307	4,661	796,886
<b>At 30 June</b>	<b>1,566,013</b>	<b>289,510</b>	<b>230,421</b>	<b>2,085,944</b>
<b>Accumulated depreciation:</b>				
At 1 July	<b>(382,945)</b>	<b>(80,333)</b>	<b>(29,398)</b>	<b>(492,676)</b>
Charge for the year	(193,175)	(39,220)	(61,125)	(293,520)
<b>At 30 June</b>	<b>(576,120)</b>	<b>(119,553)</b>	<b>(90,523)</b>	<b>(786,196)</b>
<b>Net book value:</b>				
<b>At 30 June 2022</b>	<b>989,893</b>	<b>169,957</b>	<b>139,898</b>	<b>1,299,748</b>
<b>At 30 June 2021</b>	<b>558,149</b>	<b>41,870</b>	<b>196,362</b>	<b>796,381</b>

# BT PENSION SCHEME MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS

### YEAR ENDED 30 JUNE 2022 (continued)

#### 11 CONSOLIDATED CURRENT DEBTORS

	30 June 2022 £	30 June 2021 £
Prepayments	2,564,975	1,870,200
Other debtors	3,008,452	3,728,332
Amounts due from ultimate parent undertaking	3,816,494	-
Corporation tax	269,732	-
Deferred tax	734,010	598,963
	<b>10,393,663</b>	<b>6,192,495</b>

#### COMPANY CURRENT DEBTORS

	30 June 2022 £	30 June 2021 £
Prepayments	1,116,563	1,355,401
Other debtors	918,359	1,123,370
Amounts due from group companies	24,978	-
Amounts due from ultimate parent undertaking	2,356,039	2,816,406
Corporation tax	359,730	-
Deferred tax	544,428	560,906
	<b>5,320,097</b>	<b>5,856,083</b>

#### 12 CONSOLIDATED CREDITORS

	30 June 2022 £	30 June 2021 £
Amounts falling due within 1 year:		
Trade creditors	470,191	1,844,857
Deferred income	670,161	736,596
Other creditors	1,140	119,921
Corporation tax	-	920,239
Amount due to parent company	-	617,818
Other taxes	2,460,680	636,959
Accruals	10,276,925	11,283,163
	<b>13,879,097</b>	<b>16,159,553</b>
Amounts falling due after 1 year:		
Accruals, less than 5 years	<b>1,724,801</b>	<b>1,504,006</b>

# BT PENSION SCHEME MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS

### YEAR ENDED 30 JUNE 2022 (continued) COMPANY CREDITORS

	30 June 2022 £	30 June 2021 £
Amounts falling due within 1 year:		
Trade creditors	256,183	1,014,314
Corporation tax	-	659,925
Other taxes	1,104,180	221,691
Accruals	7,527,987	8,673,934
	<b>8,888,350</b>	<b>10,596,864</b>
Amounts falling due after 1 year:		
Accruals, less than 5 years	<b>1,523,825</b>	<b>1,504,006</b>

### 13 CONSOLIDATED PROVISIONS FOR LIABILITIES AND CHARGES

	Dilapidations provision £	Deferred consideration £	Total £
At 30 June 2021	536,475	7,473,073	8,009,548
Changes in the year	-	(7,473,073)	(7,473,073)
At 30 June 2022	<b>536,475</b>	<b>-</b>	<b>536,475</b>

In 2020 deferred consideration for the acquisition of Procentia was provided for. The Directors believe that the criteria will no longer be met this and have released the provision.

The dilapidations charge has been capitalised within Leaseholds Improvements and is being depreciated over the period of the lease.

### COMPANY PROVISIONS FOR LIABILITIES AND CHARGES

	Dilapidations provision £	Deferred consideration £	Total £
At 30 June 2021	339,210	7,473,073	7,812,283
Changes in the year	-	(7,473,073)	(7,473,073)
At 30 June 2022	<b>339,210</b>	<b>-</b>	<b>339,210</b>

In 2020 deferred consideration for the acquisition of Procentia has been provided for. The Directors believe that the criteria will no longer be met and have released the provision.

The dilapidations charge has been capitalised within Leaseholds Improvements and is being depreciated over the period of the lease.

# BT PENSION SCHEME MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS

### YEAR ENDED 30 JUNE 2022 (continued)

#### 14 SHARE CAPITAL

	30 June 2022 £	30 June 2021 £
Authorised:		
39,800,000 (2021: 39,800,000) ordinary shares of £1 each	<b>39,800,000</b>	39,800,000
Allotted and fully paid:		
37,800,000 (2020: 37,800,000) ordinary shares of £1 each	<b>37,800,000</b>	37,800,000

The Company, BTPSM, is a private Company limited by shares and is incorporated in England.

#### 15 CONSOLIDATED FINANCIAL COMMITMENTS

The Group's total future minimum lease payments under non-cancellable operating leases are as follows:

	2022 Other £	2022 Land and buildings £	2021 Other £	2021 Land and buildings £
Within one year	32,415	1,237,504	-	1,334,747
Between 2 – 5 years	-	2,592,431	-	3,488,028
After five years	-	-	-	207,295
	<b>32,415</b>	<b>3,829,936</b>	-	5,030,070

The UK operating lease relating to land and buildings is subject to a 5-yearly, upward only, rent review.



# BT PENSION SCHEME MANAGEMENT LIMITED

## NOTES TO THE ACCOUNTS

### YEAR ENDED 30 JUNE 2022 (continued)

#### COMPANY FINANCIAL COMMITMENTS

The Company's total future minimum lease payments under non-cancellable operating leases are as follows:

	2022 Other £	2022 Land and buildings £	2021 Other £	2021 Land and buildings £
Within one year	27,638	794,490	-	794,490
Between two – five years	-	2,147,548	-	2,734,743
After five years	-	-	-	207,295
	<b>27,638</b>	<b>2,942,038</b>	<b>-</b>	<b>3,736,528</b>

The UK operating lease relating to land and buildings is subject to a 5-yearly, upward only, rent review.

#### 16 NET CASH FLOW FROM OPERATING ACTIVITIES

	30 June 2022 £	30 June 2021 £
Operating profit	2,808,324	1,335,967
Amortization of intangible fixed assets	2,007,727	3,184,046
Depreciation of tangible fixed assets	691,830	471,202
Decrease / (increase) in debtors	169,418	(2,995,782)
(Increase) / decrease in amounts due from ultimate parent	(4,474,060)	2,107,410
(Decrease) / Increase in creditors	(677,817)	6,394,010
Tax paid	(1,069,555)	(297,974)
Net FX revaluation (gain)	-	(3,123)
<b>NET CASH (OUTFLOW) / INFLOW FROM OPERATING ACTIVITIES</b>	<b>(544,132)</b>	<b>10,195,756</b>

#### 17 RELATED PARTIES

##### GROUP COMPANIES

The Group is exempt from disclosing related party transactions, under Paragraph 33.1A of Financial Reporting Standard No. 102 – Related Party Disclosures, with members of the Group, as they are all wholly-owned subsidiaries of BT Pension Scheme.

## **BT PENSION SCHEME MANAGEMENT LIMITED**

### **NOTES TO THE ACCOUNTS**

#### **YEAR ENDED 30 JUNE 2021 (continued)**

##### **KEY MANAGEMENT PERSONNEL**

The key management personnel of BTPSM are the directors and members of the Executive. The total remuneration of key management personnel for the year ended 30 June 2022 was £4,722,365 (2021: £4,956,710) being remuneration, including pension contributions, £3,357,111 (2021: £3,705,800) as disclosure in note 6, and remuneration provided to other key management personnel of £1,365,254 (2021: £1,250,909).

##### **18 ULTIMATE PARENT UNDERTAKING**

The immediate and ultimate parent of the Group throughout the year was the BT Pension Scheme.

The financial statements of BT Pension Scheme can be obtained at the registered office: One America Square, 17 Crosswall, London EC3N 2LB or on the website at [btps.co.uk](https://btps.co.uk)

##### **19 SUBSEQUENT EVENTS**

There have been no subsequent events from the balance sheet date.