LONDON BOROUGH OF BEXLEY

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Pension Fund Annual Report 2020/21

Contents

Message from the Chairman of the Pensions Committee 3
Independent Auditors Statement 4
Scheme Management and Advisors 6
Risk Management 7
Financial Performance 8
Commentary from our Investment Advisors Aon- Market Background 10
Investment Policy and Performance 12
Scheme Administration 18
Governance 26
Pensions Board for Bexley - Annual Report 2020/21 30
Actuarial Position 31
Appendix 1 33
Appendix 2 36
Appendix 3 41
Appendix 4 71
Appendix 5 114
Appendix 6 127
Appendix 7 129

Further details on the Local Government Pension Scheme (LGPS) can be found on the website https://www.lppapensions.co.uk.

We welcome feedback on this annual report. Please contact pensions@bexley.gov.uk.

Message from the Chairman of the Pensions Committee

As Chairman of the Bexley Pension Fund Committee, and on behalf of my fellow committee members, I am pleased to introduce the 2020/21 annual report and accounts.

As today's stewards of the Local Government Pension Scheme and the Bexley Pension Fund ("the Fund"), my colleagues on the Pensions Committee, the members of our Local Pension Board and the Fund Officers take very seriously their responsibilities to all stakeholders – including 15,941 scheme members, and 76 active employers – ensuring that the scheme is locally administered effectively and efficiently on their behalf.

The value of the Fund's net assets at the end the 2020/21 financial year were £1,003m; an increase of £156m (17.9%) on the previous year. This outcome should be seen in context – as highlighted last year the 2019/20 financial year end coincided with the lowest point in global financial markets, triggered by the Covid-19 pandemic declaration on 11 March 2020. This was then followed by a sharp rebound in the 2020/21 financial year.

Over the 2020/21 year The Bexley Fund fell short of achieving its benchmark but achieved positive returns across the year as well as over the longer three and five year measurement periods.

Whilst markets have, shown recovery following the initial volatility of the pandemic, there still remained a significant level of uncertainty due to ongoing lockdown and social distancing measures at the end of the financial year. However, given the recovery in markets, the Fund has continued with its implementation of the revised investment strategy that was agreed in March 2020. At the end of the year, the Fund invested in the M&G Illiquid Credit Opportunities Fund VII, and made a commitment of £50m to the LCIV Renewable Infrastructure Fund and an additional commitment of €50m to the Partners Group private equity mandate.

We are also very conscious of our responsibilities as investors and are committed to demonstrating good corporate governance and responsibility via our investment strategy. During the last year, the Committee has been developing its approach to Responsible Investment and is in the process of drafting its Responsible Investment Policy, which will be made available online. This Policy will set out our approach to integrating Environmental, Social and Governance factors into our decision making and our expectations of investment managers.

The Fund continues to work closely with the London Collective Investment Vehicle (LCIV) to gain efficiencies through pooling of Pension Fund assets. The Fund's proportion of assets pooled remains amongst the highest of member authorities of the LCIV, with c. 60% of the portfolio now pooled. The Committee has supported a number of recent fund launches by the LCIV over the last 12 months, namely the Renewable Infrastructure Fund and the Inflation Plus fund.

Councillor Caroline Newton
Chair of Bexley Pensions Committee

Independent Auditors Statement

Independent Auditor’s Statement to the Members of London Borough of Bexley on the Pension Fund Financial Statements

Opinion

We have examined the pension fund financial statements for the year ended 31 March 2021, which comprise the Fund Account, the Net Assets Statement and the related notes.

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of London Borough of Bexley for the year ended 31 March 2021 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Respective responsibilities of the Director of Finance and Corporate Services and the auditor.

As explained more fully in the Statement of the Director of Finance and Corporate Services’ Responsibilities, the Director of Finance and Corporate Services is responsible for the preparation of the pension fund’s financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of London Borough of Bexley, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only:

- Message from the Chairman
- Scheme Management and Advisors
- Risk Management
- Financial Performance
- Market Background
- Investment Policy and Performance
- Scheme Administration
- Governance
- Bexley Pensions Board Annual Report
- Actuarial Position
- Contributions Analysis
- Governance Compliance Statement
- Funding Strategy Statement
- Investment Strategy Statement
- Communications Policy Statement
- Glossary of Pensions Terms

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Elizabeth Jackson (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Luton

09 February 2022

Scheme Management and Advisors

Administering Authority - London Borough of Bexley

Fund Officers -
Paul Thorogood – Director of Finance and Corporate Services
Maddy Baxter – Pensions Manager
Robert Campbell – Payroll and HR Systems Manager

Investment Advisers - Aon Solutions UK Ltd

Asset Pool Operator - London Collective Investment Vehicle (LCIV)

Fund Managers (Investments held outside of Asset Pool) -
UBS Global Asset Management
BlackRock Investment Management
Partners Group
LaSalle Investment Management

Custodian - Northern Trust

Performance Measurement - Northern Trust

Actuaries - Mercer Ltd

Administrators - Local Pensions Partnership Administration (LPPA)

AVC Providers - Prudential plc

Bankers - NatWest Bank plc

Auditors - Ernst and Young LLP

Legal Advisors - Bexley Legal Services

Pension Scheme - PSTR 00329946RE LGPS England and Wales (Split Scheme)
Tax References - PSTR 00329108RA LGPS London Borough of Bexley Fund (Sub Scheme)

Risk Management

Risk Management and Governance

The Pensions Committee ("the Committee") is responsible for the stewardship of the London Borough of Bexley Pension Fund ("the Fund") and as such is responsible for overseeing the management of risk within the Fund. It carries out this role through challenging investment managers, investment advisors and officers on their actions to ensure that the Fund is not taking on undue risks and that those risks that the Fund is exposed to are managed appropriately.

A key tool in managing risk is the Fund's risk register which is reviewed by the Pensions Board. The risk register identifies the risks that the Fund is exposed to and assesses the likelihood and impact of each risk along with the control mechanisms in place to manage them. The risks in the register are then scored and rated red, amber or green to highlight those risks with a high likelihood of occurrence and/or a potentially big impact and therefore require closer monitoring.

Further details of how risks are managed can be found in the following Fund documents which are included in the appendices of this annual report:

- The annual accounts discuss investment risk and set out the nature and extent of risks arising from financial instruments (Appendix 3 note 15).
- The Investment Strategy Statement covers risk and liabilities (Appendix 5 section 9).
- The Funding Strategy Statement identifies risks and countermeasures (Appendix 4 section 7).

The Fund's accounts and processes are subject to scrutiny by the Council's internal auditors and the Fund's independent external auditor. The independent auditor's report is included later in this report.

Management of Third-Party Risk

The Fund is reliant on third parties for the provision of data, the management of investments and the payment of contributions. These third parties include fund managers, the asset pool, the Fund's custodian, the Fund's actuary and admitted and scheduled employers. Officers carry out reconciliations to ensure that information provided by third parties is accurate. Investment managers produce internal control reports annually which the Fund reviews to give assurance that the managers are adequately managing risks within their organisation. The Fund's investment advisor continually reviews the market, activity of the fund managers and will raise concerns such as changes to key members of staff and make recommendations to the Committee.

Financial Performance

The Table below shows the income and expenditure incurred in 2020/21 compared against the forecast along with forecast income and expenditure for the next two financial years.

	Forecast 2020/21 £'000	Actual 2020/21 £'000	Variance to forecast 2020/21 £'000	Forecast 2021/22 £'000	Forecast 2022/23 £'000
Income					
Employer contributions	(19,800)	(17,753)	2,047	(17,500)	(21,000)
Employee contributions	(6,350)	(6,144)	206	(6,100)	(6,000)
Transfers in	(2,600)	(5,743)	(3,143)	(2,600)	(2,600)
	(28,750)	**(29,640)**	**(890)**	**(26,200)**	**(29,600)**
Expenditure					
Pensions payable	28,300	28,727	427	28,800	29,400
Retirement and death benefits	4,720	4,655	(65)	4,800	4,800
Transfers out	2,500	5,483	2,983	2,500	2,500
Management expenses	6,220	5,376	(844)	6,500	6,460
	41,740	**44,241**	**2,501**	**42,600**	**43,160**
Net Investment Income	**(13,170)**	**(12,903)**	**267**	**(13,170)**	**(13,170)**
Net (Income)/Expenditure in year	**(180)**	**1,698**	**1,878**	**3,230**	**390**

Management expenses includes external costs such as investment management and actuarial fees along with the internal staffing and overhead costs incurred in the year. A further breakdown of these costs is provided in the table below:

	Forecast 2020/21 £'000	Actual 2020/21 £'000	Variance to Forecast 2020/21 £'000	Forecast 2021/22 £'000	Forecast 2022/23 £'000
Management Expenses					
Investment management expenses	5,250	4,367	883	5,380	5,490
Administrative services	310	286	24	310	310
Staffing and overhead costs	350	363	(13)	350	350
Actuarial services	70	89	(19)	70	70
Audit fee	20	16	4	20	20
Other expenses	220	255	(35)	220	220
Total	**6,220**	**5,376**	**844**	**6,350**	**6,460**

Surplus investment income which is not needed to cover cash flow requirements is reinvested by fund managers.

Income and expenditure is dependent on several factors, some of which are difficult to predict. Transfers in and out are dependent on the numbers of active members joining and leaving the Fund in the year and the value of the assets that relate to them. Contributions are determined by the number of active members in the Fund and, for employee contributions, their salaries. Pensions and other benefits payable are impacted by the age profile of pensioners. Management fees and investment income will vary with investment performance of the Fund.

The unpredictability of some of these factors can lead to significant differences between forecast and actual income and expenditure. This is the reason for the variance in actual transfers in and out and management fees in 2020/21 compared to that which was forecast.

Employee Contribution rates are determined by the Local Government Pensions Scheme (LGPS) regulations and range from 5.5% to 12.5% depending on pensionable pay. Employer contribution rates are determined by the triennial valuation of the Fund and vary for each employer depending on the level of assets they have in the Fund compared to their liabilities. The last valuation was carried out in 2019. The primary employer contribution rate ranges from 15.3% to 32.1%. The London Borough of Bexley is the largest employer in the Fund and has a primary contribution rate of 18.5% less £4.1m spread over the next three years. Appendix 1 shows the individual employer contributions for 2020/21. A summary is shown in the table below:

	Employee Contributions £'000	**Employer Contributions £'000**	**Total Contributions £'000**
Administering Authority	3,409	6,894	10,303
Admitted Bodies	360	1,267	1,627
Scheduled Bodies	2,375	9,592	11,967
Total	**6,144**	**17,753**	**23,897**

Contributions due from all employers in the fund are monitored on a monthly basis. During 2020/21 total contributions of £23.9m were due. Of this total amount 99% by value and 97% of payment transactions were received by the due date. This can be analysed as follows:

	Contributions due £'000	**% of payment transactions received on time**
London Borough of Bexley	10,303	100
Scheduled Bodies	11,967	99
Admitted Bodies	1,627	92
Total	**23,897**	**97**

The overdue contributions were:

	£'000	**%**
Up to 1 week overdue	57.5	82
1 to 2 weeks overdue	9.6	13
2 to 4 weeks overdue	3.3	5
More than 4 weeks overdue	0	0

The majority of the delays were short administrative processing delays. The option to levy interest on overdue contributions was not exercised during the year.

Pension overpayments

During the year there were 94 cases of overpayments due to the death of a pensioner (compared to 101 in 2019/20). Further details are shown in the table below:

	2018/19		2019/20		2020/21	
Case Type	No. of cases	Amounts £	No. of cases	Amounts £	No. of cases	Amounts £
Repayment was waived	59	4,453	83	7,010	65	7,227
Recovery was made	15	11,437	13	5,458	23	10,156
Not yet completed	5	3,484	5	1,669	6	10,067
Total	**79**	**19,374**	**101**	**14,137**	**94**	**27,450**

Note: overpayments are waived when there is no further money due to the estate or next of kin and the overpayment is less than £250

Commentary from our Investment Advisors Aon- Market Background

Market Background: 12 Months to March 2021

After severe disruption in global markets in early 2020 from the Coronavirus pandemic, equity markets rebounded in Q2 and Q3 2020 as a slowdown in new cases and the relaxation of lockdown measures resulted in a sharp economic rebound. A second wave outbreak at the onset of winter, however, dampened economic optimism over Q4 2020. Equity markets continued to rally as huge fiscal and monetary stimulus and optimism over Covid-19 vaccine rollouts led to investor willingness to overlook the sharpest economic recession in generations. Heightened political uncertainty around November's US presidential election provided some drag on risk sentiment, but increased expectations of expanded fiscal spending following Democrat Joe Biden's victory boosted markets.

Global Covid-19 cases continued to surge in Q1 2021, with many countries going back into lockdown as new virus variants became more virulent. Health concerns also halted the vaccine rollout in some countries whilst supply constraints led to a slower than expected rollout in Europe. However, improving economic data over the quarter in most countries and global vaccination rollouts boosted economic recovery optimism. The MSCI AC World Index rose by 51.1% in local currency terms over the past twelve months and by 38.9% in sterling terms.

US equities posted the strongest return over the year, helped by their high exposure to large technology companies. The $1.9tn US economic relief package was approved by the Senate soon after Democrat Joe Biden was sworn in as US President in January 2021 which fed market expectations of stronger US growth and inflation. In contrast to the US, UK equities performed poorly as the UK economy struggled with a high virus death rate and Brexit worries over 2020. Emerging markets held up well as they were supported by the low global interest rate backdrop and the weak dollar. The risk of a reversal in both drivers, led to weaker EM equity performance in Q1 2021, however.

On a global sector level, Consumer Discretionary (75.0%) and Information Technology (69.8%) were the best performers in local currency terms. These sectors were bolstered by Coronavirus-driven lockdowns.

Utilities (19.3%) was the worst-performing sector, followed by Consumer Staples (20.7%) and Health Care (27.9%).

Governments across major economies announced swift and significant fiscal support for businesses and individuals. The US government approved several stimulus packages and have proposed a new infrastructure bill worth $1.9tn. The European Union (EU) promised a recovery package which was increased to €1.8tn and passed in late 2020.

Central banks loosened monetary policy with quantitative easing (QE) programs. The US Federal Reserve (Fed) even began buying individual corporate bonds directly from the secondary market for the first time in Q2 2020. The Fed then announced a major policy shift in Q3 2020 by adopting an "average inflation targeting" approach which implies a higher tolerance towards inflation. In Q4 2020 and Q1 2021, the Fed maintained its guidance surrounding keeping interest rates near zero until at least 2024 and continuing to buy $120bn of debt per month until "substantial further progress has been made" towards its employment and inflation targets.

In Q3 2020, the Bank of England (BOE) reported in its meeting minutes that it was examining how negative interest rates could be implemented effectively should this be required. However, deputy governor Dave Ramsden later suggested that the current base rate represented the "effective lower bound" for interest rates.

The European Central Bank (ECB) launched a €1.9tn pandemic emergency purchase program (PEPP) which will continue until March 2022.

After years of negotiations, the UK and the European Union (EU) reached an historic Brexit trade deal. The deal was reached after issues including EU fishing rights in UK waters and fair competition rules were agreed. The agreement allows most goods to be traded between the UK and the EU without tariffs or quotas. Meanwhile, EU fishing rights in UK waters will be reduced by one-quarter over a five and a half-year transition period, after which access will depend on annual negotiations. Spain and the UK also agreed to keep the land border between the British overseas territory of Gibraltar and Spain open.

Sterling ended the twelve months 5.7% higher on a trade-weighted basis. Sterling depreciated in Q2 2020 due to the deteriorating UK coronavirus situation, Brexit uncertainty and a poor economic outlook. However, in Q3 2020, the weak US dollar led to sterling gains against the dollar. Sterling continued to more broadly appreciate in Q4 2020 in anticipation that a Brexit deal would be reached. The relief rally in sterling in Q1 2021, in the wake of the Brexit deal was boosted by the launch of a successful UK vaccination program.

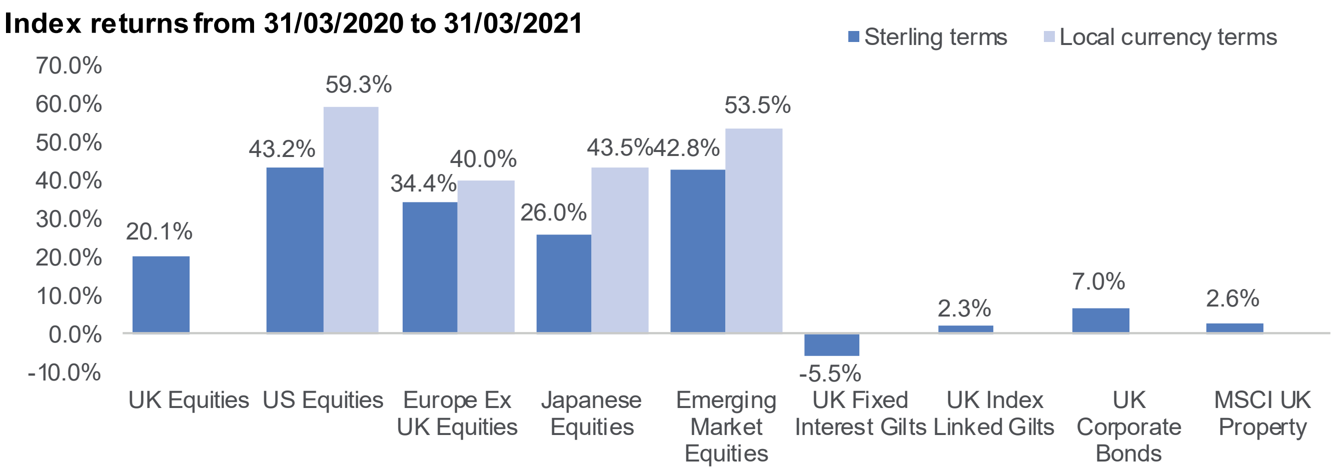
Brent crude oil prices rose by 179.4% over the last twelve months to $63/BBL. After Q1's sharp fall oil prices recovered in Q2 2020, rising by 81%, supported by record-setting production cuts by OPEC+ and the easing of lockdown measures in major economies, leading to expectations of higher oil demand. Optimism over vaccine approval and the start of vaccinations supported oil prices later in the year, even though OPEC and Russia agreed to increase oil production by 500,000 barrels per day from January 2021. OPEC also cut its forecast for 2021 growth in oil demand, citing continued virus uncertainty and weak labour markets. In Q1 2021, crude oil prices were again boosted by positive vaccine developments and easing lockdowns. OPEC+ decided to maintain a production rate at 7mb/d, slightly down from the previous quarter's 7.2 m barrels per day.

Inflation expectations rose globally over the last year on the back of liquidity expansion and growth optimism. This rise in inflation expectations was a key driver of rising global bond yields from record low levels reached in the first half of 2020. The rise in inflationary expectations was most significant in the US given the shift in Fed strategy and the massive US fiscal spending program.

UK gilt yields fell to extreme lows in summer 2020 on the back of the pandemic, Brexit uncertainty and increased expectations of a BOE rate cut to negative levels. However, yields started to edge up across maturities in Q3 as global risk sentiment improved. In Q1 2021, gilt yields rose sharply on the back of economic optimism in the light of several vaccine discoveries, further fuelled by the new US stimulus package. According to FTSE All-Stocks indices, UK fixed-interest gilts fell by 5.5%, whilst index-linked gilts returned 2.3% over the last twelve months.

Credit markets benefited from risk-on investor sentiment over the year, with credit spreads continuing to contract to ever tighter levels. UK investment-grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index, ended the period 111bps lower at 106bps.

UK commercial property returned 2.6% over the period as the income return of 5.6% offset the 2.9% fall in capital values. Virus pressure on the already struggling retail sector meant it returned -5.8% over the year. The office sector returned -0.8% over the year, whilst industrials outperformed with a return of 13.9%.



Investment Policy and Performance

Asset Allocation

The Investment Strategy Statement (ISS) in Appendix 5 sets out how the Fund will invest its assets with the aim of continuing to meet its liabilities as required by the Funding Strategy Statement (Appendix 4). The ISS also sets out the target strategic asset allocation for the Fund. This allocation is consistent with the Committee's view on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

The table below shows the target strategic asset allocation for the Fund and the actual allocations at the beginning and end of the financial year:

	Allocation at 31.3.20 %	Allocation at 31.3.21 %	Target Allocation 2020/21 %
UK Equities	0	0.0	0
Global Equities	44.8	40.8	30
Total Equities	**44.8**	**40.8**	**30**
Government Bonds	12.6	15.3	15
Global Bonds (incl Corporates)	10.7	14.3	15
Total Bonds	**23.3**	**29.6**	**30**
Property	11.6	11.0	15
Private Equity	7.3	7.2	7
Infrastructure	2.8	2.8	8
Diversified Growth Fund	10.0	0.0	0
Total Alternatives	**31.7**	**20.7**	**30**
Cash	0.2	8.6	10
Total	**100**	**100**	**100**

During the year the Committee agreed to invest in the LCIV Inflation Plus Fund (managed by Aviva). This fund launched in June 2020 and will contain assets, such as long lease property and property debt, which the Fund is seeking to invest in to increase its property allocation.

As part of its revised Investment Strategy the Committee agreed to allocate a 10% holding to a combination of private credit and renewables, as a result the committee agreed to invest in M&G illiquid credit and LCIV Renewable Infrastructure. The investment in M&G took place in April 2021.

The value of the Fund's investment assets grew after a decline at the end of the previous year following the pandemic declaration in March 2020.This resulted in an increase in the value of the fund of £156m. The table below shows the breakdown of investment assets at the beginning and end of the financial year:

	Value at 31.3.20 £'000	Value at 31.3.21 £'000	Movement £'000
UK Equities	150	150	0
Global Equities	379,866	408,991	29,125
Total Equities	**380,016**	**409,141**	**29,125**
Government Bonds	107,065	153,822	46,757
Global Bonds (incl Corporates)	90,486	143,152	52,666
Total Bonds	**197,551**	**296,974**	**99,423**
Property	98,309	109,926	11,617
Private Equity	62,257	72,671	10,414
Infrastructure	23,105	28,220	5,115
Diversified Growth Fund	84,329	0	-84,329
Total Alternatives	**268,000**	**207,140**	**-60,860**
Cash & Cash Equivalents	2,168	86,040	83,872
Total	**847,735**	**1,002,972**	**155,237**

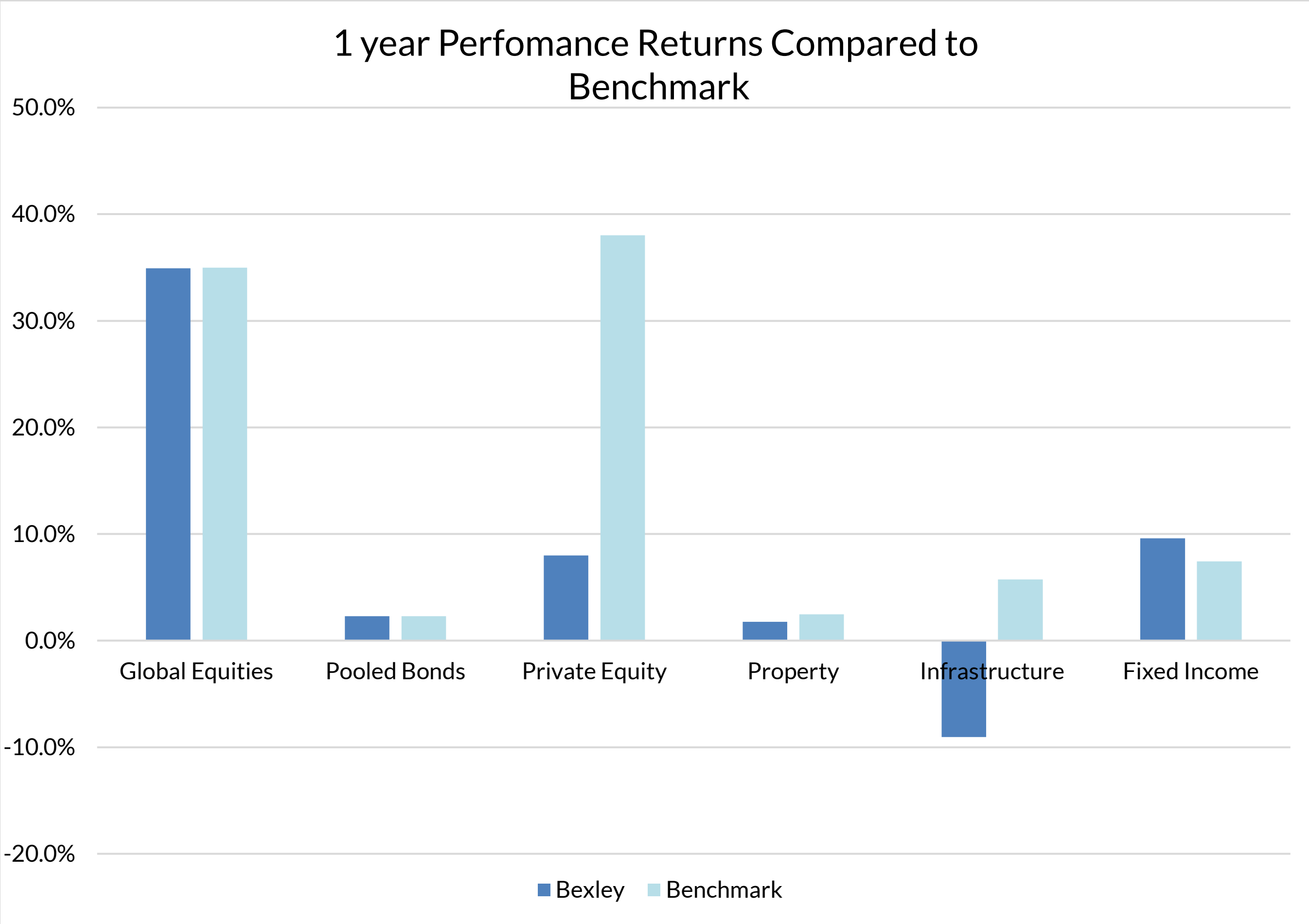
Investment Performance

The table below shows the Fund's investment managers and their mandates:

Mandate	Investment Manager
Property	LaSalle LCIV Inflation Plus
Index Linked Bonds	Blackrock
Index Linked Global Equities	Blackrock
Private Equity	Partners Group
Infrastructure	UBS LCIV Infrastructure Fund managed by Stepstone
Global Equities	LCIV Income Equity Fund managed by Epoch
Global Equities	LCIV Global Equity Fund managed by Newton
Global Bonds	LCIV Global Bond Fund managed by Pimco

Northern Trust are the Fund's custodian. They ensure the safe keeping of the Fund's assets and also submit claims for any reclaimable tax incurred by the Fund on its investment income.

The graph below shows the performance of the fund over 2020/21 compared to the benchmark returns:



The benchmark total return reflects what would be achieved by the market indices invested in the asset allocation recommended by the asset liability study. The relative return is the difference between the benchmark return and the actual return achieved but the Fund. All investments are seen through a long-term lens and should not be judged on the returns in any one year.

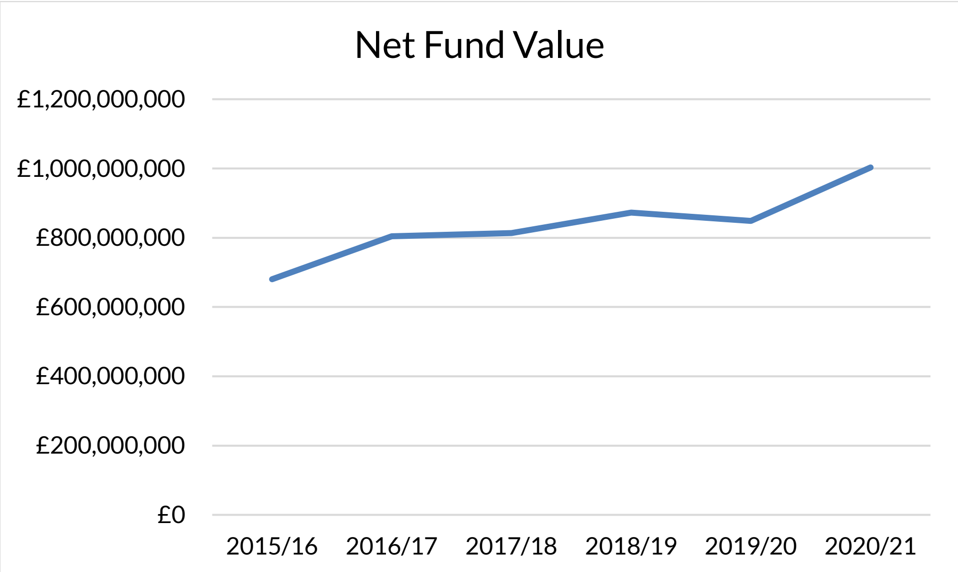
The tables below show the performance of the Fund and its current investment managers over the 1, 3 and 5 year periods. The Fund underperformed the benchmark over all three periods, however it achieved positive returns for all three periods:

Whole Fund	1 year %	3 years %	5 years %
Fund Return	17.5	8.1	9.5
Benchmark Return	19.8	8.4	10.1
Relative Return	-2.3	-0.3	-0.6

	Relative Returns		
Manager/mandate	**1 year**	**3 year**	**5 year**
Newton (LCIV Global Equity Fund)	-1.6	2.3	n/a*
Epoch (LCIV Income Equity Fund)	-11.9	-4.7	n/a*
Pimco (LCIV Global Bond Fund)	2.1	n/a*	n/a*
UBS (Infrastructure)	-14.8	-4.6	-3.5
Partners Group (Private Equity)	-30.0	-4	1.6
La Salle (Property)	-0.7	-0.4	0.0
Blackrock (Government Bonds)	0.0	0.0	n/a*
Blackrock Composite Portfolio	0.1	n/a*	n/a*
LCIV Infrastructure Fund	n/a*	n/a*	n/a*

*portfolio not held in period therefore data not available

The graph below shows the value of the Fund over the last five years.



The table below compares the performance of the Fund against other local authority pension Funds over time. The Fund has performed as well as the average local authority pension fund between 1 and 20 year and has only remained in the top 10 over the 30 year time frame.

Time Period	1yr	3yrs	5yrs	10 yrs	20 yrs	30 yrs
Average Fund	22.8	7.6	9.5	8.3	6.9	8.4
Bexley	17.5	8.1	9.5	8.1	6.4	8.7
Ranking	87	43	44	19	11	6

Responsible Investment and Voting Activity

The Fund's policies on responsible investment are set out in section 11 of the Fund's ISS. This document also sets out how the Fund demonstrates its compliance with the Investment Governance Principles. In the year the Fund became a member of the Local Authority Pension Fund Forum. The Fund expects its investment managers to exercise their voting rights and actively engage with the companies in which they invest in accordance with the principles set out in the ISS. The table below summarises the votes cast by investment managers on behalf of the Fund in 2020/21.

Investment Manager	Portfolio	Number of meetings voted at	Number of resolutions voted on	Votes in line with company management (For)	Votes not in line with company management (against)	Abstained or Withhold
Newton	LCIV Global Equity Fund	72	1048	870 (83%)	168 (16%)	10 (1%)
Epoch	LCIV Income Equity Fund	95	1466	1380 (94%)	73 (5%)	13 (1%)

The Committee's sovereign responsibility to the members of the Fund and Council Tax payers is to maximise financial returns within a prudent pattern of risk. The Fund expects its investment managers to engage actively with the companies in which they invest with a view to encouraging them to adopt good practice and procedures in respect of social, economic, governance and environmental matters which:

- meet all legal requirements
- reflect good practice and provide sustainable competitive advantage; and
- protect the company and its shareholders from harmful publicity.

As at 31 March 2021 54% of the Fund's assets was invested in funds accessed via the LCIV.

The LCIV have a responsible investment policy in which they detail their commitment to consideration of environmental, social and governance issues in their investment strategies and decision making. Their policy focuses on engagement and accountability as they believe that their voice for responsible ownership is strongest when they own an asset. They require all their investment managers to have a responsible investment policy and will hold them to account if this policy isn't adhered to. The pool also requires investment managers to vote in accordance with the Local Authority Pension Fund Forum guidance and in an exceptional case where they haven't done so to explain their reasoning for this.

LCIV encourages investment managers to sign up the UK Stewardship Code and the UNPRI where appropriate.

Asset Pooling

The Government has issued guidance as to how it expected LGPS funds to establish asset pooling arrangements. The objective of asset pooling is to deliver:

- benefits of scale
- strong government and decision making
- reduced costs and excellent value for money, and
- an improved capacity and capability to invest in infrastructure

The responsibility for determining asset allocations and the investment strategy remains with individual pension funds. The Fund is a member of the LCIV asset pool. As such it is a shareholder of LCIV along with all other London Boroughs. The Chair of the Committee is the nominated shareholder representative and attends general meetings and votes at them on behalf of the Fund. At 31st March 2021 the Fund held investments in five pooled funds through LCIV. The performance of these investments can be found on page 16. The market value of these holdings can be found in note 12 of the accounts in Appendix 3.

The table below shows the management fees paid in relation to LCIV and non LCIV investments in 2020/21:

	LCIV Asset Pool			Non-Asset Pool			Fund Total £'000
	Direct * £'000	Indirect ** £'000	Total £'000	Direct * £'000	Indirect ** £'000	Total £'000	
Management Fees	0	1,485	**1,485**	325	2,524	**2,849**	**4,334**
Transaction Fees***	0	33	**33**				**33**
Total	**0**	**1,518**	**1,518**	**325**	**2,524**	**3,831**	**4,367**

* Fees which are paid by invoice
**Fees which are deducted from fund assets and underlying transaction fees
*** Underlying transaction fees for non-pooled investments are unavailable

The table below shows the LCIV set up costs incurred by the Fund since inception along with the estimated savings achieved to date:

Financial Year	Development Funding Charge £'000	Annual Service Charge £'000	Total Set Up Costs £'000	Estimated Savings £'000	Net Savings Realised £'000
2020/21	85	25	110	-801	-691
2019/20	65	25	90	-651	-561
2018/19	65	25	90	-523	-433
2017/18	75	25	100	-95	5
2016/17	0	25	25	0	25
2015/16	50	25	75	0	75
Total to Date	**340**	**150**	**490**	**-2,070**	**-1,580**

Scheme Administration

The London Borough of Bexley is the administering body for the Fund on behalf of its own employees and for scheduled and admitted bodies. In practice Bexley has contracted with the Local Pensions Partnership Administration (LPPA) for them to carry out the day to day administration of pension records, calculate benefits, provide a website and produce other documentation. Pension payments are made by LPPA. The Fund does not include teachers, fire-fighters and police officers who have separate pension arrangements.

The Fund's website at https://www.lppapensions.co.uk/ is maintained by LPPA under their contract with the Council. This website provides full details and information for employees, pensioners and employers. It also offers an online pensions calculator and online forms for members and employers to use.

The contract with LPPA is carefully monitored to ensure that the services provided are to the expected standards. Monthly and quarterly service meetings are held at which reports on service transactions are reviewed and customer service surveys considered. The LPPA uses the local government pensions software, Altair, produced by Heywood Ltd. The LPPA allocate a total of 3 full time equivalent staff to the Bexley contract, but these come from a wide range of expertise that would not be available locally.

The Fund and the LPPA operate to a customer charter which is displayed on the website. If complaints cannot be settled by correspondence, there is an Internal Disputes Resolution Procedure. The full procedure is on the website, but essentially it is a two-stage complaint process. Written complaints are first considered by a person nominated by the organisation that took the decision. If this does not solve the problem a second stage review can be carried out by a person not involved in the first stage decision. Should this again not satisfy the complainant then the case can be taken to the Pensions Ombudsman. In 2020/21 2 complaints were referred to the Internal Disputes Resolution Procedure.

The Scheme is a registered public service scheme under section 1 (1) of schedule 36 of the Finance Act 2004, and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold.

Scheme details

The LGPS provides significant benefits to members, their spouses/partners and eligible children. It compares favourably with many private pension schemes. Most benefits are prescribed by the Local Government Pension Scheme (LGPS) Regulations 2013.

Contributions

Scheme members pay contributions to the Scheme and the employer pays the balance of the cost of providing benefits after taking into account investment returns. Every three years, an independent actuary calculates how much the employer should contribute to the Scheme. The amount will vary, but generally the present underlying assumption is that employees contribute approximately one third of the Scheme's costs and the employer contributes the rest.

The employee contribution rates are tiered over actual annual pensionable pay and range between 5.5% and 12.5% of gross pay.

Annual Pension

The current Scheme is a Career Average Revalued Earnings (CARE) Scheme, and is made up of two sections, the main section and the 50/50 section. Every year, active members build up a pension at a rate of 1/49th of the amount of pensionable pay received in that scheme year if they are in the main section of the scheme (or half this rate of build up for any period they have elected to be in the 50/50 section of the scheme). The amount of pension built up during the scheme year is then added to the member’s pension account and revalued at the end of each scheme year so that their pension keeps up with the cost of living.

Let's look at the build-up in a member's pension account for 3 years in the scheme. Assume that the member joins the scheme on 1 April 2014, that their pensionable pay is £24,500 in scheme year 1 and their pensionable pay increases by 1% each year. Let’s also assume that the cost of living (revaluation) adjustment for the scheme year ending on 31 March 2016 is 1.2%, and that it increases at 2% after that.

Scheme Year	Opening Balance	Pension Build-up in Scheme Year Pay/Build-up rate = Pension	Total Account 31 March	Cost of Living Revaluation Adjustment	Updated Total Account
1 2014/15	£0.00	£24,500/ 49 = £500	£500.00	1.2% = £6	£500 + £6 = £506
2 2015/16	£506	£24,745/ 49 = £505	£1,011.00	2% = £20.22	£1,011.00 + £20.22 = £1,031.22
3 2016/17	£1,031.22	£24,992.45/ 49 = £510.05	£1,541.27	2% = £30.82	£1,541.27 + £30.82 = £1,572.09

If a member joined the LGPS before 1 April 2014, their benefits for membership before 1 April 2014 were built up in the final salary scheme and are calculated differently.

For membership built up to 31 March 2008, members receive a pension of 1/80th of their final pay plus an automatic tax-free lump sum of 3 times their pension.

For membership built up from 1 April 2008 to 31 March 2014, members receive a pension of 1/60th of their final pay. There is no automatic lump sum for membership built up after March 2008, but there is an option to exchange some pension for a tax-free lump sum.

Lump Sum

Members can take a tax-free lump sum of up to 25% of the capital value of their LGPS benefits by giving up some of their annual pension. For every £1 of annual pension given up £12 in lump sum will be received. In the same way, giving up £100 of annual pension would give a £1,200 lump sum, and so on.

Ill Health

If a member of the scheme has to leave work due to illness, they may be able to receive immediate payment of their benefits. There are three levels of benefit based on the likelihood of being capable of gainful employment after they have left.

To qualify for ill health benefits a member has to have met the 2 years vesting period in the scheme and their employer, having obtained an opinion from an independent occupational health physician appointed by them, must be satisfied that they will be permanently unable to do their own job and that they are not immediately capable of undertaking gainful employment.

Ill health benefits can be paid at any age and are not reduced on account of early payment.

Retirement and Redundancy

If a member of the scheme is 55 or over, their main benefits are payable immediately without any early retirement reductions if their employer makes them redundant or they are retired on the grounds of business efficiency and have met the 2 years vesting period in the scheme. However, any additional pension paid for by Additional Pension Contributions would be paid at a reduced rate if the retirement occurred before Normal Pension Age (to take account of the additional pension being paid for longer).

Normal pension age for the new scheme pension is not fixed at 65 as in the old scheme, it is the same as the state pension age – with 65 as the earliest age. As the state pension age increases, so will the LGPS pension age.

Pension benefits will be reduced if a member chooses to retire before their normal pension age and increased if they retire later.

Family Cover

If a member of the scheme dies in service a lump sum death grant of three times the assumed pensionable pay at the date of death is paid, no matter how long they have been a member of the LGPS, provided they are under age 75 at the date of death.

A lump sum death grant will also be paid if a member dies and less than 10 years pension has been paid and they are under age 75 at the date of death.

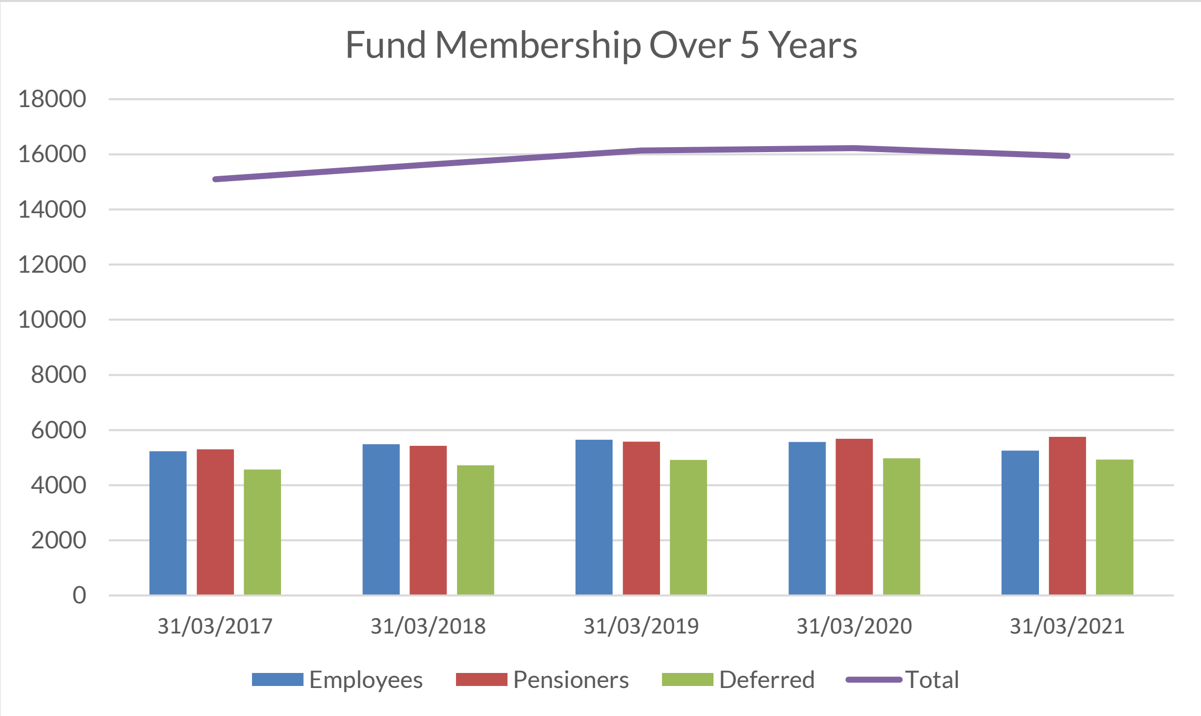
An ongoing pension is provided for spouses, registered civil partners or eligible cohabiting partners. This pension is payable immediately after the member's death for the rest of their life and will increase every year in line with the cost of living.

Scheme Membership

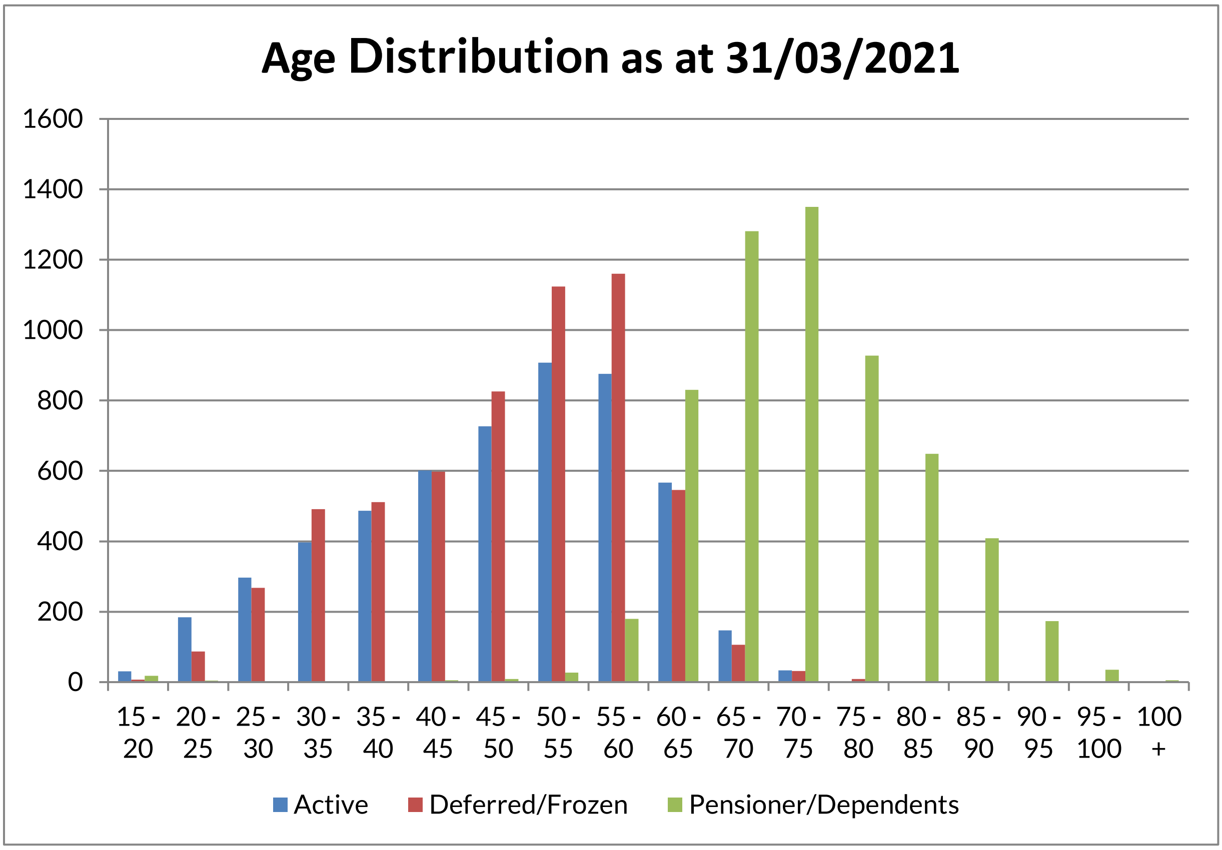
The membership of the Fund as at 31st March 2021 was as follows:

Membership Type	Number of Members
Employees	5,253
Pensioners	5,757
Deferred Pensions	4,931
Undecided Leavers	839
Total Membership	**16,780**

Membership numbers decreased by 302 over the course of the year. The graph below shows the membership of the Fund over the last five years:



The graph below shows the age distribution of the membership as at 31st March 2021:



The table below shows the number of new pensioners during each of the last three years where an element of additional cost was incurred by the Pension Fund:

	31 March 2019	31 March 2020	31 March 2021
Redundancy	7	5	14
Efficiency	0	0	0
Ill Health	3	6	6
Compassionate	0	0	0
Total	**10**	**11**	**20**

Fund Employers

Along with Bexley Council there are also other employers who have members within the Bexley Pension Fund. These are either organisations who have been contracted by Bexley Council to provide a service on the Council's behalf or schools with academy status. These organisations are classified under the LGPS regulations as either admitted bodies or scheduled bodies. A list of employers in the Bexley fund along with their classification can be found in Appendix 1.

The below table provides a summary of employers in the Fund as at 31st March 2021:

Type of Employer	Number of employers with active members	Number of employers with no active members but with outstanding liabilities	Total
Scheduled Body	58	0	58
Admitted Body	14	3	17
Total	**72**	**3**	**75**

Scheme Workload

This membership generates a considerable workload for the fund administrators (LPPA). A breakdown of the cases completed in the year and the percentage completed on time are shown in the table below:

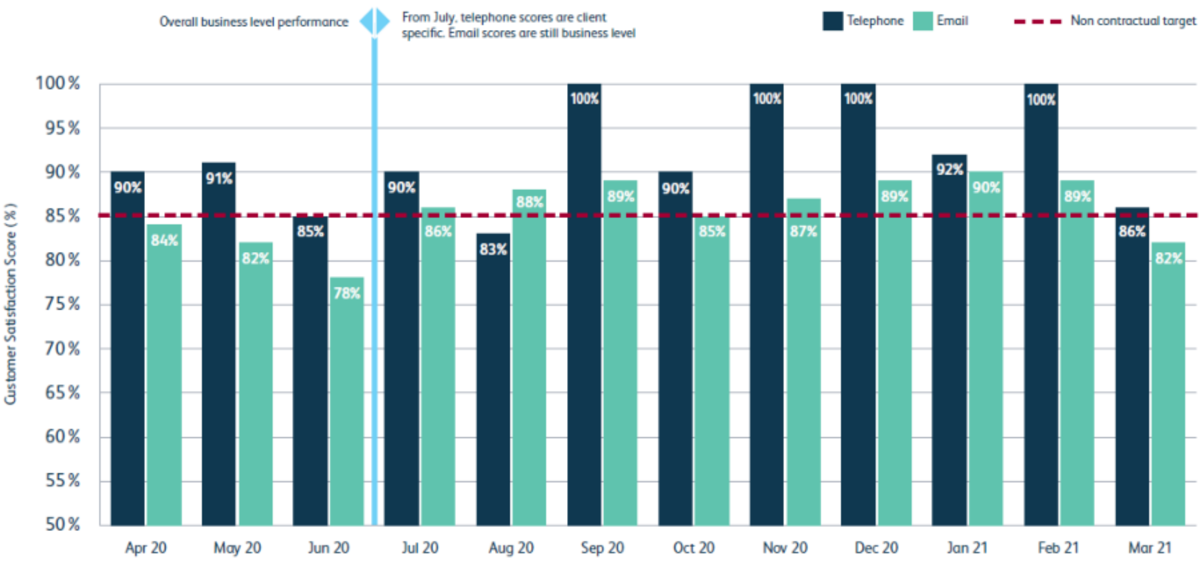
Case Type	SLA Target (Working Days)	Total Cases Processed	Percentage Completed within SLA
New Starters	3	1,046	100%
Transfer In	5	228	100%
Transfer Out	5	333	98.5%
Estimate – Individual	3	309	95.1%
Deferred Benefits	10	557	100%
Deaths	3	445	99.8%
Retirements (Immediate)	5	211	100%
Retirements (Deferred)	5	291	100%
Refunds	5	423	99.5%
Estimates – Employer	3	293	100%
Correspondence	5	537	98.1%
Aggregation	30	485	100%
Other	Various	1196	99.6%

The category of 'Other' covers cases including, but not limited to:

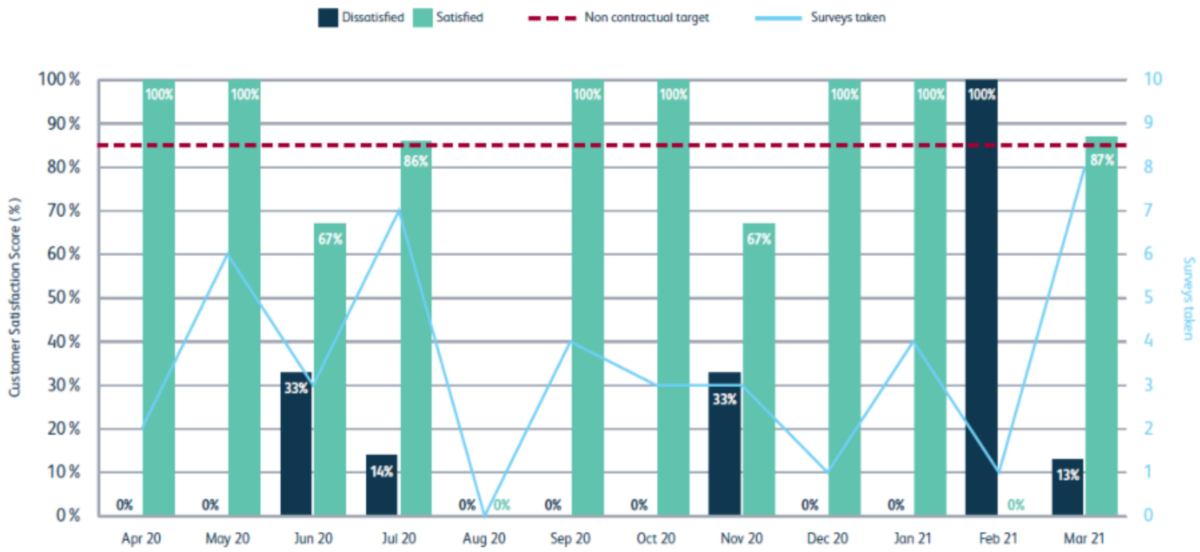
- Benefit Revisions
- Maternity/Paternity Cases
- Ill Health Cases
- Scheme Opt-Out Cases
- My Pension Online Registration queries
- P60 queries
- 50/50 Scheme changes
- APC / AVC queries

LPPA also undertake satisfaction surveys relating to the Pensions Helpdesk and Retirement experience.

Helpdesk Satisfaction



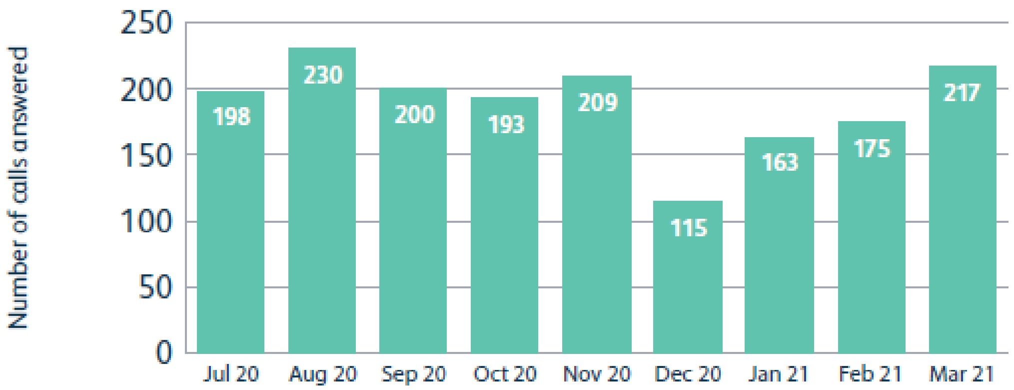
Retirement Satisfaction



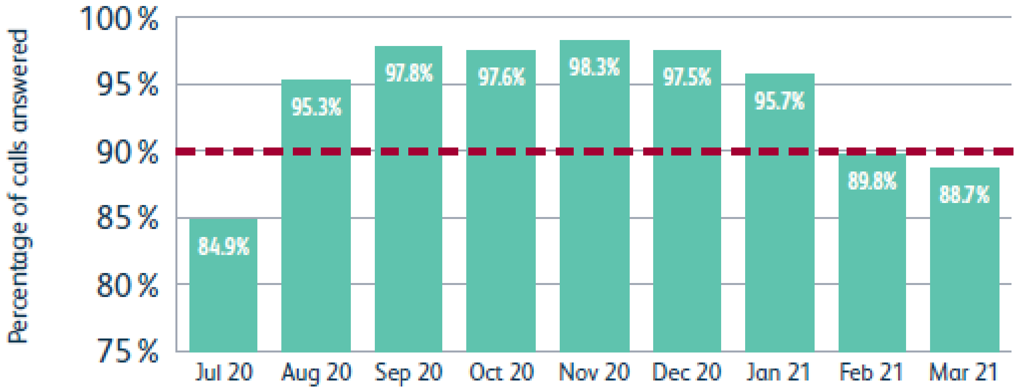
Pensions Helpdesk Performance

Performance across the Pensions Helpdesk is summarised below. The Helpdesk deals with all call and e-mail enquiries from both members and employers that LPPA provide administration services for. The call data could not be collected between April and June due to the change in the way LPPA had to work during lockdown. LPPA implemented remote working and maintained an operational contact team but lost the management information temporarily.

Call Volumes



Calls Answered



A complaints log is also maintained which indicates how matters have been resolved and whether any lessons can be learned from them. In 2020/21 there were 20 complaints compared with 16 in 2019/20.

Satisfaction surveys and complaints are reported to Bexley and are discussed in service meetings with the Fund.

Scheme Administration Value for Money

Bexley and LPPA seek to operate in the most efficient manner possible. The MHCLG publish the Government's SF3 statistics covering aspects of pension fund administration. In the latest available statistics, those for 2019/20, the administrative costs per member in Bexley were £31.38 compared to the average of £42.55 across the London Boroughs. Therefore, the Fund is achieving greater value for money from its administration function than its peers.

Communications Policy

The Fund's principal method of communicating with and providing information to members and The Fund's employers is the website at www.lppapensions.co.uk.

In addition, employers are receiving a quarterly newsletter updating them on new developments and administrative requirements for the scheme. Members are able to access information about their benefits and update their personal details via the website. Pensioners receive a personalised letter each April notifying them of their pension for the year ahead and their P60 form for the previous year.

The full Communications Policy can be found in Appendix 6.

Governance

The Fund's governance policy can be found in the Governance Compliance Statement in Appendix 2.

The members of the Pensions Committee and the observer representatives during the year are given below, together with their attendance at Committee Meetings during the year.

Pensions Committee Member		**Attendance**
Councillor Caroline Newton	Chairman	4/4
Councillor Steven Hall	Vice Chairman	4/4
Councillor Esther Amaning		2/4
Councillor Richard Diment		4/4
Councillor Andy Dourmoush		4/4
Councillor Joe Ferreira		4/4
Councillor Howard Jackson		4/4
Councillor Nick O'Hare		4/4
Councillor Adam Wildman		4/4
Observers		
Vacant	Employee Representative	n/a
Julia Peacock	Pensioners' Representative	4/4
Vacant	Admitted Bodies' Representative	n/a
Geoff Smithson	Chair of Local Pensions Board	2/4

The elected Members effectively act as trustees of the Pension Fund. They are subject, as are all Members of the Council of the London Borough of Bexley, to the Members' Code of Conduct. This document is published on the Council's website, http://www.bexley.gov.uk. Each Member is required to have regard to the seven principles of public life:- selflessness, integrity, objectivity, accountability, openness, honesty and leadership. Further details of these and general obligations are set out in the Code. It also sets out how any conflicts of interest are to be dealt with and requires all Members to register their interests within 28 days of election to office. Furthermore, each Member must declare any relevant - interests before the start of each Committee meeting and any such declarations are included in the meeting minutes.

Keywork undertaken by the Committee during the year included:

- Monitoring the performance of the investment managers and providing challenge where performance was disappointing
- Scrutinising the budget monitoring and cashflow position of the Fund
- Considered the external auditors report on the 2018/19 accounts which gave an unqualified opinion.
- Agreed to join the Local Authority Pension Fund Forum (LAPFF) which is a leading collaborative shareholder engagement group representing Local Authority Pension Funds.

- Following consideration of different options to access income generating property and additional infrastructure assets the Committee agreed to invest in the new London CIV Inflation Plus and Infrastructure Funds.
- Agreed the assumptions used in the triennial valuation.
- Revised the Funding Strategy Statement and Investment Strategy following the 2019 triennial valuation.

The Committee did not consider any applications to waive reductions on compassionate grounds during the year. This is one of the discretions allowed under the LGPS and delegated to the Committee.

All the Committee reports and meeting minutes are published on the Council's website (www.bexley.gov.uk).

Knowledge and Skills

The members of the Committee are keen to ensure that they and the Council's officers who support them make decisions about the Fund do so to the best of their ability. They have, therefore, agreed a policy on knowledge and skills: -

Knowledge and Skills Policy Statement

As an administering authority of the Local Government Pension Scheme, the London Borough of Bexley recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. We seek to appoint individuals who are both capable and experienced and we will provide/arrange training for staff and members of the Pensions Committee to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

The Committee has agreed that:

- The continual enhancement of knowledge about matters relating to their role on the pensions committee is fully accepted by Members.
- It will be up to each member to determine the gaps in their knowledge and the sources they wish to use in developing their skills.
- The following sources of training are considered relevant:
    - Attendance at committee meetings
    - Attendance at briefing meetings with officers and fund managers
    - Attendance at relevant external conferences
    - Relevant reading material i.e. reports from advisors, fund managers and other sources, pension and financial related magazines and conference delegate packs obtained by fellow Members or officers
    - Online presentations and resources.
- Officers will be responsible for keeping a record of attendance at meetings and conferences. Members should keep them advised as to time spent on other activities.
- Officers will continue to inform members as to relevant meetings and events and of other relevant material

Our training plan sets out how we intend the necessary pension finance knowledge and skills are to be acquired, maintained and developed. The plan confirms that training would mainly take two forms,

- Presentations by investment consultants and investment managers
- Attendance at conferences

The Pensions Committee has designated the Director of Finance and Corporate Services to be responsible for ensuring that policies and strategies are implemented.

Training undertaken during the year

Briefing sessions for Committee and Board Members have been conducted on:

- Environmental, Social and Governance Issues
- Investment Strategy Reviews
- Illiquid Credit
- renewables

Some Committee Members also attended seminars run by external organisations such as CIPFA and LCIV.

Reports from managers and development issues are regularly circulated to committee members.

Officers have also attended briefings and seminars provided by various investment managers and participated in CIPFA and other officer networking groups.

As the officer nominated by the Pensions Committee responsible for ensuring that the authority's training policies and strategies are implemented, the Director of Finance and Corporate Services can confirm that the officers and members charged with the financial management of and decision making for the pension scheme collectively possessed the requisite knowledge and skills necessary to discharge those duties and make the decisions required during the reporting period.

Pensions Board for Bexley - Annual Report 2020/21

1. Introduction

The Pensions Board for Bexley was set up with two core functions:

(a) to assist the Administering Authority in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme
(b) to ensure the effective and efficient governance and administration of the Scheme

During 2020/21 the Pension Board held two meetings and the Board considered matters in line with its business plam.

2. Matters considered by the Pensions Board during 2020/21

(a) Appraisal of Pensions Committee Reports

The Board considered the reports and decisions of the Pensions Committee as part of its governance role. The board was satisfied that the Pensions Committee had followed due process and raised no concerns in respect of the decisions it had made.

(b) Knowledge and Understanding Framework

The Board continued to develop its knowledge and understanding of the Local Government Pension Scheme (LGPS). Members of the Pensions Board have attended meetings of the Pensions Committee and have also attended the training sessions provided before each Committee meeting. There were also some LPGS Local Pensions Board seminars hosted by CIPFA and Barnett Waddingham during the year which were attended by members of the Board.

The Board reviewed the attendance at training opportunities by members of the Committee to satisfy themselves that the Committee had the requisite knowledge and skills to perform their role.

(c) Fund Communications

The Board reviewed the Fund's Communication Policy. No changes had been made to either the principles or method of communication since the last review and the board was satisfied that it continues to meet the requirements as set out in the LGPS regulations.

The board was informed that Local Pensions Partnership were putting in place a new engagement and communications team and launching a new pensions website adding improved channels for communication.

(d) Risk Register

The Board reviewed the Fund's risk register. There were no changes to the risk probability or impact scores since the last review. The risk to operations from the pandemic and the resulting controls in place were kept under review during the year. Officers and third-party providers transitioned to working from home during this time with no detriment to the service.

(e) Annual Benefit Statements

The Board considered an update on the issuing of Annual Benefit Statements 2020. 99.94% of statements were issued by 31st August 2020 in line with the statutory deadline. There were three cases where an active member was due an annual benefit statement, but missing member data meant one could not be issued. A case was set up on the admin system for each record to obtain the required information and issue the statements.

(f) Administration Update

The board received reports on the performance of LPP who provide the pensions administration function of behalf of the London Borough of Bexley. The reports were provided in a new format. For the second and third quarters of the Financial year the LPP exceeded its service level agreement targets. Customer surveys showed that on the whole members were satisfied with the service they received from LPP, however satisfaction levels in respect of retirement responses were not always as high as expected. The Board were informed that LPP launched their new website in the second half of the year and put a new engagement and communications team in place.

(g) Business Plan 2020/2021

The board agreed its business plan for 2021/22 which includes continuing to review Pension's Committee reports and decisions and the Fund's risk register and communications policy. The board will continue to develop their knowledge and skills through attending training sessions and attending Pension's Committee meetings.

Actuarial Position

Every three years the Fund undergoes an actuarial valuation to assess the value of the fund's assets and liabilities and sets out the employer contribution rates required to fund the liabilities going forward. The most recent valuation was carried out as at 31 March 2019 by the Fund's actuary. The full report can be found on the Fund's website:
http://www.yourpension.org.uk/Bexley/Investments/Actuarial-Valuation.aspx

The key conclusions from the valuation are:

- The Fund showed a surplus of £11m at the valuation date based on the assumptions made for calculating its funding target. This measure compares the Fund's assets with the value of the past service benefits at 31 March 2019. It represents a funding level of 101% relative to the Fund's funding target.
- Based on the assumptions made for assessing the cost of future accrual, the Primary Contribution Rate (i.e. the average employer contribution rate in respect of future service only) was 18.5% of Pensionable Pay.
- If the actuarial assumptions were to be based purely on the returns available on conventional and index-linked gilts (a so-called "least risk" basis) the deficiency would have increased to approximately £1,294m and the funding level would have reduced to 67%.
- The deficit is recovered through additional employer contributions over an average of a 10 year period. The deficits are set at absolute sums rather than percentages of pensionable pay to protect the Fund from any shrinking of active membership.

- The required overall average contribution rate (employers and employees) is 25.0% of Pensionable Pay subject to any transitional phasing arrangements in accordance with the FSS. Contributions for each separate employer will be levied generally as a combination of a percentage of payroll in respect of future accrual of benefits and £s amounts in respect of deficit contributions under the recovery plan. These contributions will commence from 1 April 2020.
- The recommended employer contributions for the period 1 April 2020 to 31 March 2023 are set out in the valuation report. Employee contributions are payable in addition to the employer contributions. These contributions are adequate to meet the funding objective based on the actuarial assumptions detailed in this report. No additional contributions are required from employers to meet scheme expenses since allowance for these are included in the recommended contributions.
- No allowance for non-ill health early retirements has been made in determining the results of the valuation, on the basis that the costs arising will be met by additional contributions. Allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the valuation report.

The next valuation will be carried out in 2022 with any resulting changes to employer contribution rates taking effect from 1st April 2023.

Appendix 1

Contributions due to the Scheme in 2020/21

	Employee Contributions £'000	Employer Contributions £'000	Total Contributions £'000
Administering Authority			
London Borough of Bexley	3,409	6,894	10,303
Administering Authority Total	**3,409**	**6,894**	**10,303**
Admitted Bodies			
Rose Bruford College	109	302	411
London & Quadrant	2	0	2
Danson Youth Trust	5	2	7
Kent Community Housing Trust	7	0	0
Choice Support (formally MCCH Society Ltd)*	0	348	348
Inspire Community Trust	23	10	33
Serco	149	427	576
Capita Business Services	1	0	1
Humankind (formally Blenheim CDP)	1	2	3
Amey	7	11	18
Tivoli (formally ISS)	13	47	61
Early Years Alliance (formally PSLA)	2	8	10
London Hire	3	3	6
Northgate	3	16	19
MyTime Active	0	1	1
Lewis & Graves	8	40	48
Class Technology	1	4	5
Bexley Co	24	46	70
Admitted Bodies Total	**360**	**1,267**	**1,627**
Scheduled Bodies			
Harris Academy Falconwood	56	199	255
Erith School	99	462	561
BETHS Academy	69	281	350
Bexley Grammar School	62	296	358
Welling School	82	317	399
Trinity School	91	318	409
East Wickham Primary Academy	47	200	247
The Woodland Academy Trust	123	385	508
Bexleyheath School	42	147	189
Chislehurst & Sidcup Grammar School	39	184	223
Hurstmere School	47	192	239
St Catherine's Catholic School	59	203	262

	Employee Contributions £'000	Employer Contributions £'000	Total Contributions £'000
Townley Grammar	80	345	425
Blackfen Academy	61	254	315
Cleeve Park School	70	230	300
St Columba's School	59	246	305
Belvedere Junior School	22	87	109
Pelham Primary	32	178	210
Christ Church School	31	120	151
St Augustine of Canterbury	16	68	84
Hope Community School	11	41	52
Hurst Primary School	33	142	175
Barnehurst Infants School	11	54	65
Barnehurst Junior School	55	175	230
Bursted Wood Schools	24	126	150
Sherwood Park Primary School	25	116	141
Days Lane Primary	33	146	179
Brampton Primary Academy	25	114	139
Mayplace Primary Academy	31	149	180
Normandy Primary School	30	193	223
New Generation Schools Trust	2	14	16
Lessness Heath Primary Academy	33	144	177
Burnt Oak Junior School	15	64	79
Holy Trinity Lamorbey C.E. Primary School	14	66	80
Hillsgrove Primary School	25	103	128
St Paulinus C.E. Primary School	12	47	59
Old Bexley C.E. Primary School	49	188	237
Eastcote Primary School	13	61	74
Unity Academy	47	346	393
Chatsworth School	13	61	74
Royal Park School	37	120	157
Pioneer Academy	22	57	79
The Ignis Academy Trust	79	309	388
St Pauls Academy	31	128	159
Northwood Academy	17	77	94
Shenstone Academy	97	392	489
St Michael's Academy	10	52	62
Harris Garrard Academy	75	241	316
Jubilee Primary Academy	19	89	108
New Horizons Academy	62	239	301
Westbrooke Academy	17	65	82
Oakwood Academy	30	88	118

	Employee Contributions £'000	Employer Contributions £'000	Total Contributions £'000
Belmont Academy	40	140	180
Woodside Academy	62	207	269
Castillion Academy	26	96	122
Cleeve Meadow	11	73	84
Hook Lane	28	81	109
Belvedere Infants	23	72	95
Scheduled Bodies Total	**2,375**	**9,592**	**11,967**
Grand Total	**6,144**	**17,753**	**23,897**

* no active members. Employer contributions relate to funding of past liabilities

**Contributions paid is termination payment. Employer has now exited the Fund

Appendix 2

London Borough of Bexley Pension Fund

Governance Compliance Statement

Background

Regulation 55 of the Local Government Pension Scheme (LGPS) Regulations 2013 requires administering authorities to prepare and maintain a written statement of governance policy on pension fund matters. The statement is required to indicate the extent to which it complies with guidance given by the Secretary of State and to provide reasons for not complying.

Governance is the leadership, direction and control of organisations to ensure they achieve their aims and objectives. In public service organisations particularly these processes need to be clear and open to scrutiny.

Delegation of Pension Fund Management and Administration

The Council has delegated its LGPS Pension Fund ("the Fund") management and administration functions to the Pensions Committee. The Local Pensions Board supports the Pensions Committee by ensuring compliance with regulations and help it take decisions in the best interests of the Fund.

Pensions Committee

The Pensions Committee is scheduled to meet four times a year. Further meetings or sub-committees are arranged as necessary to deal with specific issues.

Committee meetings are generally held in the evenings at the Civic Offices in Bexleyheath and are open to members of the public. All Committee members and observers have equal access to committee papers, documents and advice that falls to be considered at committee meetings.

Reports to the Pensions Committee are published on the Council's website.

Orders of Reference and Delegated Powers

The Orders of Reference for the Pensions Committee are:

- To oversee the management and investment of the Pension Fund.
- The appointment of Fund Managers and independent Fund Advisers and the review of their performance.
- Pension and retirement matters.

The Delegated Powers of the Pensions Committee are as follows:

- To agree the investment strategy having regard to the advice of the Fund's managers and the independent adviser.
- To determine the Fund management arrangements and appointment of Fund Managers and Fund Advisers.
- To agree to the admission of bodies into the Council's Pension Scheme.
- To agree discretionary payments in respect of pension and retirement matters.

- To agree actuarial valuations.

Committee Membership

The committee consists of nine Members, with its membership allocated broadly in proportion to party political representation on the full Council. The Committee also has four observer roles representing:

- Admitted and scheduled bodies
- Pensioners
- Employees
- The Pensions Board

These observers do not have voting rights.

Observers are given the opportunity to express their views on all issues considered by the Pensions Committee but voting rights have not been extended to them as the risk arising from the decisions taken falls on the employers' contributions to the Fund and the Members are accountable to the Council Taxpayers for the majority of this expenditure. In order to have voting rights eligible observers would need to be appointed/co-opted as members of the Committee.

Training sessions are made available to Members and observers to assist them in making informed investment decisions and to keep them informed on other matters concerning the LGPS. A training budget is specifically provided for members and observers on the Pensions Committee, and they are able to reclaim expenses incurred in undertaking training and attending seminars. A log is kept of all training undertaken and attendance is reported in the Fund's Annual Report.

At the start of meetings Committee Members are invited to declare any financial or pecuniary interest related to matters on the agenda.

Pensions Board for Bexley

The Pensions Board for Bexley has been established to assist the Pensions Committee in its work. It is scheduled to meet twice a year. Board meetings are generally held in office hours at the Civic Offices in Bexleyheath. All Board members have equal access to papers, documents and advice that fall to be considered at Board meetings. Board reports are published on the Council's website.

The Board has the following Orders of Reference: -

- To assist the Pensions Committee to secure compliance with the LGPS Regulations 2013 (as amended) and other legislation relating to the governance and administration of the LGPS.
- To assist the Pensions Committee to secure compliance with the requirements imposed by the Pensions Regulator in relation to the LGPS.
- To assist the Pensions Committee to ensure the effective and efficient governance and administration of the LGPS.

and Delegated Powers: -

- To do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions.
- To report any matters of non-compliance to the Audit Committee.

London Collective Investment Vehicle

In compliance with Government regulations regarding the pooling of LGPS assets, the Bexley Pension Fund is a shareholder and member of the London Collective Investment Vehicle (LCIV). The Pensions Committee decides which of the LCIV pooled funds they want to allocate assets to. LCIV make decisions on the appointment and removal of the investment managers that run their pooled funds.

The Chair of the Pensions Committee is the nominated shareholder representative for the Bexley Fund. LCIV has two general meetings during the year which the Chair attends and votes at on behalf of the Fund. The Vice Chair of the Committee is the nominated deputy shareholder representative.

A Shareholder Committee provides oversight of the LCIV Board. It is made up of 8 Councillors, 4 London Borough Treasurers, the LCIV Chair and a Trade Union Observer. If nominated the Chair of the Pensions Committee, in their role as the shareholder representative of the Bexley Fund, may sit on the Shareholder Committee.

Advice and Monitoring

The Pensions Committee is advised by the Director of Finance and Corporate Services, the Head of Legal Services, the Fund's investment consultant and the Fund's investment managers. The Director of Finance and Corporate Services is responsible for ensuring that the in-house team is providing adequate support to the Committee.

The investment managers and LCIV present to the Committee at regular intervals on the implementation of the investment policy. In between Committee meetings they report to the Director of Finance and Corporate Services on investment policy. The Pension Fund's performance is regularly assessed by the Fund's custodian. The Fund's procedures are subject to audit and scrutiny by both the Council's internal and external auditors.

Compliance with Secretary of State Guidance

The table below sets out Bexley Pension Fund's compliance with guidance given by the Secretary of State.

PRINCIPLE	COMPLIANCE
A. Structure	
a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	**Full Compliance** – Pensions Committee performs this role
b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	**Full Compliance** – There are admitted body, employee and pensioner observer roles on the Pensions Committee. There is no secondary committee.
c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	No secondary committee or panel has been established
d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	No secondary committee or panel has been established
B. Committee Membership and Representation	
a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis)	**Full Compliance** - There are admitted body, employee, pensioner and Local Pensions Board observer roles on the Pensions Committee. - The Fund has appointed investment advisors and a scheme actuary who provide expert advice to the Pensions Committee - The Pensions Committee has not appointed an independent professional observer as it is not felt necessary given the governance arrangements in place and the expert advisors appointed by the Committee.
C. Selection and Role of Lay Members	
a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	**Full Compliance** – Committee Orders of Reference & Delegated Powers are provided. Training is offered to Committee Members.
b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	**Full Compliance** – Declarations of interest are a standing item on the Committee agenda.
D. Voting	
a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	**Full Compliance** – voting rights are set out in the Governance Compliance statement
E. Training/Facility Time/Expenses	
a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision- making process.	**Full Compliance** – Knowledge and skills framework is set out in the Pension Fund annual report. Members allowances and expenses are set out in the Council's Member's Allowance Scheme.
b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	**Full Compliance**

c. That the administrating authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken	**Full Compliance** – The Committee agrees a business plan each year which includes training. Committee Services maintain a record of training undertaken by members.
F. Meetings (Frequency/Quorum)	
a. That an administering authority's main committee or committees meet at least quarterly	**Full Compliance** – The Pensions Committee meets at least 4 times a year on a quarterly basis
b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the committee sits.	No secondary committee or panel has been established.
c. That an administration authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which interests of key stakeholders can be represented.	**Full Compliance** – There are admitted bodies, employees, pensioner and Local Pension Board observer roles on the Pensions Committee. Representatives also sit on the Pensions Board
G. Access	
a. That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	**Full Compliance** – Committee papers are sent to members in advance of Committee meetings and non-confidential papers are published on the Council's website
H. Scope	
a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	**Full Compliance** – The orders of reference of the Pensions Committee include wider scheme issues such as discretionary payments and agreeing the admission of employers into the fund.
I. Publicity	
a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	**Full Compliance** – Governance arrangements are published on the Council's website and Committee and Board meetings are open to the public.

Appendix 3

2020/21 Pension Fund Accounts

Statement of Responsibilities for the Pension Fund Accounts

The Council is required to make arrangements for the proper administration of its pension fund affairs and to secure that one of its officers has the responsibility for the administration of those affairs. That officer in this Council is the Director of Finance and Corporate Services who has the Section 151 Officer's Responsibilities. Also, it is required to secure the economic, efficient and effective use of resources and safeguard its assets. The Council is also required to approve the Pension Fund Accounts.

The Director of Finance and Corporate Services is responsible for the preparation of the Pension Fund Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing the Pension Fund Accounts, the Director of Finance and Corporate Services has:-

(1) selected suitable accounting policies and applied them consistently,
(2) made judgements and estimates that were reasonable and prudent,
(3) complied with the Code of Practice.

Also, the Director of Finance and Corporate Services has:-

(1) kept proper accounting records which were up to date,
(2) taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Statement of the Director of Finance and Corporate Services

The required financial statements for the Pension Fund appear on pages 2 to 29 and have been prepared in accordance with the accounting policies set out on page 6.

The Pension Fund Accounts present a true and fair view of the financial position of the Pension Fund at the accounting date and its income and expenditure for the year ended 31 March 2021.

Paul Thorogood

Director of Finance and Corporate Services

17 December 2021

Pension Fund Account

2019/20 £'000		Note	2020/21 £'000
	Dealings with members, employers and others directly involved in the scheme		
(26,142)	Contributions	6	(23,897)
(3,886)	Transfers in from other pension funds	7	(5,743)
(30,028)	**Total contributions**		**(29,640)**
32,992	Benefits	8	33,383
2,959	Payments to and on account of leavers	9	5,483
35,951	**Total benefits**		**38,866**
5,923	**Sub-total: Net (additions) / withdrawals from dealings with members**		**9,226**
7,670	**Management expenses**	**10**	**5,376**
	Returns on investments		
(17,231)	Investment income	11	(12,903)
27,719	(Profit) and losses on disposal of investments and changes in value of investments	12a	(146,791)
10,448	**Net returns on investments**		**(159,694)**
24,081	**Net (increase) / decrease in the net assets available for benefits during the year**		**(145,092)**

Pension Fund Net Assets Statement

2019/20 £'000		Note	2020/21 £'000
831,463	Investment Assets	12	897,652
16,272	Cash Deposits	12	105,321
847,735	**Total Net Investments**		**1,002,973**
1,619	Current Assets	18	10,352
849,354			
-	Long Term Liabilities	19	(9,195)
(872)	Current Liabilities	19	(10,556)
848,482	**Net assets of the scheme available to fund benefits at the period end**		**993,574**

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the Fund. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme accounting year. The actuarial position of the scheme, which does take into account such obligations, is detailed in note 17 below.

Notes to the Financial Statements

1. Introduction to the Fund

The London Borough of Bexley Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS). It is administered by the London Borough of Bexley under the provisions of the Superannuation Act 1972 and the subsequent detailed regulations to provide benefits for employees. These benefits include retirement and spouses' and children's pensions, retirement and death lump sum grants. All employees who are not eligible to join another public service scheme are eligible for membership of this scheme. Employees of other scheduled and admitted bodies also participate in this scheme.

Further details may be found in the annual report of the Fund, and in the legislation governing the LGPS.

(a) General

The Fund is governed by the Public Service Pensions Act 2013. It is administered in accordance with the detailed regulations of:

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

It is a contributory defined benefit pension scheme and operates to provide pension benefits for employees of the London Borough of Bexley and its scheduled and admitted bodies. Teachers are not included as they come within another national pension scheme. The Fund is overseen by the Pensions Committee of the London Borough of Bexley and the Local Pensions Board. Day to day responsibility for the Fund is delegated to the Statutory Section 151 Officer.

(b) Membership

Membership of the LGPS is voluntary but employees are automatically enrolled when they are employed. After they start employment they have the right to opt out. They can also make their own personal arrangements outside the scheme.

Organisations participating in the Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

Numbers for employers and employees in the Fund are:

31 March 2020		31 March 2021
75	Number of employers with active members	75
	Number of employees in the Fund	
2,399	London Borough of Bexley	2,290
3,173	Other employers	2,963
5,572	**Total**	**5,253**
	Number of pensioners in the Fund	
4,912	London Borough of Bexley	4,891
770	Other employers	866
5,682	**Total**	**5,757**
	Number of deferred pensioners in the Fund	
3,729	London Borough of Bexley	3,610
1,241	Other employers	1,321
4,970	**Total**	**4,931**

(c) Funding

In 2020/21, the Fund was financed by contributions from employers and employees and by income from investments. Employees make a contribution to the Fund at a percentage of their pensionable earnings and emoluments; this ranges from 5.5% to 12.5% depending on the level of their earnings. The employers' contributions are in accordance with the advice of a professionally qualified actuary and have been set so that the Fund will be able to meet the cost of current and estimated future retirement benefits. The most recent valuation is in respect of 31 March 2019 and shows a funding level of 101% (2016 was 94%). This includes an estimate of the expected increase in liabilities following the McCloud court judgement. Further details on the McCloud court judgement can be found in Note 17. Whilst the Fund as a whole is fully funded the funding levels for individual employers in the fund varies with some being in a deficit position. The average deficit recovery period is ten years. Currently Employer contribution rates range from 15.3% to 32.1%. Further details on the funding position are contained in Note 17.

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is adjusted annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the LGPS website www.lgpsmember.org

2. Basis of Preparation

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code), which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on a going concern basis.

In carrying out its assessment that this basis is appropriate, made to 31 January 2023, management of the Pension Fund have considered the additional qualitative and quantitative key requirements:

- The basis for preparation is supported by legislation for local authorities, and the Code requirements on the basis of the continuation of services;
- All employers within the fund are paying contributions as per the rates and adjustment certificate. No employer has requested to defer their payments within the 2020/21 financial year, or within 2021/22 to date;
- The Pension Fund does not have any external borrowing; and

The Pension Fund has net assets of £1,002.972m which are assets that could be liquidated to pay benefits should the need arise. The make up of assets is included within note 12 to the accounts however includes:

- Private equity £72.672m
- Pooled Investments Vehicles £744.075m
- Pooled Property Investment £80.755m
- Cash Deposits £105.321m

On this basis, the Pension Fund have a reasonable expectation that it will have adequate resources to continue in operational existence throughout the going concern period. For this reason, alongside the statutory guidance, we continue to adopt the going concern basis in preparing these financial statements.

Conclusion:

Considering the above, there are no material uncertainties that cast significant doubt upon the Pension Funds ability to continue to operate on a going concern basis to 31 March 2023.

3. Accounting Policies

(a) Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the Fund actuary in the rates and adjustment certificate issued to the relevant employing body. Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose.

(b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund and are calculated in accordance with LGPS regulations. The timing of these receipts and payments depends on factors such as confirmation of instructions from members and the administrative processes of the previous/new employer. Transfer values are accounted for on a cash basis as opposed to the accrual basis used for the rest of the accounts.

(c) Investment income

i. Interest income
   Interest income is recognised as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.
ii. Dividend income
   Dividend income is accounted for on the date the shares are quoted ex-dividend. Any amounts not received by the end of the financial year are disclosed in the net asset statement as a current financial asset.
iii. Distributions from pooled funds
   Distributions from pooled funds are recognised at the date of issue. Any amounts not received by the end of the financial year are disclosed in the net asset statement as a current financial asset
iv. Movement in the net market value of investments
   Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

(d) Benefits payable

Pensions and benefits payable include all amounts due as at the end of the financial year; any amounts unpaid show as current liabilities.

(e) Voluntary Scheme Pays, Mandatory Scheme Pays and lifetime allowance

Members are entitled to request the Pension Fund pays their tax liabilities due in respect of annual allowance and life time allowance in exchange for a reduction in pension.

Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

(f) Taxation

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises. As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses.

(g) Management expenses

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

Administrative expenses

All administrative expenses are accounted for on an accruals basis. Costs of the external pension fund administrator and other suppliers are charged direct to the Fund, whereas internal staff, accommodation and other overhead costs are apportioned to the Fund and charged as expenses.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Investment management expenses

All investment management expenses are accounted for on an accruals basis. The fees of the external investment managers are mainly based on the market value of the funds they invest and will increase or decrease with the value of their investments. Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by the investment manager these are shown separately in note 10a and grossed up to increase the change in value of investments.

Where an investment manager's fee note has not been received by the year-end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2020/21 £0.1M of fees is based on such estimates (2019/20: £0.1m).

Private Equity Management fees are estimated by taking a portion of the total management fees of the private equity partnership based on the percentage of the Fund holdings with the partnership. In 2020/21 £1.4m of fees is based on such estimates (2019/20: £2.7m).

Net assets statement

(h) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the Fund. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 13). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

(i) Foreign currency transactions

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

(j) Cash and cash equivalents

Cash and cash equivalents is represented by the balance on the Fund's bank accounts together with amounts held by the Fund's external managers and invested in Money Market Funds.

(k) Financial liabilities

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

(l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund's actuary in accordance with IAS 19 and relevant actuarial standards. As permitted under the code, the Fund has opted to disclose the actuarial present value of promised retirement benefits as a note to the net assets statement (see note 17).

(m) Additional voluntary contributions

Scheme members can also make arrangements for separate investments into their personal Additional Voluntary Contribution (AVC) accounts with an AVC provider recommended by the Fund. The Fund is only involved in collecting and paying over these amounts on behalf of scheme members and the separately invested amounts are not included in these pension fund accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The AVC provider is Prudential and contributions are also collected for life assurance policies provided by Utmost Life and Pensions (Previously managed by Equitable Life).

(n) Prepayment of Employer Contributions

Following the 2019 valuation the London Borough of Bexley prepaid its employer contributions for 2020/21, 2021/22 and 2022/23. The remaining prepayment balance of £18.7m is shown as a liability in the 2020/21 accounts (short term £9.505m and long term £9.195m) The prepayment receipts were invested as Fund assets and are assumed by the actuary to earn similar returns to other Fund assets. The risk of the extra amounts arriving in the Fund at an inauspicious time for investment returns was mitigated by making the investments over a period of time. The treatment of these payments was set out in the actuary's rates and adjustments certificate.

(o) Contingent Assets and Contingent Liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes.

4. Critical judgements in applying accounting policies

Unquoted investments

It is important to recognise the highly subjective nature of determining the fair value of private equity, infrastructure, pooled property, and private credit investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted investments are valued by the investment managers. Private equity and pooled property valuations are based on similar market available evidence as it has been judged that this evidence is comparable to the holdings in the Fund.

The value of unquoted private equities at 31 March 2021 was £72.7m (2019/20: £62.3m) and unquoted infrastructure at 31 March 2021 was £28.2m (2019/20: £23.1m). The value of pooled property holdings as at 31 March 2021 was £109.9m (2019/20: £98.3m). There has also been a new investment during 2020/21 in a private credit fund (totalling £50m), however this investment took place over the year end and therefore at 31 March 2021 was held as cash with the investment manager.

Pension Fund liability

The Fund liability is calculated every three years by the Fund's actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 17. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, because amounts cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the accounts at 31 March 2021 for which there is a significant risk of material adjustment in the following financial year are:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Fund assets. The Fund employs a professional actuary to provide expert advice about the assumptions to be used.	The effects on the net pension liability of changes in individual assumptions can be measured. For example a 0.1% increase in the discount rate assumption would reduce the pension liability by £14m. A 0.1% reduction in assumed salary inflation would reduce liabilities by £1m, and a one year increase in assumed life expectancy would increase the liability by around £29m.
McCloud Judgement	As a result of the McCloud judgement regarding age discrimination in the Fire	The Fund's actuary has estimated that the cost of the judgment could be an increase in past

	Service and Judiciary pension schemes the Government is going to bring forward proposals to address the issue for other public pension schemes, including the LGPS. At this stage it is unknown what the proposals for the LGPS will be and therefore an estimation of the potential increase in liabilities has been disclosed in the accounts.	service liabilities of broadly £7 million and an increase in the primary contribution rate of 0.7% of pensionable pay per annum. Where an employer has elected to include a provision for the cost of the judgment, this is included within the secondary rate for that employer over 2020/23 (and also within the Whole Fund average secondary rate of £1.1 million). If the actual cost of the judgement differs from the estimate this will be reflected in contribution rates at the next valuation.
COVID-19	The COVID-19 pandemic has created market volatility and economic uncertainty, impacting the value of the assets in the Fund. Whilst markets have, for the most part, recovered, further developments could create additional uncertainty. For unquoted assets, such as property and private equity, the impact of Covid-19 may take longer to be fully assessed, As such, judgements have had to be made as to what the impact is on those assets which are not publicly listed. There may also be an impact on the pension liabilities in the Fund, for example if the longevity of members differs from that in the actuary's assumptions.	Sensitivity analysis of the valuation of unquoted assets is included in note 13. The valuation results and employer contributions were assessed as at 31 March 2019. Employer contributions have not been revisited but the position will be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.
Unquoted investments	The Fund's assets include investments in unquoted assets such as property, infrastructure and private equity on a pooled basis. These assets are valued by investment managers at fair value in accordance with relevant industry standards and guidelines. Managers may use comparable market data, indices and data from third parties, as well as projected revenue, to determine the fair value of these assets. As such, there is a degree of estimation involved in these valuations.	The total value of unlisted investments in the financial statements is £210.8m (2019/20 £183.7m), as broken down below: Private equity £72.7m Infrastructure £28.2m Property £109.9m There is a risk that these investments may be under- or overstated in the accounts.

6. Contributions Receivable

By category

2019/20 £'000		2020/21 £'000
6,375	Employees' contributions	6,144
15,409	Employers' contributions: Normal contributions	15,608
-	Special employer contributions	102
4,351	Deficit recovery contributions	2,036
7	Augmentation contributions	7
19,767	**Total Employers' contributions:**	**17,753**
26,142	**Total contributions receivable**	**23,897**

By type of employer

2019/20 £'000		2020/21 £'000
14,048	Administering Authority	10,303
10,548	Scheduled bodies	11,967
1,546	Admitted bodies	1,627
26,142	**Total contributions receivable**	**23,897**

7. Transfers in from other pension funds

2019/20 £'000		2020/21 £'000
3,658	London Borough of Bexley	5,214
178	Scheduled bodies	368
49	Admitted bodies	161
3,886	**Total**	**5,743**

All transfers in relate to individual transfers from other schemes as there were no bulk transfers in these periods.

8. Benefits Payable

By category

2019/20 £'000		2020/21 £'000
28,084	Pensions	28,720
7	Augmented service	7
3,875	Commutation of pensions and lump sum retirement benefits	4,101
1,026	Lump sum death benefits	554
32,992	**Total**	**33,383**

By authority

2019/20 £'000		2020/21 £'000
28,253	London Borough of Bexley	28,383
2,059	Scheduled bodies	2,372
2,680	Admitted bodies	2,628
32,992	**Total**	**33,383**

9. Payments to and on account of leavers

By category

2019/20 £'000		2020/21 £'000
126	Refunds of contributions	107
2,833	Individual transfers out to other schemes	5,376
2,959	**Total**	**5,483**

By authority

2019/20 £'000		2020/21 £'000
2,335	London Borough of Bexley	4,892
608	Scheduled bodies	589
16	Admitted bodies	3
2,959	**Total**	**5,483**

There were no bulk transfers in 2020/21.

10. Management expenses

2019/20 £'000		2020/21 £'000
507	Administrative costs	503
6,614	Investment management expenses	4,367
549	Oversight and governance costs	506
7,670	**Total**	**5,376**

a. Investment Management expenses

2019/20 £'000		2020/21 £'000
5,778	Management fees	4,292
257	Custody and performance measurement	41
579	Transaction costs	34
6,614	**Total**	**4,367**

In addition to these costs, indirect costs are incurred through the bid–offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see note 12a).

The LCIV has negotiated a performance related fee element with its global equity sub fund manager Newton. In 2020/21 there was no net performance related fee (£0.2m was paid by the Fund in 2019/20) and this is included in the figures above.

11. Investment income

2019/20 £'000		2020/21 £'000
318	Income from Equities	4
13,434	Income from Pooled Investments – unit trusts and other managed funds	10,571
603	Private Equity Income	550
2,818	Pooled Property Investments	1,744
58	Interest on cash deposits	34
17,231	**Total**	**12,903**

12. Investments

31.3.2020 £'000		31.3.2021 £'000
	Long term investments	
150	Equities	150
	Investment assets	
767,704	Pooled investment vehicles	824,830
62,257	Private Equity	72,672
16,272	Cash/temporary investments	105,321
1,352	Investment income due	-
847,735	**Total investment assets**	**1,002,972**

(a) Reconciliation of movements in investments

	Value at 31.3.2020 £'000	Purchases during the year £'000	Sales during the year £'000	Change in Market value £'000	Value at 31.3.2021 £'000
Equities	150	-	-	-	150
Pooled investment vehicles (LCIV)	525,149	75,810	(182,590)	115,499	533,870
Pooled investment vehicles (non-LCIV)	158,426	46,400	(4,032)	9,411	210,205
Pooled Property investment	84,129	6,230	(11,090)	1,487	80,755
Private Equity	62,257	3,723	(13,702)	20,393	72,672
	830,111	**132,164**	**(211,414)**	**146,791**	**897,651**
Other investment balance:					
Cash Deposits	16,272				105,321
Investment income due	1,352				-
Net Investment Asset	**847,735**				**1,002,972**
Current Net Assets/(Liabilities)	**747**				**-**
Net Asset	**848,482**				**1,002,972**

	Value at 31.3.2019 £'000	Purchases during the year £'000	Sales during the year £'000	Change in Market value £'000	Value at 31.3.2020 £'000
Equities	150	-	-	-	150
Pooled investment vehicles (LCIV)	541,398	14,382	(2,879)	(27,752)	525,149
Pooled investment vehicles (non-LCIV)	156,474	96,515	(96,875)	2,312	158,426
Pooled Property investment	91,887	4,186	(9,905)	(2,039)	84,129
Private Equity	72,181	4,688	(14,372)	(240)	62,257
	862,090	**119,771**	**(124,031)**	**(27,719)**	**830,111**
Other investment balance:					
Cash Deposits	17,064				16,272
Investment income due	2,398				1,352
Net Investment Asset	**881,552**				**847,735**
Current Net Assets/(Liabilities)	**(8,989)**				**747**
Net Asset	**872,563**				**848,482**

(b) Analysis of investments

31.3.2020 £'000		31.3.2021 £'000
	Equities	
150	UK unquoted	150
150		**150**
	Pooled investment vehicles	
84,129	Managed funds – UK property unquoted	90,645
107,065	Managed funds - UK index-linked unquoted Bonds	153,822
28,771	Managed funds - Overseas index-linked unquoted Equities	40,000
84,846	Managed funds – Overseas limited liability partnership unquoted	89,054
	London Collective Investment Vehicle (LCIV) Pooled Sub-Funds - Global Unquoted	
268,497	- Global Equity Fund	291,614
81,323	- Income Equity Fund	77,376
84,329	- Absolute Return Fund	-
90,486	- Global Bond Fund	143,152
515	- Infrastructure Fund	11,837
829,961		**897,501**
16,272	Cash/temporary investments	105,321
1,352	Investment income due	-
17,624		**105,321**
847,735	**Total investment assets**	**1,002,972**

(c) Investments analysed by fund manager

2019/20 £'000	%		2020/21 £'000	%
150	-	LCIV - Shareholding	150	-
268,892	31.7	LCIV - Newton Global Equity Fund	291,614	29.1
84,329	10.0	LCIV - Ruffer Absolute Return Fund	-	
82,203	9.7	LCIV - Epoch Income Equity Fund	77,376	7.7
515	0.1	LCIV - Stepstone Infrastructure Fund	11,837	1.2
90,486	10.7	LCIV - PIMCO Global Bond Fund	143,152	14.3
-	-	LCIV - Inflation Plus Fund	9,890	1.0
526,575	**62.2**	**LCIV Sub total (London Collective Investment Vehicle)**	**534,020**	**53.3**
107,065	12.6	BlackRock - Index linked gilt fund / corporate bond fund	153,822	15.3
28,771	3.4	BlackRock Equity Index Fund	40,000	4.0
98,309	11.6	La Salle	100,036	10.0
62,257	7.3	Partners Group	72,671	7.2
22,590	2.7	UBS infrastructure Fund	16,383	1.6
168	-	Cash Held at Custodian (Northern Trust)	168	-
-	-	Cash Held at Fund Managers (in transit)	50,872	5.1
2,000	0.2	LGIM Money Market Fund	35,000	3.5
847,735	**100.0**		**1,002,972**	**100**

All fund managers operating the pooled investment vehicles are registered in the UK.

The managed funds overseas unquoted limited liability partnerships are investments in funds of private equity funds, and an infrastructure fund.

The LCIV unit trusts are unquoted, however all investments within the Global Equity, Income Equity and Global Bond sub-funds are quoted.

The following investments represent more than 5% of the net assets of the scheme

Asset Class / Security Name	Manager	31.03.21 £'000	31.03.21 % of inv assets
Global Equity Fund	Newton	291,614	29.1
Income Equity Fund	Epoch	77,376	7.7
Global Bond Fund	Pimco	143,152	14.3
Index linked gilt fund / corporate bond fund	Blackrock	153,822	15.3
Property	LaSalle	100,036	10.0
Private Equity	Partners	72,671	7.2

Asset Class / Security Name	Manager	31.03.20 £'000	31.03.20 % of inv assets
Global Equity Fund	Newton	268,892	31.7
Income Equity Fund	Epoch	82,203	9.7
Global Bond Fund	Pimco	90,486	10.7
Index linked gilt fund / corporate bond fund	Blackrock	107,065	12.6
Property	LaSalle	98,309	11.6
Private Equity	Partners	62,257	7.3

13. Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the financial year	Not required	Not required
Unquoted bonds funds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Pooled LCIV – ACS*	Level 2	Quoted investments are valued at mid-market value as at close of business on the last working day of the relevant period. Unquoted investments or if a quotation is not available at the time of valuation, the fair value shall be estimated on the basis of the probable realisation value of the investment. Collective investment schemes are valued at quoted bid prices for dual priced funds and at quoted prices for single priced funds, on the last business day of the relevant period.	Evaluated Price Feeds	Not required

Pooled LCIV – ACS*	Level 2	Quoted investments are valued at mid-market value as at close of business on the last working day of the relevant period. Unquoted investments or if a quotation is not available at the time of valuation, the fair value shall be estimated on the basis of the probable realisation value of the investment. Collective investment schemes are valued at quoted bid prices for dual priced funds and at quoted prices for single priced funds, on the last business day of the relevant period.	Evaluated Price Feeds	Not required
Pooled investments – overseas unit trusts and property funds	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published.	NAV-based pricing set on a forward pricing basis	Significant changes in rental growth, vacancy levels or the discounted rate could affect valuations as could more general changes to market prices
Unquoted private equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines	EBITDA multiple Revenue multiple Discount for lack of marketability. Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Unquoted Infrastructure Managed Funds	Level 3	The fair value of the investments has been determined using valuation techniques appropriate to each investment. These techniques include discounted cashflow analysis and comparable transaction multiples in accordance with the International Private Equity and Venture Capital Valuation Guidelines.	Significant unobservable inputs and observable inflation.	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between

				audited and unaudited accounts
Pooled LCIV – EUUT**	Level 3	The fair value of the investments has been determined using valuation techniques appropriate to each investment. These techniques include discounted cashflow analysis and comparable transaction multiples.	Significant unobservable inputs and observable inflation.	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

*The term ACS refers to Authorised Contractual Scheme
** The term EUUT refers to Exempt Unauthorised Unit Trust

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with investment managers and independent advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

	Assessed valuation range (+/-)	Value at 31 March 2021 £000	Value on increase £000	Value on decrease £000
Private Equity	15%	72,671	83,572	61,770
UBS Infrastructure Fund	15%	16,383	18,841	13,926
LCIV Infrastructure Fund	15%	11,837	13,613	10,062
LCIV Aviva Inflation Plus	10%	9,890	10,879	8,901
La Salle Pooled Investment Property	10%	80,755	88,831	72,680
Total		**191,536**	**215,736**	**167,339**

a) Fair Value Hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified at this level comprise quoted equities, quoted fixed securities, quoted index-linked securities and quoted unit trusts.

Level 2

Financial instruments at level 2 are those where quoted market prices are not available. This may be where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and those techniques use inputs that are based significantly on observable market

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using Observable inputs	With significant unobservable inputs	
Values at 31 March 2021	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets at fair value through profit and loss	150	705,965	191,536	897,651
Net investment assets	150	705,965	191,536	897,651
	Quoted market price	**Using Observable inputs (restated)**	**With significant unobservable inputs (restated)**	
Values at 31 March 2020	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets at fair value through profit and loss	150	660,471	169,490	830,111
Net investment assets	150	660,471	169,490	830,111

Reconciliation of Fair Value Measurements Within Level 3

2020/21	Market Value 01-Apr-20 £'000	Purchases during the year and derivative movements	Sales during the year and derivative receipts	Unrealised gains/ (losses)	Realised gains/ (losses)	Market Value 31-Mar-21 £'000
UBS Infrastructure Fund	22,590	-	(4,032)	(2,175)	-	16,383
LCIV Infrastructure Fund	515	11,932	(46)	(563)	-	11,837
LCIV Aviva Inflation Plus	-	10,535	(2)	(643)	-	9,890
Private equity	62,256	3,723	(13,702)	13,169	7,225	72,671
LCIV						
La Salle Pooled Investment Property	84,129	6,230	(11,090)	308	1,179	80,755
	169,490	**32,419**	**(28,873)**	**10,096**	**8,404**	**191,536**

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account.

14. Financial Instruments

The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Assets Statement heading.

Classification of financial instruments

Fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised cost		Fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised cost
2019/20				2020/21		
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
150			Equities	150		
197,746			Pooled investment vehicles (non bond)	209,809		
525,150			Pooled investment vehicles (LCIV)	533,870		
107,065			Pooled investment vehicles (bond)	153,822		
	16,812		Cash		114,370	
1,352			Other investment balances			
	1,079		Debtors		1,303	
			Financial Liabilities			
		(872)	Creditors			(19,751)
831,463	**17,891**	**(872)**	**Total**	**897,651**	**115,673**	**(19,751)**

(a) Net gains and (losses) on financial instruments

2019/20 £'000	Financial Assets	2020/21 £'000
(27,719)	Fair value through profit or loss	**146,791**

15. Nature and Extent of Risks Arising from Financial Instruments

The financial instruments used by the Fund involve a variety of financial risks:-

(a) Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of movements in market prices. To mitigate market risk, the Committee and its investment /advisors undertake regular monitoring of market conditions and benchmark analysis. Market risk may be sub-divided into interest rate risk, price risk and currency risk, although these are to some extent inter-linked.

- Interest rates may vary which will impact on the valuation of fixed interest holdings. The coupon and the duration of such investments will be spread to minimise this risk.
- Currency risk is the risk that the value of financial instruments will vary with the foreign exchange rate of pounds sterling. This particularly affects the Fund's holdings in overseas equities, private equity and infrastructure. This is mitigated by the spread of investments across different countries and consideration given to hedging the risk where it is thought necessary.

- Prices of equity and other investments will vary as the prices on the stock exchange respond to factors specific to particular stocks or factors affecting stock markets as a whole. This is mitigated by having a diverse portfolio of investments across different managers, asset classes, countries and industries.

The tables below demonstrate the potential change in net assets available following movements in market risk. The percentage used for the movement in price is based on ten-year volatility assumptions for each asset class and is therefore more forward looking and informative.

Risks	**Asset Type**	**Market Value 31Mar21 (£m)**	**% movement**	**Movement on Increased Value 2021 (£m)**	**Movement on Decreased Value 2021 (£m)**
Interest rate	Global Bonds (Investment Grade Credit)	143.15	5.1%	150.45	135.85
Interest rate	UK Bonds (Investment Grade Credit)	9.89	7.4%	10.62	9.15
Interest rate	UK Bonds (Gilts)	143.90	8.2%	155.70	132.10
Currency, Price	Global Equities	409.53	20.0%	491.44	327.63
Currency, Price	Private Equity	72.67	28.3%	93.24	52.10
Currency, Price	Infrastructure	28.61	18.6%	33.93	23.29
Price	UK Property	90.64	12.5%	101.97	79.31
Interest rate, currency	Private Credit*	50.00	4.8%	52.40	47.60

* Although the private credit investment was held in cash at 31 March 2021, the % movement shown reflects the forward looking volatility assumption assuming this was fully invested

Risk	Asset Type	Market Value 31Mar20 (£m)	% movement	Movement on Increased Value 2020 (£m)	Movement on Decreased Value 2020 (£m)
Interest rate	Global Bonds (Investment Grade Credit)	90.49	5.5	95.46	85.51
Interest rate	UK Bonds (Investment Grade Credit)	9.29	9.0	10.12	8.45
Interest rate	UK Bonds (Gilts)	97.78	10.5	108.05	87.51
Currency, Price	Global Equities	378.74	20.0	454.49	302.99
Currency, Price	Private Equity	62.26	28.5	80.00	44.51
Currency, Price	Infrastructure	23.11	18.5	27.38	18.83
Price	UK Property	90.64	12.5	101.97	79.31
Price	Absolute Return Fund	84.33	9.5	92.34	76.32

(b) Credit risk

Credit risk is the risk that counterparties to the financial instruments will fail to pay the amounts due to the Fund, thereby causing financial loss. This may arise if the value of a particular stock falls substantially or if a dividend is not paid out. Investment managers will usually assess this risk when making investments on behalf of the Fund. The market price of investments generally also includes a credit assessment and risk of loss into the valuations. In essence, therefore, the Fund's entire investment portfolio is exposed to some form of credit risk. There is a higher credit risk involved in the Fund's allocation to private equity (6.9% at 31 March 2021 and 7.3% at 31 March 2020) but this risk is accepted as a trade off for potentially higher returns.

The selection of high quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. The Fund sets an annual treasury management policy for its investment of cash flow balances and deposits are not made unless they meet the credit criteria set. The table below details the Fund's cash holding under its treasury management arrangements.

Balance as at 31 March 2020 £'000		Balance as at 31 March 2021 £'000
	Bank Account	
540	NatWest Account	9,049
	Money Market Fund	
2,000	LGIM Money Market Fund	35,000
2,540		**44,049**

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. To mitigate this risk, the Fund regularly monitors the state of employers in the fund.

(c) Liquidity risk

Liquidity risk is the risk that the Fund might not be able to meet its payment obligations as they fall due (such as pension payments to members). The 2020/21 accounts show that the benefits and administrative expenses paid out exceeded the contributions to the Fund. The balance was met from investment income. However, the majority of the Fund's investments were sufficiently liquid as to be sold to provide additional cash if required. The Fund operates its own separate bank account and the liquidity position is monitored on a day to day basis. The Fund is also permitted to borrow for up to 90 days if its cash flow is insufficient to meet short term commitments.

The Fund defines liquid assets as those that can be easily converted to cash within three months. Illiquid assets are those assets that will take longer than three months to convert to cash. As at 31 March 2021 the value of illiquid assets was £191.5m, which represented 19% of total fund assets (31 March 2020: £169m which represented 20% of total fund assets).

16. Funding Arrangements

The Fund's actuary carries out a funding valuation every three years to set employer contribution rates for the following triennial period. The last such valuation took place as at 31 March 2019.

The key elements of the funding policy are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the likelihood of reaching 100% funding on an ongoing basis over the next three valuation periods subject to an acceptable level of downside risk.

At the 2019 actuarial valuation the Fund was assessed as 101% funded (94% at the March 2016 valuation). This represented a surplus of £11m (£45m deficit in 2016) at that time. Contribution rates were set for the three year period ending 31 March 2023 for scheme employers and admitted bodies. The primary contribution rate (the rate which all employers in the Fund pay) was set at 18.5% (16.4% in 2016).

Individual employers' rates vary from the primary contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2019 actuarial valuation report on the Fund's website.

17. Actuarial Present Value of Promised Retirement Benefits

The actuary's statement for the year is shown below:-

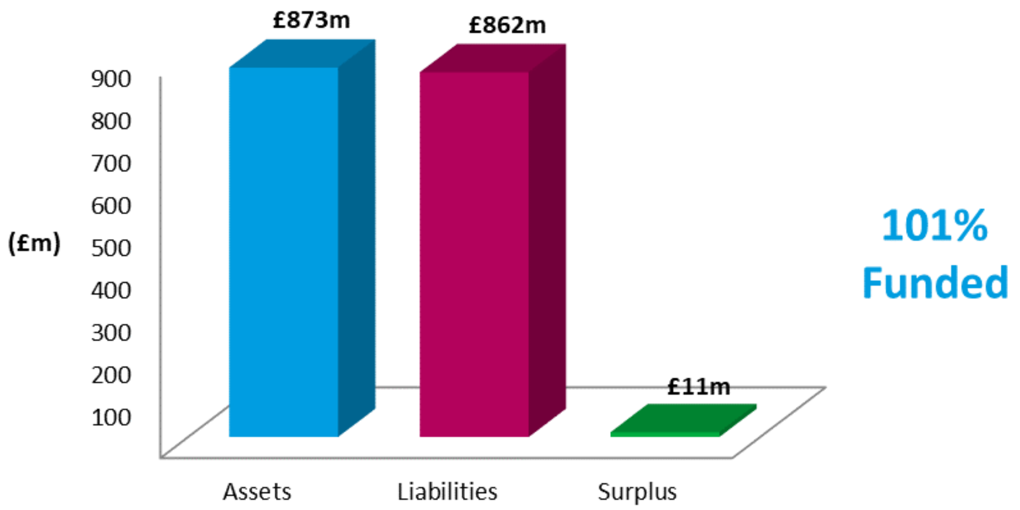
London Borough of Bexley Pension Fund

Accounts for the Year Ended 31 March 2021 – Statement by The Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the London Borough Of Bexley Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

On the basis of the assumptions adopted, the Fund's assets of £873 million represented 101% of the Fund's past service liabilities of £862 million (the "Solvency Funding Target") at the valuation date. The surplus at the valuation was therefore £11 million.



The valuation also showed that a Primary contribution rate of 18.5% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

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

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 10 years, and the total initial recovery payment (the "Secondary rate" for 2020-2023) is an addition of approximately £1.1 million per annum on average in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS) although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process. The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Solvency Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	3.65% per annum	4.40% per annum
Rate of pay increases (long term)*	3.90% per annum	3.90% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.40% per annum	2.40% per annum

* for certain employers, as agreed with the Administering Authority, allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2014.

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment. However, at the overall Fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £7 million and an increase in the Primary Contribution rate of 0.7% of Pensionable Pay per annum. Where an employer has elected to include a provision for the cost of the judgment, this is included within the secondary rate for that employer over 2020/23 (and also within the Whole Fund average secondary rate of £1.1 million per annum shown above).

Impact of Covid 19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 and 2021 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited as a general rule but the Administering Authority will be consulting on updates to the Funding Strategy Statement which will allow the Fund to review contributions between valuations where there is a material change in employer covenant or liabilities, in line with the new regulations on contribution flexibilities introduced in September 2020. The position will be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2021 (the 31 March 2020 assumptions are included for comparison):

	31 March 2020	31 March 2021
Rate of return on investments (discount rate)	2.4% per annum	2.1% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.1% per annum	2.7% per annum
Rate of pay increases*	3.6% per annum	4.2% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.2% per annum	2.8% per annum

* This is the long-term assumption. An allowance corresponding to that made at the latest formal actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

During the year corporate bond yields decreased, resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.1% p.a. vs 2.4% p.a.). In addition, the expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.7% p.a. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2020 was estimated as £1,082 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£26 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£2 million (this includes any increase in liabilities arising as a result of early retirements/augmentations). There was also an increase in liabilities of £143 million due to "actuarial losses" (i.e. the effects of the changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2021 pension increase award was less than assumed).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2021 is therefore £1,253 million.

GMP Indexation

The public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching State Pension Age from 6 April 2021 onwards. This will give rise to a further cost to the LGPS and its employers, and an estimation of this cost was included within the IAS26 liabilities calculated last year and is again included in the overall liability figure above.

Michelle Doman
Fellow of the Institute and Faculty of Actuaries

Paul Middleman
Fellow of the Institute and Faculty of Actuaries

Mercer Limited

18. Current Assets

31 March 2020 £'000		31 March 2021 £'000
	Debtors	
204	Contributions due – employees	222
622	Contributions due – employers	754
826		**976**
253	Sundry debtors	327
1,079	**Total**	**1,303**
540	**Cash balances**	**9,049**
1,619		**10,352**

19. Current and Long Term Liabilities

Current Liabilities

31 March 2020 £'000		31 March 2021 £'000
(510)	Sundry creditors	(724)
(64)	Benefits payable	(5)
(298)	Accrued expenses	(323)
-	Employer contributions prepayments	(9,505)
(872)	**Total**	**(10,556)**

Long Term Liabilities

31 March 2020 £'000		31 March 2021 £'000
-	Employer contributions prepayments	(9,195)
-	**Total**	**(9,195)**

20. Additional Voluntary Contributions

Market Value 31 March 2020 £'000		Market Value 31 March 2021 £'000
937	**Value of funds at end of year**	937*

Additional voluntary contributions of £0.2m were paid during the year (2019/20: £0.2m).

In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid and the assets of these investments are not included in the Fund's Accounts.

* The main pension provider of AVC investments has not yet provided an update of the market value of funds as at 31 March 2021.

21. Related Party Transactions

As the London Borough of Bexley administers, and is the largest employer of members in, the Fund there is a strong relationship between the Council and the Fund.

Information in respect of material transactions with related parties is disclosed elsewhere within the Fund accounts. Of particular note is the £362,918 recharge in 2020/21 from the London Borough of Bexley to the Fund included in administration and oversight and governance costs. (£345,710 in 2019/20)

The Director of Finance and Corporate Services allocates 5% of their time to the Fund and is the only officer that is regarded as holding a key management post in respect of the Fund. In 2020/21 costs relating to the Director of Finance post totalled £9,534 in respect of the allocation to the Fund (£8,888 in 2019/20). This includes employer pension fund contributions of £1,254 (£1,322 in 2019/20). The Director of Finance contributes 11.4% of their gross salary to the LGPS in employee contributions.

No Councillors of the London Borough of Bexley are members of the Local Government Pension Scheme. During the year, no Council Members or Designated Officers have declared any transactions with the Fund that they are required to. Each Member of the Pensions Committee is required to declare their interests at each meeting.

All Fund transactions are recorded in a separate part of the financial ledger system of the administering authority and pass through the Fund bank accounts.

22. Contingent Liabilities and Contractual Commitments

The Fund has a commitment to contribute a further £29.6m to the fund of private equity funds (£34.7m as at 31 March 2020), and a further £37.6m into infrastructure funds. These contributions will be financed from sales of existing investments. The timing for paying over these commitments over the next few years is uncertain. The overall amount invested in private equity is not expected to change significantly as new drawdowns are likely to be offset by increased distributions.

There were no other material contingent liabilities or contractual commitments at 31 March 2021, or material non-adjusting events subsequent to this.

23. External Audit Cost

2019/20 £'000		2020/21 £'000
16	External Audit fees	16
(2)	Refund in respect of 2018/19 fees	-
14	**Total**	**16**

24. Post Balance Sheet Events

On 1 April 2021, the Fund invested in the M&G Illiquid Credit Opportunities Fund VII. This has been included in the accounts as cash held with an investment manager, as the cash was transferred to M&G on 30 March 2021, however the investment into the Fund happened after the date of these accounts.

In April 2021, the Fund sold its LCIV Equity Income Fund, the proceeds of which were initially held in cash. Also in April, the Fund made a commitment of £50m to the LCIV Renewable Infrastructure Fund and an additional commitment of €50m to the Partners Group private equity mandate. In June 2021, the Fund invested £80m in the Aon Diversified Liquid Credit Fund.

Employer contributions have not been revisited but the situation is being kept under review and all stakeholders will be informed of any potential implications so that the outcome can be managed effectively

The sensitivity of the Funds investments to market movements is shown in note 13. The Fund has a long-term time horizon and its strategic asset allocation reflects this. Disciplined, policy-oriented rebalancing will be used where needed to ensure that market volatility doesn't lead to the Fund straying from its long-term investment objectives.

Appendix 4

Funding Strategy Statement

London Borough of Bexley Pension Fund

March 2020

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

Executive Summary

Ensuring that the London Borough of Bexley Pension Fund (the "Fund") has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (London Borough of Bexley). The Funding Strategy adopted by the London Borough of Bexley Pension Fund will therefore be critical in achieving this.

The purpose of this Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward.

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

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

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

The Fund's Objective

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next to meet the primary objectives. This in turn means that contributions will be subject to change from one valuation to another.

This objective is considered on an employer specific level when setting individual contribution rates so each employer has the same fundamental objective in relation to their liabilities.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions already in payment to continue to be paid, and to reflect the commitments that will arise from members' accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund's investment strategy on an integrated basis, taking into account the overall financial and demographic risks inherent in the Fund to meet the objective for all employers over different periods. The funding strategy includes appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would normally lead to volatility of contribution rates at future valuations if these margins were not included.

This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency and long term cost efficiency objectives.

Solvency and Long Term Cost Efficiency

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

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

Deficit Recovery Plan and Contributions

The solvency level of the Fund is 101% at the valuation date (i.e. the assets of the Fund are more than the liabilities) and so a plan will be needed to remove some, or all, of the surplus over an agreed timeframe, taking into account any increases to the Primary Contribution Rate which also emerge. At an individual employer level, there will be instances where the assets allocated are lower than the liabilities and therefore a shortfall will exist. In such cases, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

For those employers where a shortfall exists, deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may also elect to make prepayments of contributions which could result in a cash saving over the valuation certificate period.

The objective is to recover any deficit (where one exists) over a reasonable timeframe which in the long term provides equity between different generations of taxpayers whilst ensuring the deficit payments are eliminating a sufficient proportion of the capital element of the deficit, thereby reducing the interest cost. This will be periodically reviewed depending on the maturity profile of the scheme.

Subject to affordability considerations (and any changes emerging in the Primary Rate) a key principle will be to maintain the deficit contributions at least at the expected monetary levels from the preceding valuation (including any indexation in these monetary payments over the recovery period). Full details are set out in this FSS.

Where there is a material increase in contributions required at this valuation, in certain circumstances the employer may be able to 'phase in' contributions over a period of 3 years in a pattern agreed with the Administering Authority and depending on the affordability of contributions as assessed in the covenant review of an employer.

The target recovery period for the Fund as a whole is 11 years at this valuation which is three years shorter than that adopted at the previous valuation. Individual employer recovery periods will be considered depending on their own circumstances. Subject to affordability and other considerations, individual employer recovery periods would be expected to have the same end date as the period set at the previous valuation. The average recovery period emerging from this valuation is 10 years.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. Therefore, the Fund has considered its policy in relation to costs that could emerge from the McCloud judgment in line with the guidance from the Scheme Advisory Board in conjunction with the Actuary. Whilst the remedy is not known and may not be known for some time, for the purpose of this valuation, when considering the appropriate contribution provision, we have assumed that the judgment would have the effect of removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. The relevant estimated costs have been quantified and notified to employers on this basis but also highlighting that the final costs may be significantly different. Employers will be able to choose to include these estimated costs over 2020/23 in their certified contributions. Alternatively, they will need to make allowance within their budgets and note that backdated contributions could be payable if the remedy is known before the next valuation. The majority of employers have opted to include the estimated McCloud costs in their certified contributions.

Actuarial Assumptions

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. included in the "Secondary" rate) are set out in Appendix A to this FSS.

When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). The discount rate in excess of CPI inflation (the "real discount rate") has been derived based on the expected return on the Fund's assets based on the long term strategy set out in its Investment Strategy Statement (ISS).

The assumption for the long term expected future real returns has fallen since the last valuation. This is principally due to a combination of a fall in the total expectation of the return on the Fund's assets and the higher expected level of inflation in the long term. As the Fund has implemented a number of risk management strategies since the last valuation in order to reduce the expected volatility of returns (i.e. provide more certainty on contribution outcomes), the Actuary has also taken this into account when proposing the assumptions. The assumption has therefore been adjusted so that in the Actuary's opinion, when allowing for the resultant employer contributions emerging from the valuation, the Fund can reasonably be expected to meet the Solvency and Long Term Cost Efficiency objectives.

Taking into account the above the Fund Actuary is proposing that the long term real return over CPI inflation assumptions for determining the baseline past service liabilities should be 1.25% per annum and 2% per annum for determining the future service ("primary") contribution rate. This compares to 2.2% per annum and 2.75% per annum respectively at the last valuation.

Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole. Such cases will be determined by the Section 151 Officer and reported to the Committee.

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant. For those employers terminating participation in the Fund, a more prudent mortality assumption will apply (see further comments below).

Employer Asset Shares

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

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund. In addition, the asset share may be restated for changes in data or other policies.

Fund Policies

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's practice and policies in a number of key areas:

1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

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

After the valuation, for certain employers where deemed appropriate the Fund will continue to monitor covenant in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer. More details are provided in Appendix D to this statement.

2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and further details of the conditions upon which their entry to the Fund is based and the approach taken is set out in Appendix C. Examples of new employers include:

- Mandatory Scheme Employers - for example new academies (see later section)
- Designated bodies - those that are permitted to join if they pass a resolution for example Town and Parish Councils.
- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.

The key objective for the Fund is to only admit employers where the risk to the Fund is mitigated as far as possible. The different employers pose different risks to the Fund.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

3. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

Where there is no guarantor who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to government bond yields and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

Any exit credits (surplus assets over liabilities) will be paid from the Fund to the exiting employer within 6 months of completion of the cessation assessment by the Actuary. The Administering Authority will seek to modify this approach on a case by case basis if circumstances warrant it (for example, it may work with the outsourcing scheme employer to adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers).

This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it based on the advice of the Actuary.

Where there is a guarantor who would subsume the assets and liabilities of the outgoing employer, the default policy is that any deficit or surplus would be subsumed into the guarantor and taken into account at the following valuation. In some instances an exit debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No exit credit would be payable in these circumstances.

In line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Administering Authority will provide details of the information required to make their determination for each case when the need arises.

The Administering Authority can modify this approach on a case by case basis if circumstances warrant it and the parties make representation. For example if the parties make representation it may be appropriate to adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and the outsourcing scheme employer.

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

Contents

Executive Summary i

Introduction 8

Purpose of FSS in policy terms 10

Aims and purpose of the Fund 11

Responsibilities of the key parties 12

Solvency funding target 14

Link to investment policy and the Investment strategy statement (ISS) 19

Identification of risks and counter-measures 21

Monitoring and review 24

Appendices

A – Actuarial Method and Assumptions

B – Eemployer Deficit Recovery Plans

C – Admission and Termination Policy

D – Covenant Assessment and Monitoring Policy

E – Glossary of Terms

1 - Introduction

The Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations"), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") and The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (all as amended) (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the London Borough of Bexley Pension Fund (the "Fund"), the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
    - the guidance issued by CIPFA for this purpose; and
    - the Investment Strategy Statement (ISS) for the Fund published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

Benefits

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full Fund benefits in relation to the member only and pay 50% of the normal member contribution.

Employer Contributions

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

Primary Rate

The "Primary rate" for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

The Primary rate for each employer is specified in the rates and adjustments certificate.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

Secondary Rate

The "Secondary rate" is an adjustment to the Primary rate to arrive at the total rate of contribution each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation.

The Secondary rate for each employer is specified in the rates and adjustments certificate.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

2 - Purpose of FSS in Policy Terms

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

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

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

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

3 - Aims and Purpose of the Fund

The aims of the fund are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due

- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

The purpose of the fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of Fund benefits, transfer values, exit credits, costs, charges and expenses as defined in the Regulations.

4 - Responsibilities of the Key Parties

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

Key Parties to the FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a Fund employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date

- undertake administration duties in accordance with the Pension Administration Strategy (once implemented).
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc.
- provide advice and valuations on the termination of admission agreements including in relation to exit credit payments
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise the Administering Authority on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

5 - Solvency Funding Target

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

Solvency and Long Term Efficiency

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

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

Determination of the Solvency Funding Target and Deficit Recovery Plan

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**.

Underlying these assumptions are the following two tenets:

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

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

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2020 at the latest.

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

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation:

Individual employer contributions will be expressed and certified as two separate elements:

- **the Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits and ancillary death in service and ill health benefits (where appropriate).
- **the Secondary rate**: a schedule of lump sum monetary amounts over 2020/23 in respect of an employer's surplus or deficit (including phasing adjustments).

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to review from 1 April 2023 based on the results of the 2022 valuation.

Where an employer is in a surplus position and a Secondary rate deduction applies (see comment below), the Secondary rate deduction from the Primary rate will be subject to a minimum threshold of £100, below which no deduction will be made.

Deficit Recovery Plan

Where deficits remain, the Fund does not believe it appropriate for contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable on deficit contributions) unless there is a specific reason to do so.

Subject to consideration of affordability, as a general rule the deficit recovery period will have the same end date as the recovery period adopted at the preceding valuation. This is to target full solvency over a similar time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B**). These principles have resulted in a target recovery period of 11 years being adopted for most Fund employers.

Where increases (or decreases) in employer contributions are required from 1 April 2020, following completion of the 2019 actuarial valuation, at the sole discretion of the Administering Authority the increase (or decrease) from the rates of contribution payable in the year 2020/21 may be implemented in steps, over a maximum period of 3 years.

For those employers assessed to be in surplus at the valuation date, the Secondary rate offsets will be based on the expected length of participation in the Fund.

For certain employers, subject to the agreement of the administering authority, the option to prepay Primary rate contributions may be made available. This option would be on the proviso that a “top-up” payment would be made by the employer prior to the end of the prepayment period in order to ensure that no underpayment emerges versus the minimum required by the valuation certificate.

In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole (see further comment below). Any employer affected will be notified separately.

Special circumstances to consider alternative deficit recovery plans

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

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidence-based affordable level of contributions for the organisation for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Fund officers in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

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

Notwithstanding the above principles, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

Employers Exiting the Fund

Employers must notify the Fund as soon as they become aware of their planned exit date. Where appropriate, or at the request of the Scheme Employer, the Fund will review their certified contribution in order to target a fully funded position at exit. The costs of the contribution rate review will be payable by the employer or the outsourcing Scheme Employer (where necessary).

On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. In such circumstances:

The policy for employers who have a guarantor participating in the Fund:

The residual assets and liabilities and hence any surplus or deficit will transfer back to the guarantor as a default policy

The interested parties will need to consider any separate agreements that have been put in place between the exiting employer and the guarantor. In some instances an exit credit or debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis.

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

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

In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate risk sharing agreement. The default is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor unless representation is made by the relevant parties in line with the Regulations (as noted above). For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations, provided that the Fund is aware of the provisions of the risk sharing agreement in any representation made.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not known. Where a surplus or deficit is being subsumed, no allowance will be made for McCloud within the calculations. However, if a representation is made to the Administering Authority then a reasonable estimate for the potential cost of McCloud will need to be included. This will be calculated in line with the treatment set out **in this Funding Strategy Statement for all members of the outgoing employer**. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

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

The policy for employers who do not have a guarantor participating in the Fund:

In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation assessment by the Actuary). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.

In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not known. As part of any termination assessment, a reasonable estimate for the potential cost of McCloud will be included. This will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

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

Where an employer with no guarantor leaves the Fund and leaves liabilities with the Fund which the Fund must meet without recourse to that employer, the valuation of the termination payment will be calculated using the minimum risk basis.

Further details are set out in the termination policy is set out in **Appendix C**.

Funding for Non-Ill Health Early Retirement Costs

Employers are required to meet all costs of early retirement strain by immediate capital payments into the Fund, or in exceptional circumstances by agreement with the Fund, through instalments over a period not exceeding 3 years or if less the remaining period of the body's membership of the Fund.

Funding for Deaths in Service

The financial impact of the benefits that become payable on the death of a member differ depending on whether the member dies before or after retirement.

The extent of any funding strain/profit which emerges on the death of a pensioner member (typically a profit) will be determined by the age of the pensioner at death and whether or not any dependants' benefits become payable.

In the event of a member dying whilst in active service, it is not certain that a funding profit would emerge. Whilst the Fund would no longer have to pay the accrued benefits at retirement for the deceased member, a lump sum death grant and also dependants' benefits would become payable instead. The dependants' benefits would also be based on the pensionable service that the member could have accrued had they remained in service until retirement.

Typically, the death of a young member with low pensionable service and dependants is likely to result in a large funding strain for the employer. However, the death of an older/long serving member with no dependants could actually result in a funding profit. Any funding strain or profit will emerge at the next actuarial valuation through increased/reduced deficit, except where the employer is in the termination process when it will be taken into account when the Actuary determines the termination position.

6 – Link to Investment Policy and the Investment Strategy Statement (ISS)

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

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in a real return versus CPI inflation of minus 0.9% per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 67%. This is a measure of the level of reliance on future investment returns i.e. level of investment risk being taken.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance. The overall strategic asset allocation is set out in the Investment Strategy Statement.

The current strategy is:

	Benchmark %
Global Equities	30
Total Equities	30
Index-Linked Gilts	15
Corporate Bonds	15
Total Bonds	30
Property	15
Private Equity	7
Infrastructure	8
Diversified Growth Fund	-
Total Alternatives	30
Cash	10
Total	100%

The investment strategy set out above and individual return expectations on those asset classes equate to an overall best estimate average expected return of 2.4% per annum in excess of CPI inflation as at 31 March 2019 i.e. a 50/50 change of achieving this real return. For the purposes of setting a funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations (see further comment in Appendix A).

7 – Identification of Risks and Counter-Measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes quantification of some of the major risk factors.

Financial

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term

- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored. In addition, the implementation of a risk management framework to manage the key financial risks will help reduce risk over time.

Demographic

The demographic risks are as follows:-

- Future changes in life expectancy (longevity) cannot be predicted with any certainty
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the "average" implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are properly controlled, can help control exposure to this demographic risk.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, employing bodies should be doing everything in their power to minimise the number of ill-health retirements.

Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the Fund's cashflow requirements and considers the impact on the investment strategy.

Insurance of Certain Benefits

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

Regulatory

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to Fund,
- Changes to national pension requirements and/or HMRC Rules

Membership of the LGPS is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

Governance

The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their representatives on the Local Pension Board) to make their views known to the Fund and to participate in the decision-making process.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.
- Changes in the Committee membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.

Local Pension Board

The Pension Board was established in April 2015 in accordance with the Public Service Pensions Act 2013, the national statutory governance framework delivered through the LGPS Regulations and guidance as issued by the Scheme Advisory Board.

The Board seeks to assist the London Borough of Bexley to maintain effective and efficient administration and governance. The LPB comprises both Scheme members, retired and active, together with employer representatives.

It meets twice a year and all Board Members have undertaken training and have established a work programme that will enable them to meet their obligations to ensure that the Fund complies with the relevant codes of practice and current legislation.

8 – Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

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

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

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Fund membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund
- has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations and this will be considered in conjunction with the employer affected and any associated guarantor of the employer's liabilities (if relevant).

Cost Management and The McCloud Judgement

The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.

The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other Schemes).

It is not known how these cases will affect the LGPS or the cost management process at this time. The Scheme Advisory Board issued guidance here which sets out how the McCloud case should be allowed for within the 2019 valuation.

The potential impact of the judgement (based on the information available at the time) has been quantified and communicated to employers as part of the 2019 valuation. This has been assessed by removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. Employers will be able to choose to include these estimated costs over 2020/23 in their certified contributions. Alternatively, they will need to make allowance within their budgets and note that backdated contributions could be payable if the remedy is known before the next valuation.

Appendix A – Actuarial Method and Assumptions

Method

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

Financial Assumptions – Solvency Funding Target and Cost of Future Accrual

Investment return (discount rate) – Solvency Funding Target

The discount rate has been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 1.25% per annum above CPI inflation, i.e. a total discount rate of 3.65% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

Investment return (discount rate) – Cost of Future Accrual

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

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

The financial assumptions in relation to future service (i.e. the normal cost) are based on an overall assumed real discount rate of 2% per annum above the long term average assumption for consumer price inflation of 2.4% per annum. This leads to a discount rate of 4.4% per annum.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, but subject to an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum. The CPI inflation assumption at the valuation date is 2.4% per annum. This adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any reform of the RPI index as announced by the Chancellor in the March 2020 budget. Any change will then be implemented for all relevant policies in this Funding Strategy Statement.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption, for certain employers allowance may be made for expected short term pay restraint. In such circumstances, the default assumption is for pay growth of 2% (covering both headline increases and incremental drift) each year from the valuation date up to 31st March 2023 although employers will be able to opt for the long-term assumption only should they wish.

Application of bespoke salary increase assumptions as put forward by individual employers will be at the ultimate discretion of the Administering Authority but as a minimum must be reasonable and practical. Employers will need to provide clear evidence that justifies any bespoke assumptions (for example a long-term pay agreement). To the extent that experience differs to the assumption adopted, the effects will emerge at the next actuarial valuation.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. some Guaranteed Minimum Pensions where the LGPS is not currently required to provide full indexation). For members in pensionable employment, their CARE benefits are also indexed by CPI although this can be less than zero i.e. a reduction in benefits, whereas for pension increases this cannot be negative, as pensions cannot be reduced.

Demographic Assumptions

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity ‘improvement’ year on year in the future in line with the CMI projections and a long term improvement trend of 1.75% per annum.

The mortality before retirement has also been reviewed based on LGPS wide experience.

Commutation

It has been assumed that, on average, retiring members will take 80% of the maximum tax-free cash available at retirement. This is broadly equivalent to the assumption at the 2016 actuarial valuation. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the proportions married/civil partnership assumption has been modified from the last valuation. No allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 1.0% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

Employer Asset Shares

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

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

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset share may be restated for changes in data or other policies.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

Summary of Key Whole Fund Assumptions Used for Calculating Funding Target and Cost of Future Accrual (The "Primary Rate") for the 2019 Actuarial Valuation

Long-term yields	
Market implied RPI inflation	3.40% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	3.65% p.a.
CPI price inflation	2.40% p.a.
Long Term Salary increases*	3.90% p.a.
Pension increases/indexation of CARE benefits**	2.40% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.40% p.a.
CPI price inflation	2.40% p.a.
Long Term Salary increases*	3.90% p.a.
Pension increases/indexation of CARE benefits	2.40% p.a.

* in addition to this, an allowance for further short-term pay restraint may be made. This will be 2% per annum for 4 years to 31 March 2023 depending on an employer's circumstances.

** for those members reaching State Pension Age between 6 April 2016 and 5 April 2021, full CPI increases on Guaranteed Minimum Pensions have been assumed once in payment. Otherwise statutory increases on Guaranteed Minimum Pension will apply e.g. nil on Guaranteed Minimum Pensions accrued prior to 6 April 1988 and in line with CPI (subject to a maximum of 3% p.a.) for Guaranteed Minimum Pensions accrued after 5 April 1988.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

-Post retirement mortality tables

Current Status	Retirement Type	Mortality Table
Annuitant	Normal Health	102% S3PMA_CMI_2018 [1.75%] 90% S3PFA_M_CMI_2018 [1.75%]
	Dependant	137% S3PMA_CMI_2018 [1.75%] 88% S3DFA_CMI_2018 [1.75%]
	Ill Health	121% S3IMA_CMI_2018 [1.75%] 125% S3IFA_CMI_2018 [1.75%]
	Future Dependant	130% S3PMA_CMI_2018 [1.75%] 106% S3DFA_CMI_2018 [1.75%]
Active	Normal Health	107% S3PMA_CMI_2018 [1.75%] 91% S3PFA_M_CMI_2018 [1.75%]
	Ill Health	123% S3IMA_CMI_2018 [1.75%] 141% S3IFA_CMI_2018 [1.75%]
Deferred	All	130% S3PMA_CMI_2018 [1.75%] 106% S3PFA_M_CMI_2018 [1.75%]
Future Dependant	Dependant	139% S3PMA_CMI_2018 [1.75%] 114% S3DFA_CMI_2018 [1.75%]

-Life expectancies at age 65

Membership Category	Male Life Expectancy at 65	Female Life Expectancy at 65
Pensioners	22.3	25.0
Actives aged 45 now	23.9	
Deferreds aged 45 now	22.4	25.8

Other demographic assumptions are set out in the Actuary's formal report.

Appendix B – Employer Deficit / Surplus Recovery Plans

For certain employers, as the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing at 3.9% per annum (in line with the long-term pay growth assumption) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

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

Category	Default Deficit Recovery Period	Derivation
Fund Employers	11 years	Determined by maintaining the period from the preceding valuation and to ensure, where appropriate, deficit contributions do not reduce versus those expected from the existing recovery plan.
Open Admitted Bodies	11 years	Determined by maintaining the period from the preceding valuation and to ensure, where appropriate, deficit contributions do not reduce versus those expected from the existing recovery plan.
Closed Employers	Lower of 11 years and the future working lifetime of the membership	Determined by maintaining the period from the preceding valuation and to ensure, where appropriate, deficit contributions do not reduce versus those expected from the existing recovery plan.
Employers with a limited participation in the Fund	Determined on a case by case basis	Length of expected period of participation in the Fund. Generally, for those employers providing a service, this will be the contract length.

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

- The size of the funding shortfall;

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

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

For those employers assessed to be in surplus at the valuation date, the Secondary rate payments will be based on the expected length of participation in the Fund.

Other factors affecting the Employer Deficit Recovery Plans

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

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore may in some cases be willing to use its discretion to accept an evidence based affordable level of contributions for such organisations for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

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

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

Appendix C – Admission and Termination Policy

This document details the London Borough of Bexley Pension Fund's (LBBPF) policy on the methodology for assessment of ongoing contribution requirements and termination payments in the event of the cessation of an employer's participation in the Fund. This document also covers LBBPF's policy on admissions into the Fund and sets out the considerations for current and former admission bodies. It supplements the general policy of the Fund.

A list of all current employing bodies participating in the LBBPF is kept as a live document and will be updated by the Administering Authority as bodies are admitted to, or leave the LBBPF.

Please see the glossary for an explanation of the terms used throughout this Appendix.

Entry to the Fund

Mandatory Scheme Employers

Certain employing bodies are required to join the scheme under the Regulations. These bodies include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income). Academies also fall under this category.

Designating Bodies

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

Admission Bodies

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

Admitted bodies can join the Fund if

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

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

Connected Entities

Connected entities by definition have close ties to a scheme employer given that a connected entity is included in the financial statements of the scheme employer.

Although connected entities are "Designating Bodies" under the Regulations, they have similar characteristics to admitted bodies (in that there is an "outsourcing employer"). However, the Regulations do not strictly require such bodies to have a guarantee from a scheme employer.

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

Second Generation Outsourcings for Staff Not Employed by the Scheme Employer Contracting the Services to an Admitted Body

A 2nd generation outsourcing is one where a service is being outsourced for the second time, usually after the previous contract has come to an end. For Best Value Authorities, principally the unitary authorities, they are bound by The Best Value Authorities Staff Transfers (Pensions) Direction 2007 so far as 2nd generation outsourcings are concerned. In the case of most other employing bodies, they should have regard to Fair Deal Guidance issued by the Government.

It is usually the case that where services have previously been outsourced, the transferees are employees of the contractor as opposed to the original scheme employer and as such will transfer from one contractor to another without being re-employed by the original scheme employer. There are even instances where staff can be transferred from one contractor to another without ever being employed by the outsourcing scheme employer that is party to the Admission Agreement. This can occur when one employing body takes over the responsibilities of another, such as a maintained school (run by the local education authority) becoming an academy. In this instance the contracting body is termed a 'Related Employer' for the purposes of the Local Government Pension Scheme Regulations and is obliged to guarantee the pension liabilities incurred by the contractor.

"Related employer" is defined as "any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority)".

Risk Assessments

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

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

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- If the admitted body has an expected limited lifespan of participation in the Fund;

- The average age of employees to be admitted and whether the admission is closed to new joiners.

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

Admitted Bodies Providing A Service

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

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

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund’s general policy as set out in the FSS.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

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

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

Pre-Funding for Termination

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a minimum risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum risk basis.

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

Exiting the Fund

Termination of an Employer's Participation

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

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

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

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

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

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

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

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

Basis of Termination

Whilst reserving the right to consider options on a case by case basis, the LBBPF's policy is that a termination assessment will be made based on a minimum risk funding basis, unless the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated).

Details of the minimum risk funding basis are shown below.

If, instead, the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities, the LBBPF's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the LBBPF otherwise. The guarantor or successor body will then, following any termination payment made, subsume the assets and liabilities of the employing body within the Fund. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) This may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body, including any funding deficit (or surplus) on closure. In these circumstances no termination payment will be required from (or made to) the outgoing employing body itself, as the deficit (or surplus) would be recovered via the successor body's own deficit recovery plan.

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

Implementation

Admission Bodies Participating by Virtue of a Contractual Arrangement

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

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

- In the case of a surplus, in line with the amending Regulations (The Local Government Pension Scheme (Amendment) Regulations 2020) the parties will need to make representations to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.
- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of completion of the cessation assessment by the Actuary.

- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or at the next valuation.

In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per the separate risk sharing agreement. The default is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor unless representation is made by the relevant parties in line with the Regulations as noted above. For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations unless the Fund is aware of the provisions of the risk sharing agreement in any representation made and determines an exit credit should be paid.

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not known. Where a surplus or deficit is being subsumed, no allowance will be made for McCloud within the calculations. However, if a representation is made to the Administering Authority then a reasonable estimate for the potential cost of McCloud will need to be included. This will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

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

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

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

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

Non Contract Based Admission Bodies with a Guarantor in the Fund

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

Admission Bodies with No Guarantor in the Fund

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

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

The policy for such employers will be:

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

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment, however the final remedy is not known. As part of any termination assessment, a reasonable estimate for the potential cost of McCloud will be included. This will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

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

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

Connected Entities

In the event of cessation, the connected entity will be required to meet any outstanding liabilities valued in line with the approach outlined above. In the event there is a shortfall, the assets and liabilities will revert to the Fund as a whole (i.e. all current active employers).

In the event that a scheme employer provides a guarantee for their connected entity, the assets and liabilities will revert in totality to that scheme employer on termination, including any unrecovered deficit.

Relevant Regulations Within the Local Government Pension Scheme Regulations 2013 (As Amended by the Local Government Pension Scheme (Amendment) Regulations 2018)

Regulation 64 sets out special circumstances where revised actuarial valuations and certificates must be obtained including Regulation 64 (2) where an admission agreement ceases to have effect, the Administering Authority who made it must obtain –

- an actuarial valuation as at the date it ceases the liabilities in respect of current and former employees of the admission body which is a party to that admission agreement ("the outgoing admission body"),
- a revision of any rates and adjustments certificate for any Pension Fund which is affected, showing the exit payment due from the exiting body or exit credit payable to the exiting body. Where it is not possible for any reason to obtain revised contributions from the exiting body, or from an insurer or any person providing an indemnity or bond on behalf of the body, the Administering Authority may obtain a further revision of any rates and adjustment certificate for the Pension Fund, showing –
  a) in the case where the exiting body falls within paragraph 1(d) of Part 3 of Schedule 2 the revised contributions due from the body which is the related employer in relation to that admission body, and
  b) in any other case, the revised contributions due from each employing authority who contributes to the fund.

If the Administering Authority becomes aware or is of the opinion of a Scheme employer becoming an exiting employer, Regulation 64 (4) provides that it may obtain from an actuary a certificate specifying, in the case of an admission body, the percentage or amount by which, in the actuary's opinion -

- the contribution at the primary rate should be adjusted, or
- any prior secondary rate adjusted should be increased or reduced, with a view to providing that assets equivalent to the exit payment that will fall due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet the liability by that date, over such period of time thereafter as the administering authority considers reasonable.

Minimum Risk Termination Basis

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2019) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Least risk assumptions	31 March 2019
Discount Rate	1.5% p.a.
CPI price inflation	2.4% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.

All demographic assumptions will be the same as those adopted for the 2019 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2% p.a. for Males and Females from 1.75% used in the 2019 valuation for ongoing funding and contribution purposes. This assumption will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.

In addition, since the valuation date, it has been announced that RPI inflation is likely to be reformed with the reform potentially meaning the index is closer to the CPIH inflation measure. This would need to be reflected when deriving an updated market estimate of CPI inflation. For example when assessing a termination position (at February 2020) we will adjust the market RPI inflation to arrive at the CPI inflation assumption by deducting 0.7% per annum as opposed to the 1.0% per annum at the valuation date when assessing an employer's termination position. This adjustment will be kept under review as more details emerge on the reform of RPI.

Appendix D – Covenant Assessment and Monitoring Policy

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

An assessment of employer covenant focuses on determining the following:

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

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

Risk Criteria

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

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

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

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

Assessing Employer Covenant

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

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

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

Frequency of Monitoring

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

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

Covenant Risk Management

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

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis (e.g. the termination basis)
3. Shortened recovery periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

Appendix E - Glossary

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

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

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

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

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

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

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

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

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

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

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

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

Employer's Future Service Contribution Rate: the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Employing bodies: any organisation that participates in the LGPS, including admission bodies and Fund employers.

Equities: shares in a company which are bought and sold on a stock exchange.

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

Fund / Scheme Employers: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers.

Funding or solvency Level: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement: this is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

Government Actuary's Department (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

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

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

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

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

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

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

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

Minimum risk basis: an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

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

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

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

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

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

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Profile: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate: a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Real Return or Real Discount Rate: a rate of return or discount rate net of (CPI) inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

Scheduled bodies: types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc., other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Valuation funding basis: the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

Appendix 5

Investment Strategy Statement

Contents

1. Introduction 110

2. Statutory Background 110

3. Directions by the Secretary of State 111

4. Advisers 112

5. Objective of the Fund 112

6. The suitability of particular investments and types of investments 112

7. Asset classes 114

8. Managers 115

9. Approach to risk 116

10. Approach to pooling 119

11. Social, environmental and governance considerations 120

12. Exercise of the rights (including voting rights) attaching to investments 121

13. Stewardship 121

Appendix 1 - Compliance with “Myners” Principles 123

1. Introduction

1.1 This is the Investment Strategy Statement (ISS) of the London Borough of Bexley Pension Fund adopted by Bexley Council (the Council) in its capacity as Administering Authority ("the authority") of the Local Government Pension Scheme. In this capacity the Council has responsibility to ensure the proper management of the Fund.

1.2 The Council has delegated to its Pensions Committee ("the Committee") "all the powers and duties of the Council in relation to its functions as Administering Authority …….. save for those matters delegated to other committees of the Council or to an officer."

1.3 The ISS has been prepared by the Committee having taken appropriate advice. It meets the requirements of Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the Regulations).

1.4 The ISS, which was approved by the Committee on 8 March 2020, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Strategy with each of its employers and the Pension Board. The ISS should be read in conjunction with the Fund's Funding Strategy Statement.

2. Statutory Background

2.1 Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

2.2 The ISS required by Regulation 7 must include:

a) A requirement to invest money in a wide variety of investments;

b) The authority's assessment of the suitability of particular investments and types of investments;

c) The authority's approach to risk, including the ways in which risks are to be measured and managed;

d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

2.3 The ISS must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

3. Directions by the Secretary of State

3.1 Regulation 8 enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with guidance issued by the Department of Communities and Local Government.

3.2 The Secretary of State's power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

3.3 The power of Direction can be used in all or any of the following ways:

a) To require an administering authority to make changes to its investment strategy in a given timescale;

b) To require an administering authority to invest assets as specified in the Direction;

c) To transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and

d) To require an administering authority to comply with any instructions from either the Secretary of State or the appointed person in circumstances when the investment function has been transferred.

3.4 Before issuing any Direction, the Secretary of State must consult the administering authority concerned and before reaching a decision, must have regard to all relevant evidence including reports under section 13(4) of the Public Service Pensions Act 2013, reports from the Scheme Advisory Board or from the relevant local pension board and any representations made in response to the consultation with the relevant administering authority. The Secretary of State also has the power to commission any other evidence or additional information that is considered necessary.

4. Advisers

4.1 Regulation 7 requires the Council to take proper advice when making decisions in connection with the investment strategy of the Fund. In addition to the expertise of the members of the Committee advice is taken from:

- The Director of Finance and Corporate Services
- The Head of Legal Services
- Aon Hewitt Ltd – investment consultancy
- Mercer Ltd – actuarial services consultancy
- The Fund's investment managers

5. Objective of the Fund

5.1 The objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. The sums required to fund these benefits and the amounts actually held (ie the funding position) is reviewed at each triennial actuarial valuation, or more frequently as required. To achieve this, the operational objective of the Fund is to maximise the likelihood of reaching 100% funding on an ongoing basis over the next three valuation periods subject to an acceptable level of downside risk.

5.2 The assets of the Fund are invested with the primary objective being to achieve a return that is sufficient to meet the funding objective as set out above, subject to an appropriate level of risk and liquidity. Over the long-term, it is expected that the Fund's investment returns will be at least in line with the assumptions underlying the actuarial valuation.

5.3 Related objectives are to seek to minimise the level and volatility of employer contributions necessary to meet the cost of pension benefits.

6. The suitability of particular investments and types of investments

6.1 The Committee decides on the investment policies most suitable to meet the liabilities of the Fund and has ultimate responsibility for investment strategy.

6.2 The Committee has translated its investment objective into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

6.3 The approach seeks to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

6.4 As part of the 2019 triennial valuation the Committee at its meeting on 11 March 2020, as advised by Aon Hewitt, considered its investment strategy alongside its funding objective and agreed the following benchmark structure and target ranges.

	Benchmark %	**Target Range %**
UK Equities	0	0 - 20
Global Equities	30	30 - 60
Total Equities	**30**	**30 - 60**
Global Bonds (inc. Corporates)	15	5 - 15
UK Government Bonds	15	0 - 15
Total Bonds	**30**	**5 - 30**
Property	15	5 - 25
Private Equity	7	0 - 15
Infrastructure	8	0 - 15
Illiquid or Multi Asset credit	10	5 - 20
Total Alternatives	**40**	**20 - 50**
Cash	-	0 - 5
Total	**100**	**100**

6.5 Under the existing strategy, the most significant rationale of the structure is to invest the majority of the Fund assets in "growth assets" i.e. those expected to generate 'excess' returns over the long term. These include listed equities and private equity. The structure also includes a small allocation to bonds and alternative assets, including property, infrastructure and diversified growth funds, to provide both diversification and expected returns in excess of liabilities.

6.6 The Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability and diversification given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

6.7 The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not deviate from the target allocation. If such a deviation occurs, except for the private equity investment subject to distributions and drawdowns, a re-balancing exercise is carried out. If necessary the Director of Finance and Corporate Services as Section 151 officer has delegated authority to undertake rebalancing but any such rebalancing activity is reported to the next meeting of the Committee.

7. Asset classes

7.1 The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities, government and non-government bonds, cash, property and other alternative investments either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

7.2 In line with the Regulations, the Council's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with the Council within the meaning of section 212 of the "Local Government and Public Involvement in Health Act 2007".

7.3 Apart from the maximum level of investments detailed above the Fund has no further restrictions.

7.4 The majority of the Fund's assets are highly liquid and the Council is satisfied that the Fund has sufficient liquid assets to meet all expected and unexpected demands for cash. Assets in the Fund that are considered to be illiquid include property, infrastructure and private equity. As a long term investor the Council considers it prudent to include illiquid assets in its strategic asset allocation in order to benefit from the additional diversification and extra return this should provide.

8. Managers

8.1 The Council has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the Local Government Pension Scheme Regulations. Their activities are specified in either detailed investment management agreements or subscription agreements and regularly monitored. The Committee is satisfied that the appointed fund managers, all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business, have sufficient expertise and experience to carry out their roles.

8.2 The investment style is to appoint fund managers with clear performance benchmarks and place maximum accountability for performance against that benchmark with them. Multiple fund managers are appointed to give diversification of investment style and spread of risk. The fund managers appointed are mainly remunerated through fees based on the value of assets under management. Private equity managers are remunerated through fees based on commitments and also performance related fees.

8.3 The managers are expected to hold a mix of investments which reflect their views relative to their respective benchmarks. Within each major market and asset class, the managers maintain diversified portfolios through direct investment or pooled vehicles.

8.4 The management agreement in place for each fund manager sets out, where relevant, the benchmark, performance target and asset allocation ranges. The agreements also set out any statutory or other restrictions determined by the Council. Investment may be made in accordance with The Regulations in equities, fixed interest and other bonds, in the UK and overseas markets and alternative assets. The Regulations specify other investment instruments that may be used, for example, financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts.

8.5 As at the date of this ISS the details of the managers appointed by the Committee are as follows:

Manager	Asset Class	Benchmark
Aviva Investors	Property	AREF/IPD All Balanced Funds Index
BlackRock	Global Bonds	3 Month USD Libor (hedged to GBP) + 5%
Newton	Global Equities	MSCI AC World
	Dynamic Bonds	1 month GBP Libor +2%
Partners	Private Equity	50% FTSE USA / 40% FTSE Europe / 10% FTSE W Asia Pacific
Standard Life	Diversified Growth Fund	3 month GBP Libor +4%
UBS	Infrastructure	CPI + 5%
	UK Equity	FTSE All Share

8.6 Where appropriate, custodians are appointed to provide trade settlement and processing and related services. Where investments are held through funds, the fund appoints its own custodian.

8.7 Stock lending is permitted in pooled funds where applicable. Details of investment managers' procedures and controls are available on request. Managers are permitted undertake stock lending of up to 10% of the Fund's assets subject to the agreement of the Director of Finance and Corporate Services.

8.8 Performance targets are generally set on a three-year rolling basis and the Committee monitors manager performance quarterly. Advice is received as required from officers, the professional investment adviser and the independent advisers. In addition, the Committee requires managers periodically to attend its meetings.

8.9 The Council also monitors the qualitative performance of the Fund managers to ensure that they remain suitable for the Fund. These qualitative aspects include changes in ownership, changes in personnel, and investment administration

9. Approach to risk

9.1 The Committee has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

9.2 At least once a year the Committee will review its risk register which details the principal risks identified and the Committee's approach to managing them. The Funding Strategy Statement also includes a section on risk and the ways it can be measured and managed.

9.3 The most significant investment risks and methods of managing them are summarised in paragraphs 9.4 – 9.6 below.

9.4 Whilst the objective of the Committee is to maximise the return on its investments, it recognises that this has to be within certain risk parameters and that no investment is without an element of risk. The Committee acknowledges that the predominantly equity based investment strategy may entail risk to contribution stability, particularly due to the short term volatility that equity investments can involve. The long term nature of the Fund and the expectation that longer term returns from equity investments will exceed those from bonds mean, however, that a significant equity allocation remains an appropriate strategy for the Fund.

9.5 A policy of diversification for its investments and investment managers helps the Committee to mitigate overall risk. Benchmarks and targets against which investment managers are expected to perform are further measures put in place to manage the risks for the Fund.

9.6 With investment returns included, the Fund has a positive cash flow that enables investment in illiquid asset classes e.g. private equity, infrastructure and property. More than 80% of the fund is invested in equities and bonds and diversified growth funds that are highly liquid.

9.7 Funding risks

9.7.1 The major funding risks identified are:

- Fund assets are not sufficient to meet long term liabilities
- Relative movement in value of Fund assets does not match the relative movement in Fund liabilities
- Demographic movements, particularly longevity, structural changes in membership and increases in early retirements. and
- Insufficient assets to meet short and medium term liabilities

9.7.2 The Committee measures and manages these potential financial mismatches in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling undertaken in 2013 which focused on probability of success and level of downside risk. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities; however, key metrics such as probability of reaching full funding and a key risk measure will be re-evaluated once the results of the 2017 analysis have been considered, to ensure the benchmark is still appropriate.

9.7.3 The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

9.7.4 The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise.

9.7.5 Demographic factors including the uncertainty around longevity / mortality projections (e.g. longer life expectancies) contribute to funding risk. There are limited options currently available to fully mitigate or hedge this risk.

9.8 Asset risks

9.8.1 The major asset risks identified are:

- Significant allocation to any single asset category and its underperformance relative to expectation.
- General fall in investment markets
- Failure by fund managers to achieve benchmark returns

9.8.2 The Committee measure and manage asset risks as follows:

- The Fund's strategic asset allocation policy requires investments in a diversified range of asset classes, markets and investment managers. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. These rebalancing ranges have been designed to allow the Fund to deviate from target in response to economic developments. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds the Committee has recognised the need for access to liquidity in the short term.

• The Committee has considered the risk of underperformance by any single investment manager and has attempted to reduce this risk by appointing more than one manager. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

9.9 Security

9.9.1 The major asset risks identified are:

• Investment manager may not have an appropriate control framework in place to protect and value Fund assets

• Custody arrangements may not be sufficient to safeguard fund assets

• Counterparty default in stock lending programme

9.9.2 The Committee monitors and manages risks in these areas through the regular scrutiny of the audit of the operations independently conducted for each of its investment managers. Where appropriate (e.g. custody risk in relation to pooled funds). The Fund has delegated such monitoring and management of risk to the appointed investment managers. The Committee has the power to replace a provider should serious concerns exist.

10. Approach to pooling

10.1 The Fund, along with all London boroughs, is a shareholder and participating scheme in London LGPS CIV Limited ("London CIV"). The London CIV is authorised by the Financial Conduct Authority as an Alternative Investment Fund Manager with permission to operate a UK based Authorised Contractual Scheme fund. The structure and basis on which the London CIV will operate was set out in the July 2016 submission to Government.

10.2 The Fund's intention is to invest its assets through the London CIV as and when suitable pool investment solutions become available. At each of its meetings the Committee considers an update report on progress.

10.3 At the time of preparing this Statement no suitable investment products have become available. The Fund will transition liquid assets into the London CIV when there are suitable investment strategies that meet the asset allocation and investment strategy available on the London CIV platform. The Fund anticipates being able to transition some of the liquid assets across in advance of April 2018.

10.4 The Fund holds 20% of assets in illiquid assets and these are expected to remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

10.5 Any assets deemed not appropriate for investment through the London CIV will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether the non-pooled investments continue to demonstrate value for money. The next such review will take place no later than 2019.

10.6 The governance structure of the London CIV has been designed to ensure that there are both formal and informal routes to engage with all the London boroughs as both shareholders and investors. This is achieved through a combination of the London Councils' Sectoral Joint Committee, comprising nominated Member representatives from the London boroughs, and the Investment Advisory Committee formed from nominated borough officers, which includes both London borough treasurers and pension officers from a number of boroughs. At the company level it is the Board of Directors that is responsible for decision making within the company, which includes decisions to appoint and remove investment managers.

11. Social, environmental and governance considerations

11.1 The Council recognises that it has a paramount duty to seek to obtain the best possible return on the Fund's investments taking into account a properly considered level of risk. However, it recognises that environmental, social and governance factors can influence long term investment performance and the ability to achieve long term sustainable returns. As a general principle it considers that the long-term financial performance of a company is likely to be enhanced if it follows good practice in its environmental, social and governance activities.

11.2 At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee understand the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

11.3 All the Fund's investments are managed by external fund managers, the majority of which are in pooled funds, and the Council recognises the constraints inherent in this policy. Nevertheless it expects its managers, acting in the best financial interests of the Fund, to consider, amongst other factors, the effects of environmental, social and other issues on the performance of companies in which it invests. The Council expects its managers to have signed up to "The UK Stewardship Code" and to report regularly on their compliance with the Code and other relevant environmental, social and governance principles.

11.4 In addition the Committee meets most of its managers at least once a year and they are always asked to discuss the activities they undertake in respect of socially responsible investment and how they consider long term environmental, social and governance risks in making specific investment decisions.

11.5 The Fund does not hold any assets which it deems to be social investments.

12. Exercise of the rights (including voting rights) attaching to investments

12.1 The Council sees itself as an active shareholder and seeks to exercise its rights (including voting rights) to promote and support good corporate governance principles which in turn will feed through into good investment performance.

12.2 In practice, the Fund's equity holdings are expected to be wholly invested through pooled funds in which voting and engagement decisions are made by fund managers. The Council encourages its fund managers to vote and engage with investee companies worldwide to ensure they comply with best practice in corporate governance in each locality with the objective of preserving and enhancing long term shareholder value.

12.3 Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies.

12.4 The fund managers provide reports on their voting and engagement activities.

12.5 Any investments the Fund makes through the London CIV will be covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

13. Stewardship

13.1 The Committee has considered, but not yet signed up to, the Institutional Shareholders Committee Code on the Responsibilities of Institutional Investors ("The UK Stewardship Code"). The Fund publishes a statement of compliance with the Stewardship Code on its website and expects its investment managers to have signed up to The UK Stewardship Code.

13.2 The Committee also expects the London CIV and all managers which it appoints to sign up to the Code.

13.3 The Fund has reviewed the London CIV Statement of Compliance with the Stewardship Code and has agreed to adopt this Statement.

14. Compliance with "Myners" Principles

14.1 In Appendix 1 are set out the details of the extent to which the Fund complies with the six updated "Myners" principles set out in the Chartered Institute of Public Finance and Accountancy's publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012." These principles codify best practice in investment decision making.

Appendix 1 - Compliance with "Myners" Principles

1. Effective decision-making

1.1 Administering authorities should ensure that:

- Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.
- Those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

1.2 Fund compliance – Full

- The Council has delegated decision making in respect of the Pension Fund to the Committee, comprising six Councillors with full voting rights with observers from Admitted and scheduled bodies, pensioners and employers.
- The Committee, with advice from its Investment Adviser has appropriate skills for, and is run in a way that facilitates, effective decision making.
- Members of the Committee are provided with training opportunities in line with the skills and knowledge framework produced by CIPFA and a training log is maintained. Details of training provided each year are included in the Fund's annual report.
- There are sufficient internal resources and access to external resources for the Committee to make effective decisions.

2. Clear objectives

2.1 An overall investment objective(s) should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers and the attitude to risk of both the Administering Authority and scheme employers. These should be clearly communicated to advisers and investment managers.

2.2 Fund compliance – Full

- The Fund's Investment Strategy Statement and Funding Strategy Statement set out its investment objectives which are agreed after consultation with the Fund actuary and take into account the Fund's liabilities, the impact on employer contribution rates, future cashflows and the Fund's attitude to risk.
- Asset allocation, benchmarks and risk parameters are set with the aim of achieving these objectives.
- Fund managers have clear written mandates with individual performance targets and benchmarks and their performance is measured and reviewed by the Committee on a quarterly basis.
- Full account is taken of the strength of the sponsor covenant for all non-local authority employers admitted to the fund and contribution rates set accordingly.

3. Risks and Liabilities

3.1 In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

3.2 Fund compliance – Full

- A risk register is maintained with specific investment risks identified
- The Committee, in setting its investment strategy, has taken account of the form and structure of its liabilities following advice from the Fund's actuary. The strategy aims to achieve the return required to

meet its liabilities whilst taking into account stability of contributions and affordability for employers.
• Consideration is given to the payment of a bond by prospective admitted bodies to the Fund to minimise the financial consequences of default.
• A risk assessment and suggestions as to how the risks can be managed is included in the triennial valuation.
• Longevity risk is built into the triennial actuarial and is therefore included when determining the investment strategy.
• Investment risk, including that of underperformance is taken into account in the Investment Strategy Statement and the Fund's Annual Report.

4. Performance Assessment

4.1 Arrangements should be in place for the formal measurement of the performance of investments, investment managers and advisers. Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

4.2 Fund compliance – Partial
• In addition to overall Fund performance, the Committee considers the performance of individual investment managers against their benchmarks on a quarterly basis; matters of poor performance are addressed through meetings with fund managers and, if necessary, the termination of contracts.
• Following the cessation of WM as independent performance measurer for the Fund, Northern Trust, the Fund's custodian is working to provide quarterly and annual reports detailing the performance of the Fund and its managers and identifying the achievements resulting from asset allocation and manager performance.
• The performance of actuaries and advisers is informally assessed on an ongoing basis.
• The performance of the Fund is reported annually to all scheme members and is included in the Annual report; the Committee will be considering ways of improving their accountability, particularly following the establishment of the Pension Board.

5. Responsible Ownership

5.1 Administering authorities should:
• Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
• Include a statement of their policy on responsible ownership in the Investment Strategy Statement.
• Report periodically to members on the discharge of such responsibilities.

5.2 Fund compliance – Partial
• The Fund's policy on the extent to which its investment managers take account of social, environmental and ethical considerations is stated in the Investment Strategy Statement.
• The Fund expects its managers to engage positively and seek to influence companies in which the Fund invests to take account of key social, environmental and ethical considerations.
• Where applicable, the Fund expects its managers to have adopted the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.
• Whilst the Fund's equity holdings are wholly invested through pooled funds in which voting and engagement decisions are made by fund managers the Council encourages its managers to vote and

engage with investee companies worldwide to ensure they comply with best practice in corporate governance in each locality. The fund managers provide reports on their voting and engagement activities.

6. Transparency and Reporting

6.1 Administering authorities should:

• Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

• Provide regular communication to members in the form they consider most appropriate.

6.2 Fund compliance – Full

• The Fund makes available a range of documents including:

- Annual Report including Statement of Accounts.
- Communications Policy Statement.
- Investment Strategy Statement.
- Funding Strategy Statement.
- Triennial Actuarial Valuation.
- Agenda and Minutes of the Pensions Committee.
- Annual Statement of Benefits to all active and deferred members.
- Newsletter to pensioners once a year.
- Newsletters to active members at least once a year.

Appendix 6

London Borough of Bexley Pension Fund Communications Policy Statement

Background

The Local Government Pension Scheme (LGPS) Regulations require administering authorities to prepare, publish and maintain a policy statement setting out its communication strategy for communicating with scheme members, scheme members' representatives, prospective scheme members and their employing authorities.

An effective communications strategy is vital for any organisation which strives to provide high quality and consistent service to its customers. In public service organisations particularly, these processes need to be clear and open to scrutiny.

The principles and methods (the policy) to achieve effective communications are shown on the following pages.

Principles

- To provide clear and consistent information reducing the potential for confusion and uncertainty.
- To provide timely and accurate communications and a proactive information service that is factual and precise.
- To undertake customer satisfaction surveys and to act upon feedback and comment.
- To use the most appropriate communication medium for the customer audience.
- To address, where possible, the requirements of a diverse customer base with regard to information access.

Method

The Fund's principal method of communicating with and providing information to members and employers is the website at www.lppapensions.co.uk.

The administering authority will deliver its communications policy, in partnership with the Local Pensions Partnership Administration (LPPA - the Council's pension scheme administrators), by the following methods:

Scheme Members and Representatives

- Access to the website www.lppapensions.co.uk which contains scheme details, news items, annual reports and guides to the scheme with links to other relevant organisations and the option of viewing personal details via a secure logon.
- A comprehensive range of scheme literature is available from the LPPA or accessible from the website.
- Members, including pensioners and deferred members, will be able to access the Annual Report on the Council website each year. This provides an overview of any changes to the scheme and a report of the Fund's performance.

- Current and deferred scheme members will receive a Benefit Statement in August each year detailing the current and prospective value of their pension benefits.
- Pensioners will be given access to their personal details and electronic payslips via an online Member Self Service system.
- An individual annual pension statement will be published online for all pensioners in April each year. This will notify them of the paydays for the next twelve months and detail their gross pension payable including any relevant pensions increase and an estimated net value. A paper copy will be sent to pensioners by the end of May each year - if they opt for this method.
- P60 statement of earnings will be available via the Online Member Self Service system, and a paper copy will be sent to pensioners by the end of May each year - if they opt for this method.

Prospective Members

- A short scheme guide is available for prospective employees via the website www.lppapensions.co.uk.
- New employees are automatically enrolled into the scheme as part of their employment contract.
- Any employees who have opted out of the LGPS will be automatically re-enrolled every three years however they are able to opt out again if they so wish
- Information relating to joining the LGPS and the right to opt-out is available via the www.lppapensions.co.uk website

Scheme Employers

- An Employer Forum will be organised each year where employers will be informed on changes to the scheme and current topics of interest.
- Regular contact will be maintained to ensure prompt communication of changes to the scheme and topical issues as they arise will be featured as news items accessible via the website www.lppapensions.co.uk.
- Employers are emailed a quarterly newsletter updating them on new developments and administrative requirements for the scheme.
- An 'employers pack' detailing the interactions between the administering authority and employers will be provided and maintained.
- Access to a secure portal for Employers via the website for transmission of data to LPP as and when required.

Appendix 7

Glossary

Accounting Period
The period of time covered by the accounts, normally twelve months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

Accounting Policies
The basis on which an organisation's financial statements are based to ensure that those statements "present fairly" the financial position and transactions of that organisation.

Accruals
Sums included in the final accounts to recognise revenue and expenditure earned or incurred in the accounting period, but for which actual payment had not been received or made as at the end of the period.

Active Management
A style of investment management which seeks to provide outperformance of a relevant benchmark through either asset allocation, market timing or stock selection (or a combination of these). This contrasts with passive management that seeks to replicate the performance of a selected benchmark.

Actuarial Gains and Losses
These may arise on pension scheme assets and liabilities. A gain represents a positive difference between the actuarial assumptions and actual experience (eg. liabilities during the period were lower than expected). A loss represents a negative difference between the actuarial assumptions and actual experience (eg. liabilities during the period were higher than estimated).

Actuarial Valuation
A review of the Pension Fund by a qualified Actuary, which takes place every three years to ensure that employers' contributions are sufficient to maintain the solvency of the Fund in the long-term.

Actuary
An independent qualified consultant who carries out the Actuarial Valuation and advises on new investment strategies or changes to the benefit structure.

Administering Authority
A local authority required to maintain a pension fund under LGPS regulations.

Admitted Bodies
An organisation which, under the LGPS regulations, is able to apply to the Administering Authority to join the Scheme (e.g. a contractor providing services to the Council). Upon acceptance, an Admission Agreement is prepared admitting the organisation and allowing its employees to join.

Asset
An item owned by the Pension Fund which has a value, such as investments or cash.

Asset Allocation / Asset Mix
The apportionment of a fund's assets between asset classes and/or markets. Asset allocation may be either strategic i.e. long-term, or tactical i.e. short-term, aiming to take advantage of relative market movements.

Asset Liability Study
A tool to examine how well alternative investment strategies (differing asset allocations) meet the fund's liabilities to inform the target asset allocation for the Fund

Auditor
An independent qualified accountant who is required to verify and agree the Pension Fund Accounts and issue an opinion on their accuracy.

Balance Sheet
A statement of the recorded assets, liabilities and other balances at the end of the accounting period.

Benchmark
A "notional" fund or model portfolio which is developed to provide a standard against which a manager's performance is measured e.g. for a global equity fund the benchmark against which it will be measured could be made up 50%/50% by UK equities / overseas equities. A target return is generally expressed as some margin over the benchmark.

Bond
A certificate of debt, paying a fixed rate of interest, issued by companies, governments or government agencies.

Budget
The statement of the Pension Fund's policy expressed in financial terms usually for the current or forthcoming year. Also known as Forecast.

Cash Equivalents
These are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash Equivalents are held for the purpose of meeting short term cash commitments rather than for investment purposes.

Chartered Institute of Public Finance and Accountancy (CIPFA)
CIPFA is the professional accountancy institute that sets the standards for the public sector. CIPFA publishes the Accounting Codes of Practice for local government.

Code of Practice On Local Authority Accounting (The Code)

The Code of Practice on Local Authority Accounting in the United Kingdom 2014-15: Based on International Financial Reporting Standards (the Code) aims to achieve consistent financial reporting between all English local authorities. It is based in generally accepted accounting standards and practices.

Collateral

An asset (cash or securities) posted from one counterparty to another, and held as a guarantee against the value of a specified portfolio of trades or other transactions. Commonly referred to as margin, the collateral acts as a credit-risk mitigant. A collateral call is the demand by a derivatives counterparty for an investor to transfer cash or securities to collateralise movements in the value of a derivatives contract.

Contingent Liabilities

Potential costs that the Pension Fund may incur in the future because of something that happened in the past.

Creditors

Amounts owed by the Pension Fund for goods and services provided for which payment has not been made at the end of the financial year.

Currency Forward

An agreement between two counterparties to buy/sell a specified quantity of the underlying currency at a specified future date. Contracts are settled in cash on the expiration date.

Custody/Custodian

Safekeeping of securities by a financial institution. The custodian keeps a register of holdings and will collect income and distribute monies according to client instructions.

Debtors

Sums of money due to the Pension Fund but not received at the end of the financial year.

Deficit

Arises when expenditure exceeds income or when expenditure exceeds available budget.

Equities

Ownership positions (shares) in companies that can be traded on public markets. They often produce income that is paid in the form of dividends. In the event of a company going bankrupt, equity holders' claims are subordinate to the claims of bond holders and preferred stock holders.

Events After The Balance Sheet Date

Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

Exceptional Items
Material items which derive from events or transactions that fall within the ordinary activities of the Pension Fund and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Expected Return on Pension Assets
This is the average rate of return, including both income and changes in fair value but net of scheme expenses, which is expected over the remaining life of the related obligation on the actual assets held by the scheme.

Extraordinary Items
Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Pension Fund and which are not expected to recur. They do not include exceptional items, nor do they include prior period items merely because they relate to a prior period.

Fair Value
The price at which an asset could be bought or sold in a transaction with another organisation.

Financial Asset
A right to future economic benefits.

Financial Instrument
Any contract that gives rise to a financial asset in one organisation and a financial liability in another.

Financial Liability
An obligation to transfer economic benefits.

Fixed Interest Securities
Investments in stocks mainly issued by governments, which guarantee a fixed rate of interest.

FTSE
A company that specialises in index calculation. Although not part of a stock exchange, co-owners include the London Stock Exchange and the Financial Times. They are best known for the FTSE 100, an index of the top 100 UK companies (ranked by size).

Fund Manager
A firm of professionals appointed by the Pensions Committee to carry out day to day investment decisions for the Fund within the terms of their Investment Management Agreement.

Gilts
Bonds issued by the British government. They are the equivalent of U.S. Treasury securities.

Hedging
A strategy which aims to eliminate a risk in an investment transaction (both upside and downside potential). Often used in the context of overseas investments to eliminate the impact of currency movements.

IFRS
International Financial Reporting Standards. All local authorities are required to operate under IFRS.

Index
A benchmark for the performance of a group of shares or bonds.

Index Linked Securities
U.K. Government issue stocks on which the interest, and eventual repayment of the loan, is based on movements in the Retail Price Index.

Initial Margin
The upfront collateral requirement, set aside as a guarantee to an underlying futures contract, generally a percentage of the notional amount of the contract.

Investment Advisor
A professionally qualified individual or company whose main livelihood is derived from providing objective, impartial investment advice to companies, pension funds or individuals.

LGPS
Local Government Pension Scheme.

Liability
An obligation to transfer economic benefits. Current liabilities are usually payable within one year.

Mandate
A set of instructions given to the fund manager by the client as to how a fund is to be managed (e.g. targets for performance against a benchmark may be set or the manager may be prohibited from investing in certain stocks or sectors).

Market Price
This is the price at which another organisation is prepared to buy or sell an asset.

Market Value
The “on paper” value of a security at a specific point in time. It is calculated by multiplying the number of shares held by market price of that share in sterling terms.

Outperformance / underperformance
The difference in returns gained by a particular fund against the “average” fund or an index over a specified time period i.e. a target for a fund may be outperformance of a given benchmark over a 3 year period.

Outturn
The actual amount spent in the financial year.

Pension Fund
A fund which makes pension payments on retirement of its participants.

Performance
A measure, usually expressed in percentage terms, of how well a fund has done over a particular time period – either in absolute terms or as measured against the "average" fund of a particular benchmark.

Portfolio
Term used to describe all investments held.

Private Equity
Investments in new or existing companies and enterprises which are not publicly traded on a recognised stock exchange.

Provision
An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

Regulations
The Scheme is governed by Regulations approved by Parliament. Necessary amendments are made to these Regulations by means of Statutory Instruments.

Reserves
A reserve is an amount set aside for a specific purpose in one financial year and carried forward to meet expenditure in future years.

Revenue Expenditure and Income
Revenue Expenditure includes day to day expenses, mainly salaries and wages, pensions and general running expenses. Revenue income includes charges made for services.

Risk
Generally taken to mean the variability of returns. Investments with greater risk must usually promise higher returns than more "stable" investments before investors will buy them.

Scheduled Bodies
These are organisations as listed in the Local Government Pension Scheme Regulations, the employees of which may join the Scheme as of right.

Securities
Investment in company shares, fixed interest or index-linked stocks.

Investment Strategy Statement

Requirement, arising from the Pensions Act 1995, that all occupational pension plan trustees must prepare and maintain a written Investment Strategy Statement outlining policy on various investment matters (e.g. risk, balance between real and monetary assets, realisability of assets etc).

Surplus

Arises when income exceeds expenditure or when expenditure is less than available budget.

Transfer Values

Capital value transferred to or from a scheme in respect of a contributor's previous periods of pensionable employment.

Unit Trusts

A method which allows investors money to be pooled and used by fund managers to buy a variety of securities.

Value Added Tax (VAT)

A tax on consumer expenditure, which is collected on business transactions at each stage in the supply, but which is ultimately borne by the final customer.

Variation

The difference between budgeted expenditure and actual outturn, also referred to as an over or under spend.

Variation Margin

A cash collateral requirement that moves up and down with the value of a futures contract.