# Pension Fund Annual Report 2022/23

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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

The Pension Fund Committee is responsible for overseeing the governance of the London Borough of Bexley Pension Fund, including investment management and pensions administration. As the Chairman of this Committee, I am pleased to introduce the Pension Fund's Annual Report for the year 2022/23.

Councillor Howard Jackson, Chairman of the Pension Fund Committee

The Pension Fund's market value was £966.9m at 31 March 2023, a net decrease in Fund value of £86.4m due to a difficult economic climate this year primarily affecting fixed income and property asset classes. This is in comparison to the net increase in fund value of £59.7m in 2021/22. The Pension Fund Committee continues to monitor the Fund closely at every meeting and challenges the officers, investment advisers and investment managers as necessary to ensure the Fund's investments are being managed effectively.

The Pension Fund was last valued by the Fund's actuary, Mercer, at the 31 March 2022 triennial actuarial valuation. The actuary reported that the Fund had sufficient assets to cover 114% of the liabilities.

The Fund continues to work closely with its LGPS pool, the London Collective Investment Vehicle (LCIV), to achieve efficiencies through pooling of Pension Fund assets. The Fund continues to benefit from the lower fees negotiated in active equity and alternative investment managers. The Fund's proportion of assets pooled with LCIV, including passive holdings, are at approximately 70%.

The Pension Fund is committed to being a responsible investor and has made great strides within renewable energy infrastructure and other Environment, Governance and Social (ESG) investments in the last year. The Pension Fund has committed part of their portfolio into Sustainable Equity with further commitments to impact public equity decided in the March 22 pensions committee meeting.

The Pension Fund produced a Responsible Investment Statement in 2022, furthering the Fund's commitment to environmental, social and governance factors as a core part of its investment decision making.

I would like to thank all those involved in the governance of the London Borough of Bexley Pension Fund during the year during 2022/23, especially the members of the Pension Fund Committee and the Local Pension Board, as well as officers and support staff.

# Introduction

The London Borough of Bexley Pension Fund is part of the national Local Government Pension Scheme (LGPS), administered by London Borough of Bexley Council. It is a contributory defined benefit pension scheme established under statute, which provides for the payment of benefits to employees and former employees of the London Borough of Bexley Council and the admitted and scheduled bodies in the Fund.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and returns from the Fund's investments. Contribution rates for employees and employers are set by the Fund's actuary at the actuarial valuation which is carried out every three years. The most recent revaluation, carried out as at 31 March 2022, was used to set contribution rates with effect from 1 April 2023 through to April 2026.

A new LGPS scheme was introduced with effect from 1st April 2014. One of the main changes is that a scheme member's pension is no longer based on their final salary but on their earnings throughout their career. This is known as a Career Average Revalued Earnings (CARE) scheme. Everything built up in the Scheme before 1st April 2014 is protected so benefits up to that date will be based on the scheme member's final year's pay.

Benefits payable from the Fund are set out in the Local Government Pension Scheme Regulations 2013, as amended, and in summary consist of:

- A pension based on career average earnings (revalued in line with the Consumer Price Index)
- Pensionable pay to include non-contractual overtime and additional hours
- Flexibility for member to pay 50% contributions for 50% of the pension benefit
- Normal pension age to equal the individual member's State Pension Age
- Option to trade £1 of pension for a £12 tax-free lump sum at retirement
- Death in service lump sum of three times pensionable pay and survivor benefits
- Early payment of pensions in the event of ill health

The Fund is governed by the Public Service Pensions Act 2013 and the LGPS Regulations 2013 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2016. The content and format of this annual report is prescribed by the LGPS Regulations 2013.

Publication of this report gives the Council the opportunity to demonstrate the high standard of governance and financial management applied to the Fund. It brings together several separate reporting strands into one comprehensive document that enables both the public and employees to see how the Fund is managed and how well it is performing.

It is in the interest of both employees and the public that the Fund is well managed and continues to provide high returns and excellent value for money.

Detailed guidance on the accounting and disclosure requirements for LGPS financial statements and annual report is published by CIPFA annually and can be found online. This guidance includes a Code disclosure checklist, listed by must, should and may, which the London Borough of Bexley has applied in the preparation of the annual report and accounts.

This annual report comprises the following sections:

- **Management and Financial Performance** which explains the governance and management arrangements for the Fund, as well as summarising the financial position and the approach to risk management.
- **Investment Policy and Performance** detailing the Fund's investment strategy, arrangements and performance.
- **Scheme Administration** which sets out how the Scheme's benefits and membership are administered.
- The **funding position** of the Fund with a statement from the Fund's actuary.
- **The Fund's annual accounts** for the year ended 31 March 2023
- **Asset Pools** and their governance structure including costs
- **List of contacts** and a glossary of some of the more technical terms
- **Appendices** setting out the various regulatory policy statements of the Fund:
    - Governance Compliance Statement
    - Investment Strategy Statement
    - Communication Policy
    - Funding Strategy Statement

# Governance Arrangements

## Pension Fund Committee

London Borough of Bexley Council has delegated responsibility for pension matters to the Pension Fund Committee (the Committee). The Committee obtains and considers advice from the Tri-Borough Director of Pensions and Treasury, the Section 151 Officer and, as necessary, from the Fund's appointed actuary, advisors and investment managers.

Terms of Reference for the Pension Fund Committee are set out in Appendix 1 as part of the Governance Compliance Statement.

The Committee is made up of four elected Members of the Council (three from the majority party and one minority party representative) who meet at least four times a year. All members have full voting rights.

The Pension Fund Committee membership during 2022/23 was as follows:

- Councillor Howard Jackson (Chairman)
- Councillor Andrew Curtois (Vice-Chairman)
- Councillor Patrick Adams
- Councillor Zainab Asunramu
- Councillor Brian Bishop
- Councillor Felix Di Netimah
- Councillor Baljeet Gill
- Councillor Caroline Newton
- Councillor Chris Taylor
- Councillor Nicola Taylor

Councillors may be contacted at 2 Watling Street, Bexleyheath, DA6 7AT

## Local Pension Board

The Pension Fund Committee established a local Pension Board in compliance with the requirements of the Public Service Pensions Act. The purpose of the Board is to provide oversight of the Fund Committee.

The Board comprises of 3 members – 1 from the Council representing employers and 2 employee representatives. The Chairman is elected by the Board.

The Board membership during 2022/23 was as follows:

- Geoff Smithson (Chairman – member rep)
- Councillor Peter Reader (Vice-chairman – employer rep)
- Oliver Wooller (member rep)

## Conflicts of Interest

The Pension Fund is governed by elected members acting as trustees and the Code of Conduct for elected members sets out how any conflicts of interests should be addressed. A copy is available from Legal and Democratic Services at 2 Watling Street, Bexleyheath, DA6 7AT

The Code includes general provisions on ethics and standards of behaviour which require elected members to treat others with respect and not to bully, intimidate or do anything to compromise the impartiality of those who work for or on behalf of the Council. The Code also contains rules about "disclosable pecuniary interests" and sets out the action an elected member must take when they have such an interest in Council business, for instance withdrawing from the room or chamber when the matter is discussed and decided in committee, unless dispensation has been obtained from the Council's Monitoring Officer.

The Code also requires elected members to register disclosable pecuniary interests.

## Governance Compliance Statement

The LGPS Regulations 2013 require Pension Funds to prepare, publish and maintain a governance compliance statement; and to measure the governance arrangements in place against a set of best practice principles. This measurement should result in a statement of full, partial or non-compliance with a further explanation provided for any non- or partial compliance.

The key issues covered by the best practice principles are:

- Formal committee structure;
- Committee membership and representation;
- Selection and role of lay members;
- Voting rights;
- Training, facility time and expenses.

The Fund's Governance Compliance statement can be found in Section 9.

# Scheme Management and Advisors

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

| **External Parties** | | |
|---|---|---|
| **Investment Adviser** | Redington Ltd | |
| **Investment Managers** | **Equities (Active)**<br>London LGPS CIV Ltd - Newton<br>London LGPS CIV Ltd - RBC<br>**Index-linked GILTS (Passive)**<br>Blackrock<br>**Infrastructure**<br>London LGPS CIV Ltd – Stepstone<br>London LGPS CIV Ltd – (Various)<br>**Bonds**<br>London LGPS CIV Ltd - PIMCO | **Fixed Income**<br>Blackrock<br>**Property**<br>UBS Global Asset Management<br>LaSalle Investment Management<br>London LGPS CIV Ltd - Aviva<br>**Private Equity**<br>Partners Group<br>**Illiquid Credit**<br>M&G |
| **Asset Pool** | London Collective Investment Vehicle (LCIV) | |
| **Custodian** | Northern Trust | |
| **Banker** | Natwest | |
| **Actuary** | Mercer Ltd | |
| **Auditor** | Ernst and Young LLP | |
| **Legal Adviser** | Bexley Legal Services | |
| **Scheme Administrators** | Local Pensions Partnership Administration (LPPA) | |
| **AVC Providers** | Prudential plc | |

| **Officers** | | |
|---|---|---|
| **Director of Finance and Corporate Services** | Paul Thorogood | |
| **Tri-Borough Pensions Team** | Phil Triggs<br>Mathew Dawson | Ruby Vuong<br>Sukhdev Singh (From November 2022) |
| **Pensions and Payroll Officer** | Richard Smyth | Ricky Canning |

# Risk Management

The Fund's primary long-term risk is that its assets fall short of its liabilities such that there are insufficient assets to pay promised benefits to members. The investment objectives have been set with the aim of maximising investment returns over the long term within specified risk tolerances. This aims to optimise the likelihood that the promises made regarding members' pensions and other benefits will be fulfilled.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Committee.

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

In order to manage risks a Pension Fund Risk Register is maintained and reviewed quarterly. Risks identified have been reduced through planned actions. The risk objective areas of risk have been updated to reflect the CIPFA risk classifications. The Risk Register is managed by the Tri-Borough Director of Pensions and Treasury.

The key risks identified within the Pension Fund risk register, as updated on 28 June 2023, are:

| Objective area at risk | Risk | Risk rating | Mitigating actions |
|---|---|---|---|
| **Liability Risk** | Price inflation is significantly more than anticipated in the actuarial assumptions<br><br>Inflation continues to rise in the UK and globally due to labour shortages, supply chain issues, and high energy prices. Bank of England predicts inflation at 13%" | Red | 1) The fund holds investments in bonds, inflation linked long lease property and other real assets to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection. 2) Officers continue to monitor the increases in CPI inflation on an ongoing basis. |
| **Asset and Investment Risk** | Significant volatility and negative sentiment in global investment markets following disruptive | Red | 1) Continued dialogue with investment managers re management of political risk in global developed markets. 2) |

| | | | |
|---|---|---|---|
| | geopolitical and economic uncertainty. On 24 February 2022, Russia invaded Ukraine marking an escalation in the conflict which has been ongoing since 2014. | | Investment strategy involving portfolio diversification and risk control. 3) The Fund alongside its investment consultant continually reviews its investment strategy in different asset classes. 4) The London Borough of Bexley Pension Fund can report that as at 28 June 23, the value of direct investments to Russia or Ukraine within the Pension Fund's asset classes is minimal. |
| **Asset and Investment Risk** | Increased scrutiny on environmental, social and governance (ESG) issues, leading to reputational damage.<br><br>TCFD regulations impact on LGPS schemes currently unknown but expected to come into force during 2023. | Red | 1) Review ISS in relation to published best practice (e.g., Responsible Investment Statement)<br>2) The Fund currently invested in renewable infrastructure and recently invested in a sustainable equity fund.<br>3) The Fund has produced and continues to review its Responsible Investment Policy<br>4) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors.<br>5) Officers attend training sessions on ESG and TCFD requirements. |
| **Administrative and Communicative Risk** | Legislative and Regulatory Changes such as McCloud, Pooling guidance, Fair Deal, Changes to exit credits, Deferred employer status, 4 year valuations, HE/FE status change, TCFD requirements for LGPS, Levelling Up Agenda | Red | 1) Officers to horizon scan and to attend Pension Officers Forums, CIPFA events etc to ensure that they are up to date with any legislative or regulatory changes. 2) Bexley to respond where appropriate to Government consultations. Changes in Legislation and Regulation and the impact on the Fund are reported to |

| | | | |
|---|---|---|---|
| | | | Pensions Committee. 3) Officers have the relevant experience, skills and knowledge to ensure legislation and regulations are complied with |
| **Liability Risk** | Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 2.7%.<br>Inflation continues to rise in the UK and globally due to labour shortages, supply chain issues, and high energy prices. | Red | 1) The fund holds investments in bonds, inflation linked long lease property and other real assets to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection. 2) Officers continue to monitor the increases in CPI inflation on an ongoing basis. 3) Short term inflation is expected due to a number of reasons on current course. |
| **Asset and Investment Risk** | Significant volatility and negative sentiment in global investment markets following disruptive geopolitical and economic uncertainty. On 24 February 2022, Russia invaded Ukraine marking an escalation in the conflict which has been ongoing since 2014. | Red | 1) Continued dialogue with investment managers re management of political risk in global developed markets. 2) Investment strategy involving portfolio diversification and risk control. 3) The Fund alongside its investment consultant continually reviews its investment strategy in different asset classes. 4) The London Borough of Bexley Pension Fund can report that as at 28 June 2023, the value of direct investments to Russia or Ukraine within the Pension Fund's asset classes is minimal. |
| **Asset and Investment Risk** | Increased scrutiny on environmental, social and governance (ESG) issues, | Red | 1) Review ISS in relation to published best practice (e.g. Stewardship Code) 2) Ensure fund managers are encouraged to engage and to follow |

| | | | |
|---|---|---|---|
| | leading to reputational damage. | | the requirements of the published ISS. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and Pensions and Lifetime Savings |
| **Administrative and Communicative Risk** | Legislative and Regulatory Changes such as McCloud, Pooling guidance, Fair Deal, Changes to exit credits, Deferred employer status, 4 year valuations, HE/FE status change, TCFD requirements for LGPS, Levelling Up Agenda | Red | 1) Officers to horizon scan and to attend Pension Officers Forums, CIPFA events etc to ensure that they are up to date with any legislative or regulatory changes. 2) Bexley to respond where appropriate to Government consultations. Changes in Legislation and Regulation and the impact on the Fund are reported to Pensions Committee. 3) Officers have the relevant experience, skills, and knowledge to ensure legislation and regulations are complied with |
| **Liability Risk** | Scheme members live longer than expected leading to higher-than-expected liabilities.<br><br>This risk is trending down as life expectancy does not increase at rates expected. | Amber | 1) The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down. |
| **Asset and Investment Risk** | Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers. | Amber | 1) Proportion of total asset allocation made up of equities, bonds, property funds, infrastructure, and fixed income, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation. 3) Actuarial valuation and strategy review take place every three years |

| | |
|---|---|
| | post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. |

Risks arising from financial instruments are outlined in the notes to the Pension Fund Accounts (Note 15).

The Funding Strategy Statement (at Appendix 4) sets out the key risks, including demographic, regulatory, governance, to not achieving full funding in line with the strategy. The actuary reports on these risks at each triennial valuation or more frequently if required.

## Third Party Risks

The Council has outsourced the following functions of the Fund:

- Investment management;
- Custodianship of assets;
- Pensions administration.

As these functions are outsourced, the Council is exposed to third party risk. A range of investment managers are used to diversify manager risk.

To mitigate the risks regarding investment management and custodianship of assets, 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 Fund investments asset value decreased by £95m to £956m as at 31 March 2023 from £1.051bn as at 31 March 2022. This was largely as a result of poor gilt and bond performance throughout the year due to geopolitical and economic factors.

The most recent triennial valuation took place as at 31 March 2019, this covers the three financial years from 2020/21. The funding level during the 2019 valuation was 101%, however, funding levels for different employers vary significantly.

By the time this report is published, another triennial valuation took place as at 31 March 22, which covers three financial years from 2023/24.

## Analytical Review

| Fund Account | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Dealings with members** | | | | |
| **Contributions** | (30,028) | (29,640) | (31,631) | (32,285) |
| **Pensions** | 35,951 | 38,866 | 39,508 | 41,782 |
| **Net (additions)/withdrawals from dealings with members** | 5,923 | 9,226 | 7,877 | 9,497 |
| | | | | |
| **Management expense** | 7,670 | 5,376 | 6,758 | 6,543 |
| **Investment Income** | (17,231) | (12,903) | (14,133) | (16,761) |
| **(Profit) and losses on disposal of investments and changes in value of investments** | 27,719 | (146,791) | (60,250) | 87,147 |
| **Net (increase)/decrease in the Fund** | **24,081** | **(145,092)** | **(59,748)** | **86,426** |

Over the four-year period, pensions paid have exceeded the contributions received by £32.5m. This is due to the increased levels of benefits paid.

During 2022/23, the net decrease in Fund value was £86.4m, compared to an increase in value of £59.7m during the 2021/22. This is due to fixed income and property asset classes performing poorly.

Both officers and the Pension Fund Committee monitor investment performance closely and refer to independent investment advice to ensure the Fund’s investments are being managed effectively.

| **Net Asset Statement** | **2019/20** | **2020/21** | **2021/22** | **2022/23** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| **Investment Assets** | 831,463 | 897,652 | 974,815 | 925,738 |
| **Cash/Temporary Investments** | 16,272 | 105,321 | 76,224 | 30,512 |
| **Total Investment Assets** | **847,735** | **1,002,973** | **1,051,039** | **956,250** |
| | | | | |
| **Current assets** | 1,619 | 10,352 | 13,238 | 11,868 |
| **Current Liabilities** | (872) | (10,556) | (10,955) | (1,222) |
| **Long Term Liabilities** | | (9,195) | - | - |
| **Total Net Assets available to fund benefits** | **848,482** | **993,574** | **1,053,587** | **966,896** |

The points to note are:

- 33% of pooled investment vehicles comprise of global equity shareholdings, 14% in property pooled funds, 13% in GILTS, 13% in Bonds, 7% in Infrastructure, 5% in Fixed income, while the remaining is invested in illiquid credit and other alternatives.
- The overall value of assets in the pooled London Collective Investment Vehicle decreased by £8m (excluding passive BlackRock funds). However, the overall proportion of pooled assets within the portfolio has increased by 4.2%.
- Cash deposits decreased by £40.8m due to capital calls taking place within the alternative mandates as well as redemptions made on Money Market Funds and Liquid Credit holdings.
- Current assets decreased by £1.3m at 31 March 2023, this was due to lower contributions due by employers.

Further details are given in the Investment Policy and Performance Section.

## Analysis of dealings with Scheme Members

| Contributions Receivable | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| - Members | (6,375) | (6,144) | (6,409) | (7,013) |
| - Employers | (19,767) | (17,753) | (21,654) | (21,502) |
| - Transfers in | (3,886) | (5,743) | (3,480) | (3,532) |
| **Total Income** | **(30,028)** | **(29,640)** | **(31,543)** | **(32,047)** |

| Benefits/Expenses | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| - Pensions | 28,084 | 28,720 | 29,262 | 30,589 |
| - Augmented Service | 7 | 7 | 10 | 0 |
| - Commutation of Pensions and Lump Sum Retirement Benefits | 3,875 | 4,101 | 5,414 | 4,821 |
| - Lump Sum death benefits | 1,026 | 554 | 750 | 400 |
| - Refunds | 126 | 107 | 112 | 33 |
| - Individual transfers out to other schemes | 2,833 | 5,376 | 3,960 | 5,939 |
| **Total Expenditure** | **35,951** | **38,865** | **39,508** | **41,782** |
| **Net Dealings with Members** | **5,923** | **9,225** | **7,965** | **9,735** |

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 when comparing year on year.

The key variances were due to the following:

- Employer contributions increased between 21/22 and 22/23, this was due to the increased level employer contribution rate for some employers.
- Transfers in slightly decreased during the year, reflecting a lower number of new starters joining the scheme in comparison to the previous year.
- Transfers out increased in 2022/23 reflecting a higher number of members choosing to transfer their benefits to another employer or remove them under the freedom of choice legislation.
- There was a total increase in 2022/23 in pensions, commutation, and lump sum retirements, reflecting the higher number of people reaching retirement age or taking retirement earlier.

## Analysis of Operational Expenses

| | **2020/21** | **2021/22** | **2022/23** |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Administration** | | | |
| **Employees** | (N/A)* | 378 | 271 |
| **Supplies and services** | (N/A)* | 209 | 176 |
| | **503** | **587** | **447** |
| **Governance and Oversight** | | | |
| **Employees** | (N/A)* | 356 | 217 |
| **Investment advisory services** | (N/A)* | 115 | 72 |
| **Governance and compliance** | (N/A)* | 29 | 88 |
| **External audit** | 16 | 43 | 13 |
| **Actuarial fees** | 89 | 148 | 206 |
| | **506** | **691** | **596** |
| **Investment Management** | | | |
| **Management fees** | 4,292 | 4,261 | 5,042 |
| **Custody and performance measurement fees** | 41 | 1,155 | 370 |
| **Transaction Costs** | 34 | 64 | 87 |

| | | | |
|---|---|---|---|
| | **4,367** | **5,480** | **5,499** |
| **Total** | **5,376** | **6,758** | **6,542** |

The key variances were due to the following:

- During 2022/23, the administration costs decreased by 28%, as a result of lower charges by the administrator.
- Governance and oversight costs during 2022/23 decreased by 14%. This is due to fewer full-time staff being employed by the Pension Fund in comparison to 21/22 where both Bexley and Tri-borough staff were employed.
- Total investment management costs have decreased by 3%. This is due to decreased custody and performance fees.

*Breakdown at this level not provided in 2020/21 report.

# Administration Management Performance

The administration of the Fund is managed by London Borough of Bexley Council and undertaken by Local Pensions Partnership Administration (LPPA) under a contractual arrangement 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.

During 2022, LPPA moved all clients over to a new pension administration system, known as Universal Pensions Management (UPM). This implementation process was called Project PACE. The second phase of this was completed in March 2023.

Due to the

## Performance Indicators

The administration contract includes a number of performance indicators included to ensure that service to members of the Pension Fund is effective. This membership generates a considerable workload for the fund administrators (LPPA). A breakdown of the cases completed up until end 31st March 2023 and the percentage completed on time are shown in the table below:

| Type of Case | SLA Target (Working Days) | Total Processed | Performance 22/23 | Total on Time | Target | Difference from Target* |
|---|---|---|---|---|---|---|
| New Starters | 10 | 853 | 95.8% | 817 | 95.0% | 0.8% |
| Transfer In | 10 | 121 | 78.5% | 95 | 95.0% | -16.5% |
| Transfer Out | 10 | 408 | 82.1% | 335 | 95.0% | -12.9% |
| Estimates | 10 | 273 | 91.6% | 250 | 95.0% | -3.4% |
| Deferred Benefits | 15 | 396 | 85.1% | 337 | 95.0% | -9.9% |
| Deaths | 5 | 234 | 64.5% | 151 | 95.0% | -30.5% |
| Retirements (Immediate) | 5 | 340 | 85.6% | 291 | 95.0% | -9.4% |
| Retirements (Deferred) | 5 | 396 | 95.1% | 377 | 95.0% | 0.1% |
| Refunds | 5 | 237 | 75.5% | 179 | 95.0% | -19.5% |
| Correspondence | 10 | 189 | 85.7% | 162 | 95.0% | -9.3% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Aggregation | 10 | 218 | 93.6% | 204 | 95.0% | -1.4% |
| Other** | Various | 335 | 90.7% | 304 | 95.0% | -4.3% |

*(-) denotes a decrease against the target

**'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

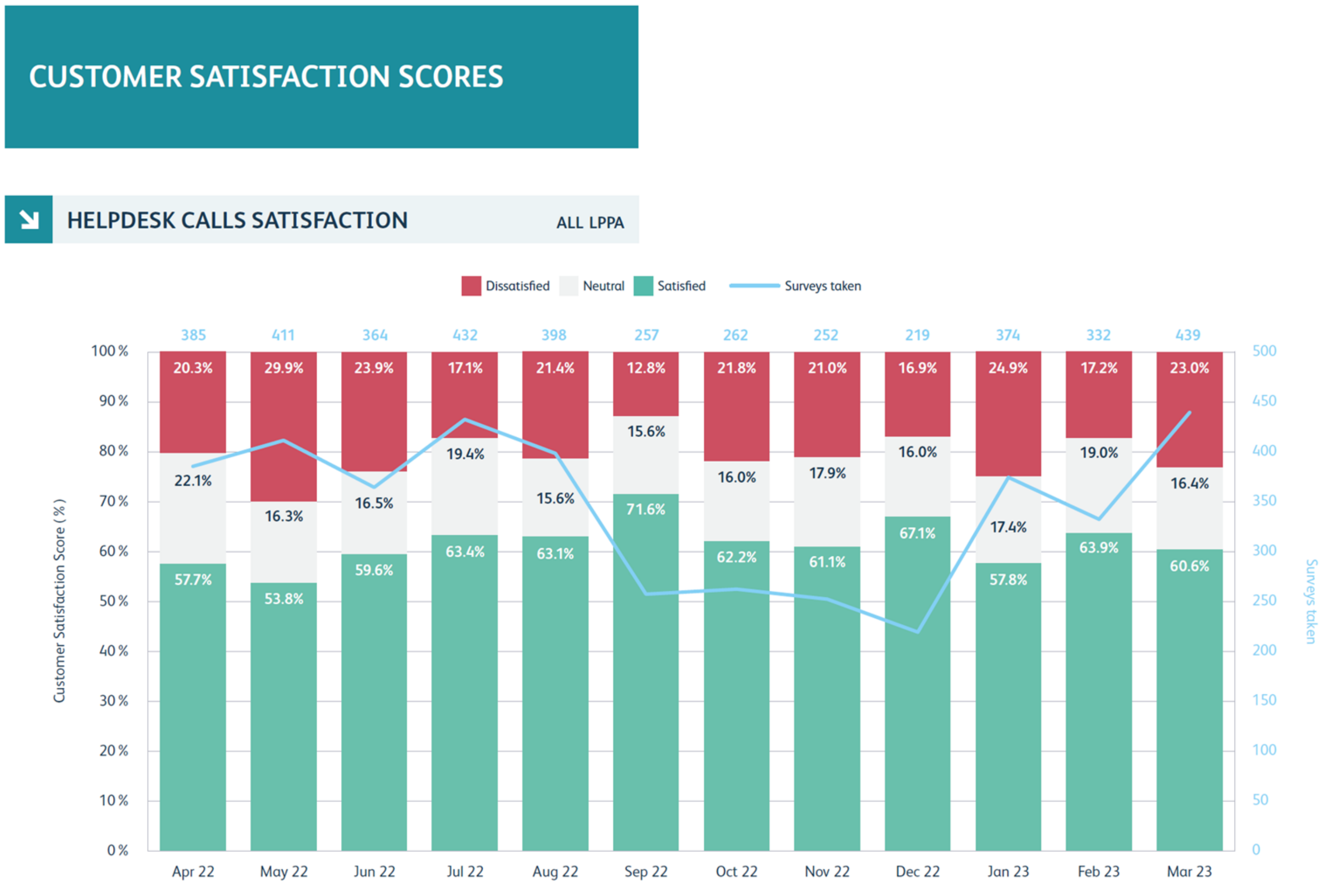
Following LPPA's migration to a new pension administration system, performance levels have decreased overall. However, the Pension Fund will continue to monitor LPPA's process throughout the migration and is sent regularly updates on the progress of the project.

## Complaints Received

The pension administrators occasionally deal with members of the fund who dispute an aspect of their pension benefits. These cases are dealt with by the Internal Dispute Resolution Procedure (see section 4).

Waiting for update

# Help Desk Satisfaction

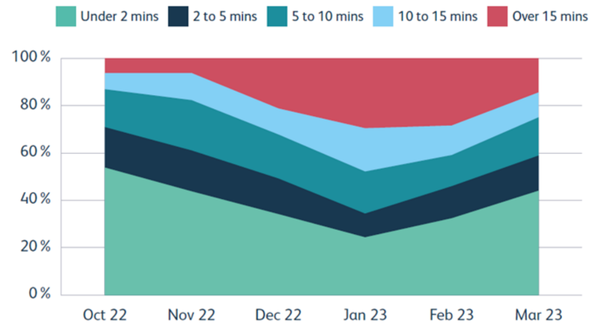


# Pensions Helpdesk Performance

Performance across the Pensions Helpdesk is summarised below. The Helpdesk deals with all call and email enquiries from both members and employers that LPPA provide administration services for.

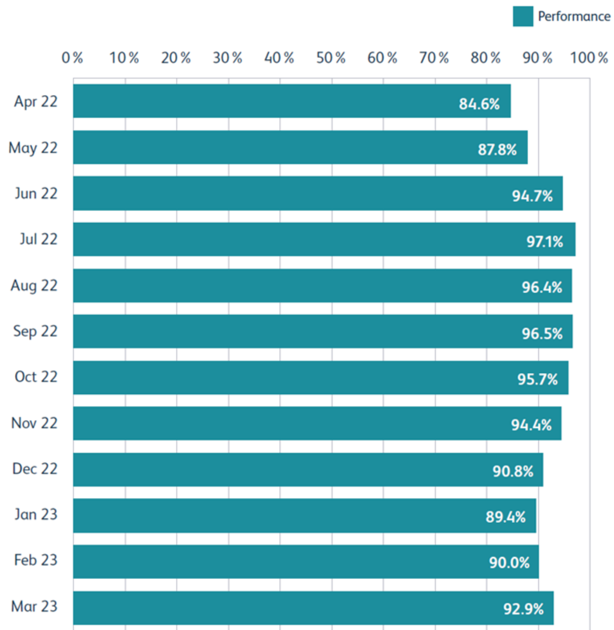
## HELPDESK CALLS PERFORMANCE

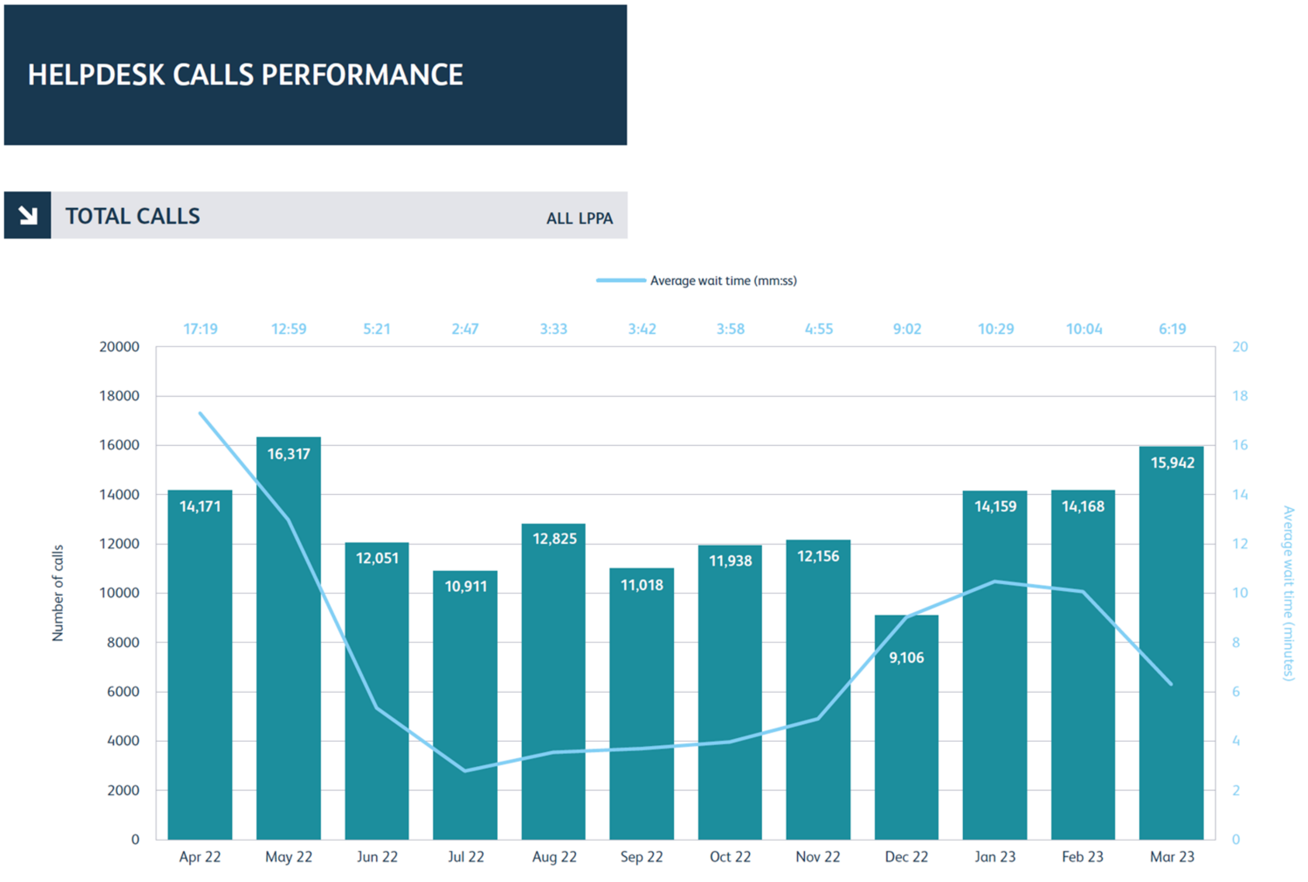
### WAIT TIME RANGE — ALL LPPA




| | Under 2 mins | 2 to 5 mins | 5 to 10 mins | 10 to 15 mins | Over 15 mins |
|---|---|---|---|---|---|
| Oct 22 | 53.8 % | 17.1 % | 16.0 % | 6.8 % | 6.3 % |
| Nov 22 | 43.8 % | 17.3 % | 21.2 % | 11.4 % | 6.3 % |
| Dec 22 | 34.2 % | 15.1 % | 18.6 % | 11.0 % | 21.2 % |
| Jan 23 | 24.4 % | 10.0 % | 17.8 % | 18.3 % | 29.6 % |
| Feb 23 | 32.4 % | 13.6 % | 13.1 % | 12.5 % | 28.4 % |
| Mar 23 | 44.1 % | 14.9 % | 16.1 % | 10.5 % | 14.5 % |

### CALLS ANSWERED (%) — ALL LPPA






*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

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, Universal Pensions Management (UPM), produced by Civica Ltd. The LPPA allocate a total of 2 full time equivalent staff to the Bexley contract, but these come from a wide range of expertise that would not be available locally.

Bexley and LPPA seek to operate in the most efficient manner possible. The MHCLG/DLUHC publish the Government's SF3 statistics covering aspects of pension fund administration. In the latest available statistics, those for 2021/22, the administrative costs per member in Bexley were £26.19 compared to the average of £26.68 across the LGPS funds in the country. Therefore, the Fund is achieving greater value for money from its administration function than its peers.

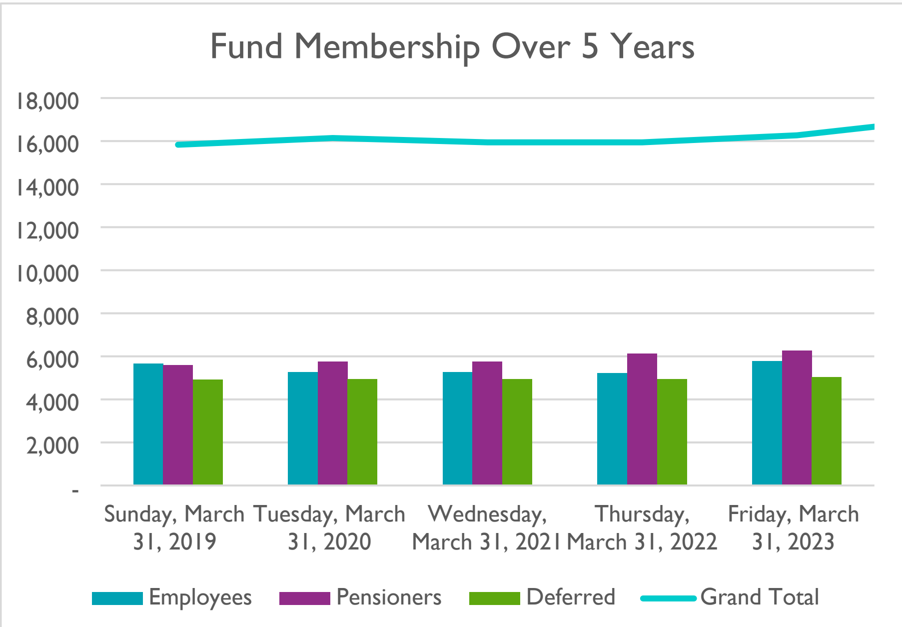
# Membership Numbers and Trends

The membership of the Fund as at 31st March 2023 was as follows:

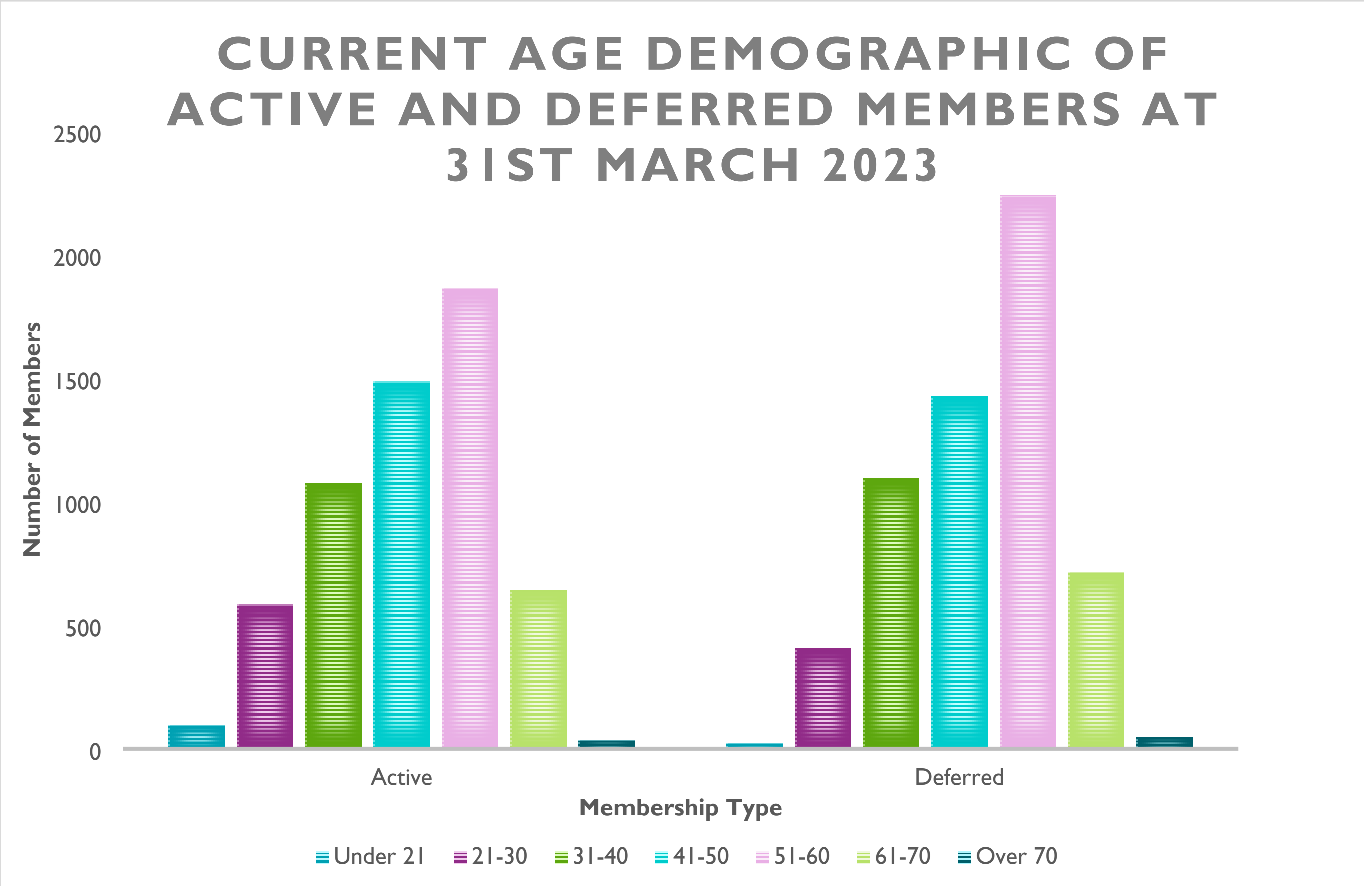
| 31 March 2022 | | 31 March 2023 |
|---|---|---|
| | **Number of employees in the Fund:** | |
| **2,228** | London Borough of Bexley | 2,307 |
| **2,977** | Other employers | 3,473 |
| **5,205** | **Total** | **5,780** |
| | **Number of pensioners in the Fund:** | |
| **4,961** | London Borough of Bexley | 5,018 |
| **1,164** | Other employers | 1,247 |
| **6,125** | **Total** | **6,265** |
| | **Number of deferred pensioners in the Fund:** | |
| **3,547** | London Borough of Bexley | 3,537 |
| **1,391** | Other employers | 1,484 |
| **4,938** | **Total** | **5,021** |

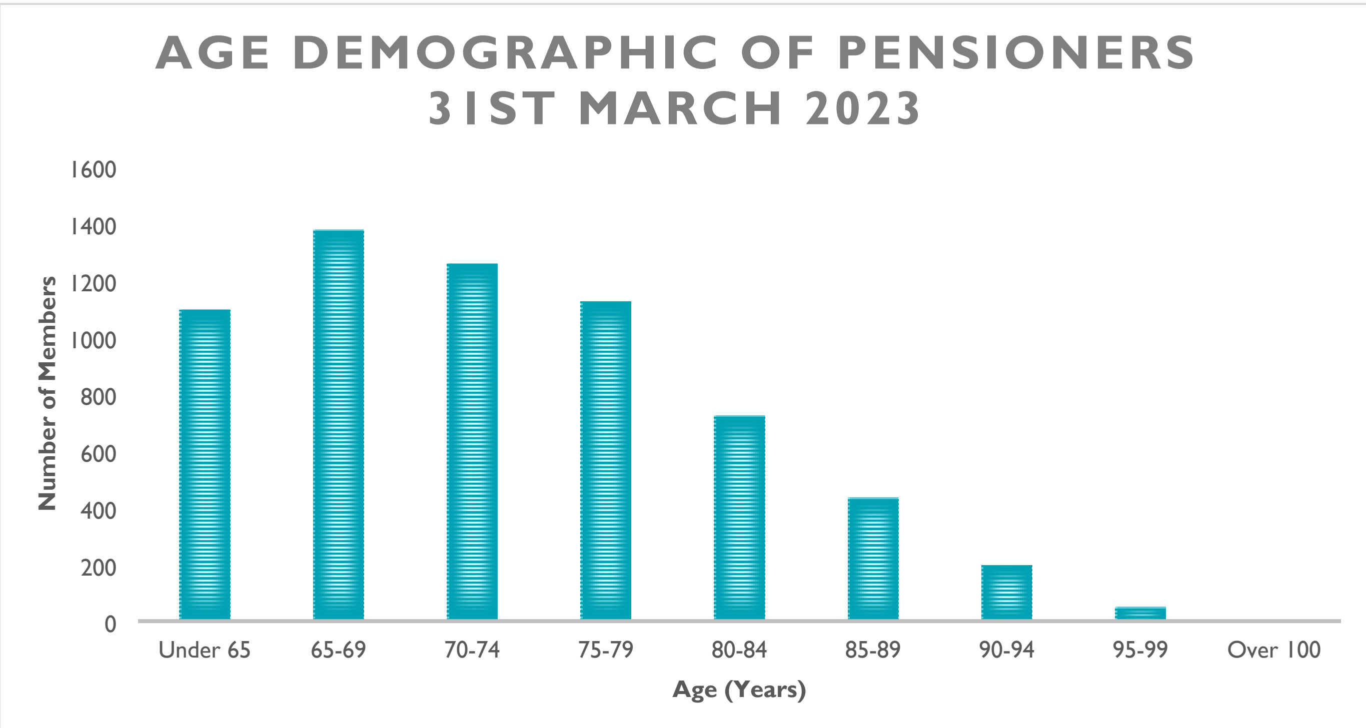
Active contributing member numbers increased by 575 from 5,205 to 5,780 over the course of the year.

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 2023:



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 2021* | *31 March 2022* | *31 March 2023* |
|---|---|---|---|
| ***Redundancy*** | *14* | *71* | *3* |
| ***Efficiency*** | *0* | *0* | *0* |
| ***Ill Health*** | *6* | *4* | *7* |
| ***Compassionate*** | *0* | *0* | *0* |
| ***Total*** | ***20*** | ***75*** | ***10*** |

## Contributing Employers and Contributions Received

Below is a list of the current active contributing employers and the contributions received for 2022/23 (figures include early retirement and deficit funding contributions).

| **Administering Authority** | **Employees Contributions** | **Employers Contributions** | **Total Contributions** |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **London Borough of Bexley Council** | (4,036) | (9,195) | (13,231) |
| **Total Contributions from Administering Authority** | **(4,036)** | **(9,195)** | **(13,231)** |

## Scheduled Bodies

The Fund provides pensions not only for employees of London Borough of Bexley Council, but also for the employees of a number of scheduled and admitted bodies.

Scheduled bodies are organisations which have a statutory right to be a member of the Local Government Pension Scheme under the regulations e.g. academy schools.

| **Scheduled Bodies** | **Employees Contribution** | **Employers' Contributions** | **Total Contributions** |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Aspire Academy** | (22) | (78) | (99) |

| | | | |
|---|---|---|---|
| **Barnehurst Infants School** | (13) | (57) | (70) |
| **Barnehurst Junior School** | (66) | (193) | (259) |
| **Belmont Academy** | (43) | (152) | (195) |
| **Belvedere Infants School** | (19) | (60) | (79) |
| **Belvedere Junior School** | (20) | (81) | (101) |
| **Beth's Grammar School** | (63) | (262) | (326) |
| **Bexley Co** | (37) | (70) | (107) |
| **Bexley Grammar School** | (53) | (331) | (384) |
| **Bexleyheath Academy** | (30) | (170) | (200) |
| **Blackfen Academy** | (74) | (300) | (374) |
| **Brampton School** | (28) | (133) | (162) |
| **Burnt Oak Junior School** | (14) | (65) | (79) |
| **Bursted Woods School** | (37) | (162) | (200) |
| **Castilion Academy** | (25) | (86) | (111) |
| **Chatsworth School** | (14) | (65) | (80) |
| **Chislehurst & Sidcup Grammar School** | (47) | (209) | (256) |
| **Christ Church School** | (38) | (142) | (180) |
| **Cleeve Meadow School** | (29) | (89) | (118) |
| **Cleeve Park School** | (86) | (318) | (404) |
| **Cornerstone T** | (11) | (34) | (45) |
| **Cygnus Academies Trust** | (40) | (138) | (178) |
| **Days Lane School** | (47) | (194) | (241) |
| **East Wickham Infants Academy** | (50) | (196) | (246) |
| **Eastcote Primary School** | (16) | (69) | (84) |
| **Harris Academy Falconwood** | (65) | (228) | (293) |

| | | | |
|---|---|---|---|
| **Harris Gerrard Academy** | (76) | (244) | (320) |
| **Hillsgrove Primary School** | (26) | (109) | (136) |
| **Holy Trinity Lamorbey C.E. Primary School** | (14) | (68) | (83) |
| **Hook Lane School** | (31) | (113) | (144) |
| **Hope Community School** | (9) | (36) | (46) |
| **Hurst Primary School** | (37) | (160) | (197) |
| **Hurstmere School** | 29 | (228) | (200) |
| **Jubilee Primary Academy** | (28) | (123) | (151) |
| **King Henry Academy** | (65) | (328) | (470) |
| **Lessness School** | (35) | (149) | (184) |
| **Mayplace School** | (37) | (167) | (204) |
| **New Generation Schools Trust** | (5) | (15) | (20) |
| **New Horizons Academy** | (60) | (241) | (301) |
| **Normandy Primary School** | (34) | (123) | (158) |
| **Northwood Academy** | (17) | (86) | (102) |
| **Oakwood Academy** | (39) | (108) | (146) |
| **Old Bexley C of E Primary School** | (63) | (215) | (278) |
| **Pelham Primary Academy** | (38) | (111) | (148) |
| **Pioneer Academy Central** | (46) | (147) | (193) |
| **Royal Park School** | (35) | (165) | (200) |
| **Shenstone Academy** | (124) | (472) | (597) |
| **Sherwood Park Primary School** | (35) | (120) | (154) |
| **Slade Green Academy** | (31) | (159) | (190) |
| **St Catherine's Academy** | (65) | (232) | (297) |
| **St Columba's Academy** | (67) | (364) | (431) |

| | | | |
|---|---|---|---|
| **St Michael's Academy** | (8) | (39) | (46) |
| **St Paulinus C of E Primary School** | (12) | (53) | (65) |
| **St Peter Chanel** | (14) | (47) | (61) |
| **St Thomas More** | (9) | (46) | (55) |
| **St Augustine of Canterbury School** | (18) | (76) | (94) |
| **The Ignis Academy Trust** | (94) | (411) | (505) |
| **The Woodland Academy Trust** | (134) | (437) | (571) |
| **Townley Grammar** | (95) | (298) | (393) |
| **Trinity Academy** | (96) | (335) | (431) |
| **Upland School** | (27) | (107) | (133) |
| **Welling School** | (99) | (356) | (454) |
| **Woodside Academy** | (78) | (264) | (342) |
| **Total Contributions from Scheduled Bodies** | **(2,657)** | **(10,637)** | **(13,371)** |

## Admitted Bodies

Admitted bodies participate in the pension scheme via an admission agreement made between the Council and the employing organisation. Examples of admitted bodies are not for profit organisations linked to the Council and contractors who have taken on delivery of services with Council staff also transferred to third parties.

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

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

| Admitted Bodies | Employees Contribution | Employers Contributions | Total Contributions |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Avante** | (4) | 0 | (4,180) |
| **Birkin Cleaning Services** | (2) | (10) | (12,487) |
| **Busy Bee** | (0) | (0) | (589) |
| **Capita** | (1) | (0) | (1,195) |
| **Cherry Tree Nursery (GB) Ltd** | (0) | (1) | (821) |
| **Choice Support** | 0 | (348) | (347,600) |
| **Class Technology Solutions** | (1) | (5) | (6,673) |
| **Cleantec Services Ltd** | (21) | (96) | (116,844) |
| **Countrystyle** | (130) | (414) | (543,296) |
| **Danson Youth Trust** | (4) | (17) | (21,375) |
| **Early Years Alliance** | (1) | (3) | (3,305) |
| **Harrison Catering Service Ltd** | (0) | (1) | (832) |
| **Humankind** | | | 0 |
| **Inspire Community Trust** | (13) | 0 | (12,658) |
| **Lewis & Graves (Erith)** | | | 0 |
| **London & Quadrant** | (2) | (0) | (2,651) |
| **London Hire** | (2) | 2 | (221) |
| **Northgate** | 0 | 8 | 8,200 |
| **Rose Bruford College** | (120) | (322) | (442,167) |
| **School Friends Club** | (0) | (1) | (1,175) |
| **Serco** | | | 0 |
| **Steeled PCS Ltd** | (4) | (14) | (17,683) |

| | | | |
|---|---|---|---|
| **Tivoli** | (15) | (37) | (51,336) |
| **Total Contributions from Admitted Bodies** | **(320)** | **(1,259)** | **(1,637)** |
| **Grand Total** | **(7,013)** | **(21,091)** | **(28,239)** |

## Employer Analysis

The following table summarises the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding pensions liabilities).

| Employer Type | Active | Ceased | Total |
|---|---|---|---|
| **Administering Authority** | 1 | 0 | 1 |
| **Scheduled Body** | 59 | 0 | 59 |
| **Admitted Body** | 18 | 1 | 19 |
| **Total** | **80** | **2** | **82** |

# Investment Policy

The Pension Fund Committee sets out a broad statement of the principles it has employed in establishing its investment and funding strategy in the Investment Strategy Statement (ISS). The ISS has been updated following the asset allocation strategy review during 2021 and can be found within section 9 (appendices).

The ISS sets out responsibilities relating to the overall investment policy of the Fund including:

- asset allocations
- restrictions on investment types
- methods of investment management
- performance monitoring.

The ISS also sets out the Fund's approach to responsible investment and corporate governance issues, and how the Fund demonstrates compliance with the "Myners Principles". These Principles are a set of recommendations relating to the investment of pension funds originally prepared by Lord Myners in 2001 and subsequently endorsed by Government. The current version of the Myners Principles covers the following areas:

- Effective decision making;
- Clear objectives;
- Risk & liabilities;
- Performance Measurement;
- Responsible ownership;
- Transparency and reporting.

For 2022/23, the LGPS (Management and Investment of Funds) Regulations 2016, requires the Fund to publish an Investment Strategy Statement (ISS), which replaces the Statement of Investment Principles.

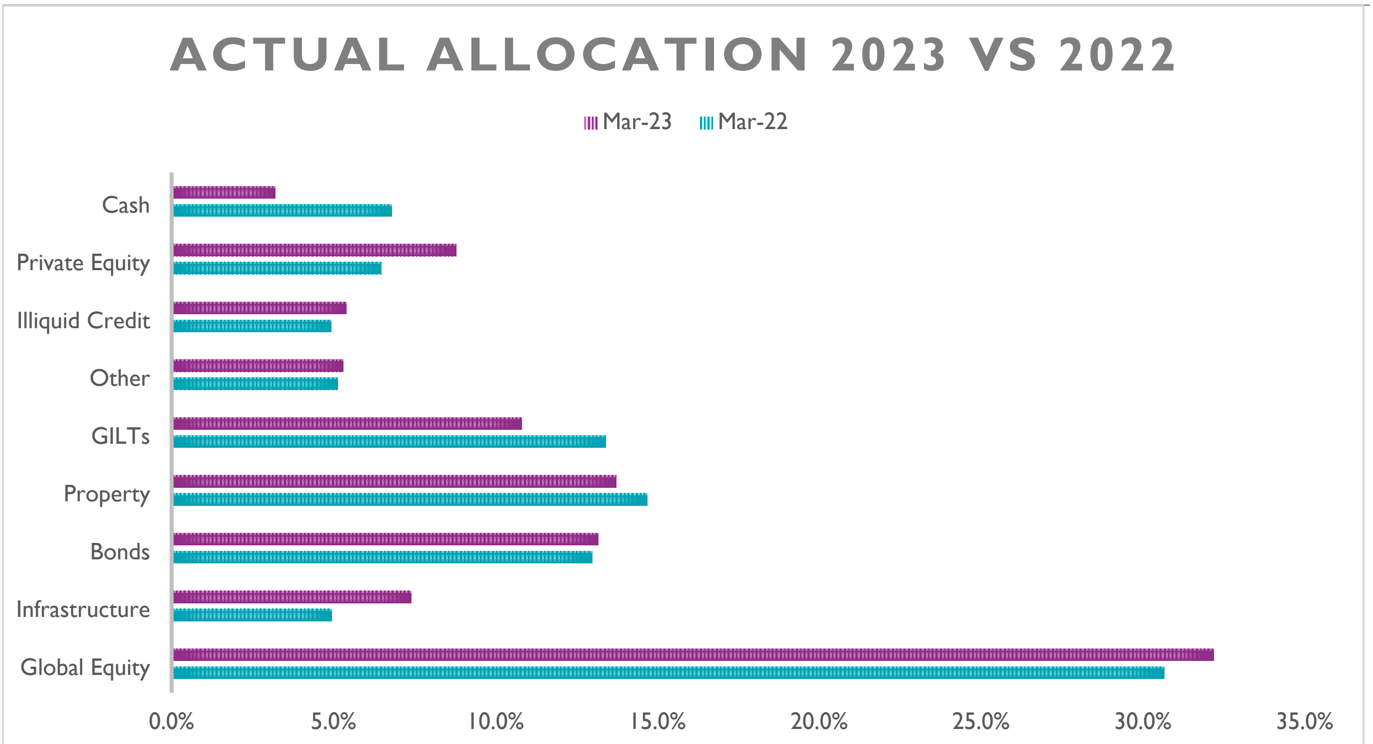
The ISS addresses each of the objectives included in the 2016 Regulations, namely:

- The administering requirement to invest fund money in a wide range of instruments
- The administering authority's assessment of the suitability of particular investments and types of investment
- The administering authority's approach to risk, including the ways in which risks are to be measured and managed
- The administering authority's approach to pooling investments, including the use of collective investment vehicles
- The administering authority's policy on how social, environmental and governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

## Asset Allocation

The strategic asset allocation is agreed by the Pension Fund Committee and the Fund's advisers. The allocation effective during the year ended 31 March 2022 was as follows:

| Asset Class | Benchmark % | Target Allocation % |
|---|---|---|
| **Global Equities** | 30 | 20-40 |
| **Global Bonds (inc. Corporates)** | 15 | 10-20 |
| **UK Government Bonds** | 15 | 10-20 |
| **Property** | 15 | 5-25 |
| **Private Equity** | 7 | 0-15 |
| **Infrastructure** | 8 | 0-15 |
| **Other alternatives** | 10 | 0-20 |
| **Cash** | 0 | 0-15 |
| **TOTAL** | **100** | **100** |



The Pension Fund Committee holds Fund Managers accountable for decisions on asset allocation within the Fund mandate under which they operate. In order to follow the Myners Principles, fund managers are challenged formally about asset allocation decisions.

Investment portfolios are reviewed at each Committee meeting in discussion with the investment adviser and officers, and fund managers are called to a Committee meeting if there are issues that need to be addressed. Officers meet fund managers regularly and advice is taken from the investment adviser on matters relating to fund manager arrangement and performance.

Fund managers provide a rationale for asset allocation decisions based upon their research resource in an effort to ensure that they are not simply tracking the peer group or relevant benchmark index. The Fund's asset allocation strategy can be found in the ISS.

The asset allocation of the Pension Fund at the start and end of the financial year is set out below. These figures are based on market value and reflect the relative performance of investment markets and the impact of tactical asset allocation decisions made by the Pension Fund Committee.

## Changes since 21/22

Since 21/22, the fund has carried out a transition, reallocating 15% of the portfolio from Global Equities into Sustainable Exclusion Equities. This transition was within the London Collective Investment Vehicle (LCIV) and the fund is actively managed by RBC Global Asset Management. This was successfully completed in August 2023.

As part of its revised Investment Strategy, in March 2023, the Committee agreed to reallocate 5% from global equities to impact equities and 5% global bonds to multi-asset credit. Given this decision was made at the end of the financial year, no fund manager appointment has been made during 22/23.

## Fund Value

The Fund value fell during 2019/20, due to the COVID-19 outbreak impacting global markets. However, the Fund has recovered well, with an increase in value of the fund by £156m from 2019/20 – 2020/21 and then an increase in asset value of £48m from 2020/21 to 2021/2022. However, performance during 2022/23 has been particularly disappointing resulting in a decrease value to the fund mainly as a result of decreased value fixed income and property asset classes due to various geopolitical events.

The Fund is invested to meet liabilities over the medium to long-term and therefore its performance should be judged over a corresponding period. Annual returns can be volatile and do not necessarily indicate the underlying health of the Fund.

# Investment Performance

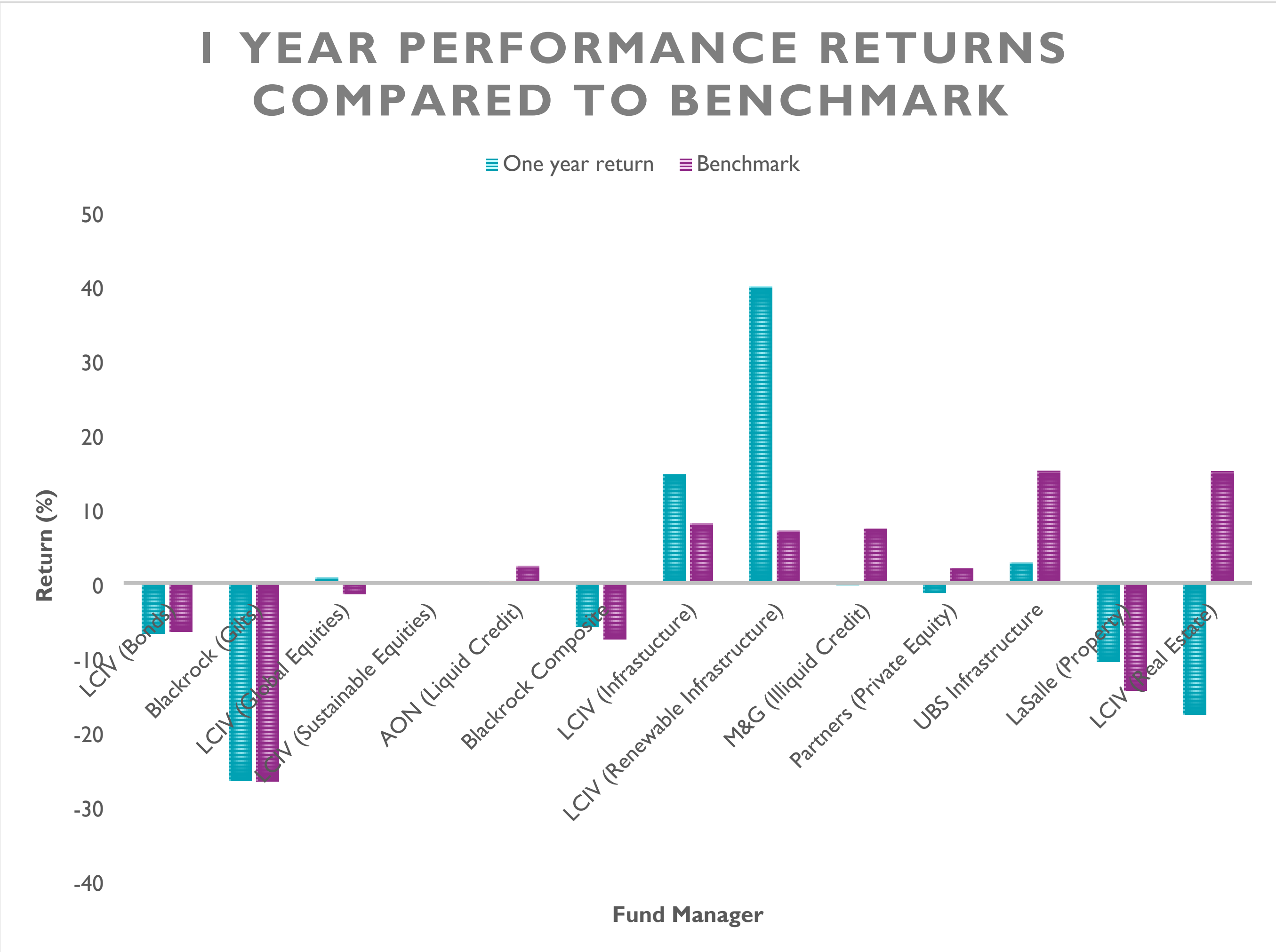
The Fund's overall performance in 2022/23 underperformed its benchmark for the year by -2.41%, as shown below. This was largely as a result of poor performance within the fixed income and property markets.

Performance of the Fund is measured against an overall strategic benchmark. Below this, each fund manager is given individual performance targets which are linked to index returns for the assets they manage. Details of these targets can be found in the ISS.

Performance of fund managers is reviewed quarterly by the Pension Fund Committee, which is supported by the Fund's independent investment advisor, Redington.

The overall performance of each manager is measured over rolling three and five-year periods, as inevitably there will be short-term fluctuations in performance.

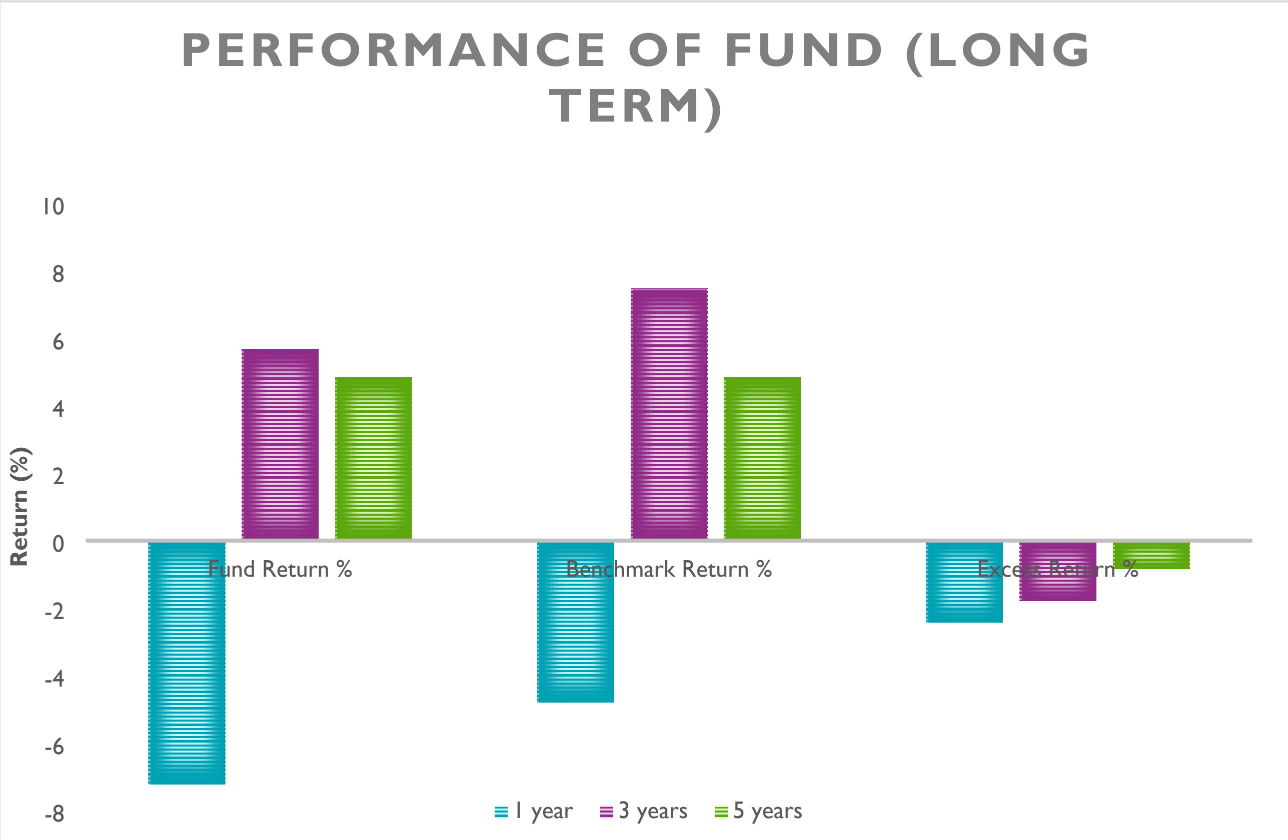
The graph below shows the performance of the fund over 2022/23 compared to the benchmark returns:




**This data has been sourced from Northern Trust's performance reports. There is no annual data on LCIV Sustainable Equities as the fund only transitioned in August 2022. LCIV Infrastructure and Renewable Infrastructure are still calling for capital and so may skew the results on this graph.**

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 graphs below shows the performance of the Fund and its current investment managers over the 1, 3 and 5 year periods. The Fund has underperformed the benchmark over all three periods.




Annually the Pensions and Investments Research Consultants (PIRC) compile a list of Local Authority pension performance analytics, ranking each Fund according to their performance in the 1-year to 30-year time periods. In the wider LGPS Universe, the average 1-year Fund return to 31 March 2023 was -1.6% compared to a 10-year average return of 7.3% p.a. As at 31 March 2023, the Universe comprised of 63 funds with a total value of £243bn.

The London Borough of Bexley Pension Fund placed in the lower quartile of fund returns for the 1-year period, this was largely due to the fund's allocation in bonds and gilts which have performed badly in 22/23. Over the longer 10-year period the Fund placed in the median quartile of pension fund performance. The table below shows the LGPS Universe average returns compared to the Fund over the 1-year to 30-year period, along with average LPGS returns by asset class over the same time periods.

## LGPS Average Performance

| Performance | 1 Year | 3 Yrs | 5 Yrs | 10 Yrs | 20 Yrs | 30 Yrs |
|---|---|---|---|---|---|---|

| | (% p.a.) | (% p.a.) | (% p.a.) | (% p.a.) | (% p.a.) | (% p.a.) |
|---|---|---|---|---|---|---|
| **Universe Average** | **-1.6** | **9.5** | **5.9** | **7.3** | **8.4** | **7.7** |
| ***London Borough of Bexley Pension Fund*** | *-6.9* | *5.8* | *4.9* | *7.2* | *8.5* | *7.7* |
| **Total Equity** | **0** | **14.5** | **7.6** | **8.8** | **10** | **8.4** |
| ***London Borough of Bexley Pension Fund*** | *-3.7* | *12.6* | *8.9* | *9.7* | *10.9* | *9.1* |
| **Total Bonds** | **-9.1** | **-0.9** | **0.3** | **2.6** | **4.6** | **5.7** |
| ***London Borough of Bexley Pension Fund*** | *-16.9* | *-4.1* | *-1.6* | *0.2* | *3.4* | *4.9* |
| **Alternatives** | **6.5** | **11.6** | **10.3** | **9.8** | **8.5** | **N/A** |
| ***London Borough of Bexley Pension Fund**** | *2.3* | *9.2* | *N/A* | *N/A* | *N/A* | *N/A* |
| **Property** | **-7.9** | **2.9** | **3.2** | **6.8** | **6** | **7.8** |
| ***London Borough of Bexley Pension Fund***** | *-11.4* | *0.7* | *1.3* | *6.1* | *N/A* | *N/A* |

This data has been extracted from the PIRC 2022/23 Local Authority Fund Statistics.

*Data only available for 3 years

** Data only available for 10 years

# Corporate Governance

## Responsible Investment and Environmental, Social and Governance Policies

The Pension Fund has a paramount fiduciary duty to obtain the best possible financial return on Fund investments without exposing assets to unnecessary risk. It believes that following good practice in terms of social, environmental and ethical issues is generally likely to have a favourable effect on the long-term financial performance of a company and will improve investment returns to its shareholders.

The Fund investment managers, acting in the best financial interests of the Fund, are expected to consider, amongst other factors, the effects of social, environmental and ethical issues on the performance of a company when undertaking the acquisition, retention or realisation of investments for the Fund.

The Fund's investment managers have adopted socially responsible investment policies which are subject to regular review both by officers and by the Council's Pension Committee.

The Pension Fund recognises that the neglect of corporate social responsibility and poor attention paid to environmental, social and governance (ESG) issues may lead to poor or reduced shareholder returns. This presents a significant responsibility for the Pension Fund Committee (the Committee).

The Fund's policies on environmental, social and governance (ESG) issues and responsible investment can be found within the Investment Strategy Statement (ISS). In addition to this, the Fund has a Responsible Investment Statement which is reviewed annually.

## Professional Bodies

The Council is a member of the CIPFA Pensions Network which provides a central coordination point for all LGPS funds and local authority members.

CIPFA staff and the network more generally are able to advise subscribers on all aspects of pensions and related legislation. Relevant training and seminars are also available to officers and members of participating funds.

While the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), it does not subscribe to nor is it a member of UK Sustainable Investment & Finance Association or the Institutional Investors Group on Climate change or any other bodies.

## Collaborative Ventures

The Fund has been working closely with other London LGPS funds in the London Collective Investment Vehicle set up to enable greater buying power, reduced fees and enhanced governance arrangements. The London Borough of Bexley is a shareholder in London LGPS CIV Limited.

## Funding Strategy Statement

The Funding Strategy Statement (Section 9) sets out the aims and purpose of the pension fund and the responsibilities of the administering authority as regards funding the scheme.

Its purpose is:

- To establish a clear and transparent fund-specific strategy to identify how employers' pension liabilities are best met going forward;
- To support the regulatory requirement to maintain as nearly constant employer contribution rates as possible;
- To take a prudent longer-term view of funding those liabilities.

## Separation of Responsibilities

The Fund employs a global custodian (Northern Trust), independent to the investment managers, to be responsible for the safekeeping of all of the Fund's investments. Northern Trust is responsible for the settlement of all investment transactions and the collection of income.

The Fund's bank account is held with NatWest Bank. Funds not immediately required to pay benefits are held as interest bearing operational cash with NatWest Bank.

The actuary is responsible for assessing the long-term financial position of the pension fund and issues a Rates and Adjustments Certificate following the triennial valuation of the Pension Fund, which sets out the minimum contributions which each employer in the Scheme is obliged to pay over the following three years.

## Stewardship Code

The Pensions Committee believes that investor stewardship is a key component of good governance and is committed to exercising this responsibility with the support of its investment managers. In line with this approach, the committee 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.

The Pension Fund Committee believes that companies should be accountable to shareholders and should be structured with appropriate checks and balances so as to safeguard shareholders' interests and deliver long-term returns.

The Pension Fund Committee encourages fund managers to consider a range of factors before making investment decisions, such as the company's historical financial performance, governance structures, risk management approach, the degree to which strategic objectives have been met and environmental and social issues. Such considerations may also be linked to voting choices at company AGMs.

The Pension Fund Committee's role is not to micro-manage companies but provide perspective and share with boards and management our priorities for investment and approach to corporate governance. The ultimate aim is to work with management, shareholders and stakeholders to bring about changes that enhance long-term performance.

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.

## Exercise of the Rights (including voting) attaching to Investments

The Committee has delegated the Fund's voting rights to the investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests.

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. Last 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 2022/23.

Our equity manager proxy voting for 2022/23 is shown in the following table.

| **Asset Manager** | **Number of resolutions** | **For** | **Against** | **Other** |
|---|---|---|---|---|
| **Newton (LCIV)** | 870 | 730 | 113 | 27 |
| **RBC (LCIV)** | 67 | 56 | 9 | 2 |
| **TOTAL** | 937 | 786 | 122 | 29 |

# Scheme Administration

## Service Delivery

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, UPM, produced by Civica. The LPPA allocate a total of 2 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.

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.

## Communication Policy Statement

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 can 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.

## Internal Dispute Resolution Procedure

Members of pension schemes have statutory rights to ensure that complaints, queries and problems concerning pension rights are properly resolved. To facilitate this process, an Internal Disputes Resolution Procedure (IDRP) has been established. While any complaint is progressing, fund members are entitled to contact The Pensions Advisory Service (TPAS), who can provide free advice.

**IDRP Stage 1** involves making a formal complaint in writing. This would normally be considered by the body that made the decision in question. In the event that the fund member is not satisfied with actions taken at Stage 1 the complaint will progress to Stage 2.

**IDRP Stage 2** involves a referral to the administering authority, London Borough of Bexley Council to take an independent view.

**IDRP Stage 3** is a referral of the complaint to the Pension Ombudsman.

Both TPAS and the Pensions Ombudsman can be contacted at:

10 South Colonnade
Canary Wharf
E14 4PU

Tel: 0800 917 4487

# Pension Fund Accounts 2022 to 2023

## 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 that 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 the following pages and have been prepared in accordance with the accounting policies set out in 3. Accounting Policies.

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 2023.

Paul Thorogood Date:

**Director of Finance and Corporate Services**

I confirm that the 2022/23 Statement of Accounts for the London Borough of Bexley and Bexley Pension Fund were approved by the General Purpose and Audit Committee on 30 September 2023.

Cllr Peter Reader Date:
Chair of the General Purposes and Audit Committee

## Auditor’s Report to a LGPS Administering Authority – Report on Pension Fund Financial Statements <u>**PLACEHOLDER**</u>

## Independent Auditor’s Report to the Members of London Borough of Bexley

**Opinion**

We have audited the pension fund financial statements for the year ended 31 March 2023 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2023 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2023 ;and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard and the Comptroller and Auditor General’s (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the Director of Finance and Corporate Services’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

**Other information**

The other information comprises the information included in the 2022/23 Pension Fund Accounts, other than the financial statements and our auditor's report thereon. The Director of Finance and Corporate Services' is responsible for the other information contained within the Statement of Accounts 2022/23.

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

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

We have nothing to report in this regard.

**Matters on which we report by exception**

We report to you if:

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

We have nothing to report in these respects.

**Responsibility of the** Director of Finance and Corporate Services

As explained more fully in the Statement of the Director of Finance and Corporate Services' Responsibilities set out on the first page of the "Pension Fund Accounts 2022 to 2023", the Director of Finance and Corporate Services' is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.

We understood how Bexley Pension Fund is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of [management/head of internal audit/those charged with governance/any other] and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Pension

Board minutes and through the inspection of other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and opportunities for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures we identified the manipulation of journal entries of the investment asset valuations and investment income to be our fraud risk.

To address our fraud risk we tested the consistency of the investment asset valuation from the independent sources of the custodian and the fund managers to the financial statements and tested investment income through to third party evidence.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business.

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

**Use of our report**

This report is made solely to the members of London Borough of Bexley, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the London Borough of Bexley and the London Borough fo Bexley's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Elizabeth Jackson (Key Audit Partner)*
*Ernst & Young LLP (Local Auditor)*
*Luton*
*09 February 202X*

## Pension Fund Account

| 2021/22 £'000 | | Note | 2022/23 £'000 |
|---|---|---|---|
| (28,063) | Dealings with members, employers and others directly involved in the scheme: Contributions | 6 | (28,515) |
| (3,480) | Transfers in from other pension funds | 7 | (3,532) |
| (88) | Other Income | | (238) |
| **(31,631)** | **Total contributions** | | **(32,285)** |
| 35,436 | Benefits | 8 | 35,810 |
| 4,072 | Payments to and on account of leavers | 9 | 5,972 |
| **39,508** | **Total benefits** | | **41,782** |
| **7,877** | **Sub-total: Net (additions) / withdrawals from dealings with members** | | **9,497** |
| 6,758 | Management expenses | 10 | 6,543 |
| **14,635** | **Sub-total: Net additions (-) / withdrawals including fund management expenses** | | **16,040** |
| | **Returns on investments:** | | |
| (14,133) | Investment income | 11 | (16,761) |
| (60,250) | (Profit) and losses on disposal of investments and changes in value of investments | 12a | 87,147 |
| **(74,383)** | **Net returns on investments** | | **70,386** |
| **(59,748)** | **Net (increase) / decrease in the net assets available for benefits during the year** | | **86,426** |

## Pension Fund Net Assets Statement

| 2021/22 £'000 | | Note | 2022/23 £'000 |
|---|---|---|---|
| 974,815 | Investment Assets | 12 | 925,738 |
| 76,224 | Cash/Temporary Investments | 12 | 30,512 |
| **1,051,039** | **Total Investment Assets** | | **956,250** |
| 13,238 | Current Assets | 18 | 11,868 |
| **1,064,277** | **Total investments and assets** | | **968,118** |
| - | Long Term Liabilities | 19 | - |
| (10,955) | Current Liabilities | 19 | (1,222) |
| **1,053,322** | **Net assets of the scheme available to fund benefits at the period end** | | **966,896** |

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.

# 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 of employers and employees in the Fund

| 31 March 2022 | | 31 March 2023 |
|---|---|---|
| 80 | Number of employers with active members | 82 |
| | **Number of employees in the Fund:** | |
| 2,228 | London Borough of Bexley | 2,307 |
| 2,977 | Other employers | 3,473 |
| **5,205** | **Total** | **5,780** |
| | **Number of pensioners in the Fund:** | |
| 4,961 | London Borough of Bexley | 5,018 |
| 1,164 | Other employers | 1,247 |
| **6,125** | **Total** | **6,265** |
| | **Number of deferred pensioners in the Fund:** | |
| 3,547 | London Borough of Bexley | 3,537 |
| 1,391 | Other employers | 1,484 |
| **4,938** | **Total** | **5,021** |

### c. Funding

In 2022/23, 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 took place on 31 March 2022 and shows a funding level of 114% (2019 was 101%). 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. The triennial valuation undertaken as at 31 March 2019 covers the three financial years to 2022/23. 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%, as per the 2019 valuation. Further details on the funding position are contained in Note 17.

### d. 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.

## Pension benefits under the LGPS

| Benefit type | Service pre-1 April 2008 | Service post 31 March 2008 |
|---|---|---|
| **Pension** | Each year worked is worth 1/80 × final pensionable salary. | Each year worked is worth 1/60 × final pensionable salary. |
| **Lump-sum** | Automatic lump sum of 3 × pension.<br>In addition, part of the annual pension can be | No automatic lump sum.<br>Part of the annual pension can be exchanged for a |

| Benefit type | Service pre-1 April 2008 | Service post 31 March 2008 |
|---|---|---|
| | exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | 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 is also provided including early retirement, disability pensions and death benefits, as explained on the LGPS website.

## 2. Basis of Preparation

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (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 March 2025, 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 2022/23 financial year, or within 2021/22 to date;

- The Pension Fund does not have any external borrowing; and

The Pension Fund has total investment assets of £956.25m 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:

o Private equity £84.043m

o Pooled Investments Vehicles £841.545m

o Long term investments (equities) £0.150m

o Cash/Temporary Deposits £30.512m

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 2025.

## 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 lifetime 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 directly 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 directly 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 the 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 2022/23 £0.53m of fees is based on such estimates (2021/22: £0.12m).

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 2022/23 £0.323m of fees is based on such estimates (2021/22: £2.4m).

## 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 are 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 of 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 £9.195m has now been realised in the income statement in the 2022/23 accounts alongside other employer contributions within the fund. 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. Following the 2022 valuation, no prepayment option has been taken by the Council.

### 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 2023 was £84m (2021/22: £68m) and unquoted infrastructure at 31 March 2023 was £70.7m (2021/22: £51.9m). The value of pooled property holdings as at 31 March 2023 was £131.3m (2021/22: £154.2m) and illiquid credit at 31 March 2023 was £51.7m (2021/22: £51.8m).

### 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 2023 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<br>• a 0.5% p.a. increase in discount rate assumption would reduce the pension liability by £67m.<br>• a 0.25% p.a. reduction in salary inflation would reduce liabilities by £3m, and<br>• a one-year increase in assumed life expectancy would increase the liability by around £19m. |
| 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 £286.1m (2021/22 £274.1m), as broken down below:<br>• Private equity £84m<br>• Infrastructure £70.7m<br>• Property £131.3m<br><br>There is a risk that these investments may be under- or overstated in the accounts. |

## 6. Contributions receivable

## By category

| 2021/22 £'000 | | 2022/23 £'000 |
|---|---|---|
| 6,409 | Employees' contributions | 7,013 |
| | **Employers' contributions:** | |
| 18,349 | Normal contributions | 18,792 |
| - | Special employer contributions | - |
| 1,767 | Deficit recovery contributions | 2,120 |
| 1,538 | Augmentation contributions | 410 |
| **21,654** | **Total Employers' contributions:** | **21,502** |
| **28,063** | **Total contributions receivable** | **28,515** |

## By type of employer

| 2021/22 £'000 | | 2022/23 £'000 |
|---|---|---|
| 14,571 | Administering Authority | 13,347 |
| 11,930 | Scheduled bodies | 13,371 |
| 1,562 | Admitted bodies | 1,797 |
| **28,063** | **Total** | **28,515** |

## 7. Transfers in from other pension funds

| 2021/22 £'000 | | 2022/23 £'000 |
|---|---|---|
| 3,367 | London Borough of Bexley | 3,332 |
| 14 | Scheduled bodies | 192 |
| 99 | Admitted bodies | 8 |
| **3,480** | **Total** | **3,532** |

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

## 8. Benefits Payable

## By category

| 2021/22 £'000 | | 2022/23 £'000 |
|---|---|---|
| 29,262 | Pensions | 30,589 |
| 10 | Augmented service | 0 |
| 5,414 | Commutation of pensions and lump sum retirement benefits | 4,821 |

| 2021/22 £'000 | | 2022/23 £'000 |
|---|---|---|
| 750 | Lump sum death benefits | 400 |
| **35,436** | **Total** | **35,810** |

## By authority

| 2021/22 £'000 | | 2022/23 £'000 |
|---|---|---|
| 29,596 | London Borough of Bexley | 29,384 |
| 3,051 | Scheduled bodies | 2,999 |
| 2,789 | Admitted bodies | 3,427 |
| **35,436** | **Total** | **35,810** |

## 9. Payments to and on account of leavers

## By category

| 2021/22 £'000 | | 2022/23 £'000 |
|---|---|---|
| 112 | Refunds of contributions | 33 |
| 3,960 | Individual transfers out to other schemes | 5,939 |
| **4,072** | **Total** | **5,972** |

## By authority

| 2021/22 £'000 | | 2022/23 £'000 |
|---|---|---|
| 3,212 | London Borough of Bexley | 5,352 |
| 715 | Scheduled bodies | 535 |
| 145 | Admitted bodies | 85 |
| **4,072** | **Total** | **5,972** |

There were no bulk transfers in 2022/23.

## 10. Management expenses

| 2021/22 £'000 | | 2022/23 £'000 |
|---|---|---|
| 587 | Administrative costs | 447 |
| 5,480 | Investment management expenses | 5,499 |
| 691 | Oversight and governance costs | 596 |
| **6,758** | **Total** | **6,543** |

### 10 (a) Investment Management expenses

| 2021/22 £'000 | | 2022/23 £'000 |
|---|---|---|
| 4,261 | Management fees | 5,042 |

| 2021/22 £'000 | | 2022/23 £'000 |
|---|---|---|
| 1,155 | Custody and performance measurement fees | 370 |
| 64 | Transaction costs | 87 |
| **5,480** | **Total** | **5,499** |

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. An estimated performance fee of £0.323m was paid during 2022/23 in relation to the Partners Private Equity fund.

## 11. Investment income

| 2021/22 £'000 | | 2022/23 £'000 |
|---|---|---|
| 488 | Income from Equities | - |
| 8,785 | Income from Pooled Investments - unit trusts and other managed funds | 11,724 |
| 1,232 | Private Equity Income | 321 |
| 2,982 | Pooled Property Investments | 3,804 |
| 646 | Interest on short term deposits | 912 |
| **14,133** | **Total** | **16,761** |

## 12. Investments

| 31 March 2022 £'000 | | 31 March 2023 £'000 |
|---|---|---|
| | Long term investments: | |
| 150 | Equities | 150 |
| | Investment assets: | |
| 906,647 | Pooled investment vehicles | 841,545 |
| 68,018 | Private Equity | 84,043 |
| 76,224 | Cash/temporary investments | 30,512 |
| - | Investment income due | - |
| **1,051,039** | **Total investment assets** | **956,250** |

### 12 (a) Reconciliation of movements in investments

## Movements in investments 2022/23

| | Value at 31 March 2022 £'000 | Purchases during the year £'000 | Sales during the year £'000 | Change in market value £'000 | Value at 31 March 2023 £'000 |
|---|---|---|---|---|---|
| Equities | 150 | 0 | 0 | 0 | 150 |
| Pooled investment vehicles (LCIV) | 531,116 | 187,560 | (166,498) | (29,071) | 523,107 |
| Pooled investment vehicles (non-LCIV) | 263,359 | 1,590 | (6,231) | (41,412) | 217,306 |
| Pooled Property investment | 112,171 | 11,643 | (6,838) | (15,847) | 101,129 |
| Private Equity | 68,018 | 24,020 | (8,737) | 742 | 84,043 |
| **Total** | **974,814** | **224,813** | **(188,304)** | **(85,587)** | **925,738** |
| **Other investment balance:** | | | | | |
| Cash/temporary investments | 76,224 | | | (1,559) | 30,512 |
| Investment income due | - | | | | |
| **Net Investment Asset** | **1,051,039** | | | **(87,147)** | **956,250** |
| Current Net Assets/(Liabilities) | - | | | | |
| **Net Asset** | **1,051,039** | | | **(87,147)** | **956,250** |

## Movements in investments 2021/22

| | Value at 31 March 2021 £'000 | Purchases during the year £'000 | Sales during the year £'000 | Change in market value £'000 | Value at 31 March 2022 £'000 |
|---|---|---|---|---|---|
| Equities | 150 | - | - | - | 150 |
| Pooled investment vehicles (LCIV) | 533,870 | 59,697 | (81,043) | 18,595 | 531,119 |
| Pooled investment vehicles (non-LCIV) | 210,205 | 50,561 | (13,107) | 15,700 | 263,359 |
| Pooled Property investment | 80,755 | 17,366 | (1,268) | 15,317 | 112,171 |
| Private Equity | 72,672 | 10,956 | (28,840) | 13,230 | 68,018 |
| **Total** | **897,653** | **138,580** | **(124,258)** | **62,842** | **974,814** |
| **Other investment balance:** | | | | | |
| Cash/temporary investments | 105,321 | | | (2,591) | 76,224 |
| Investment income due | - | | | | - |
| **Net Investment Asset** | **1,002,973** | | | **60,250** | **1,051,039** |
| Current Net Assets/(Liabilities) | - | | | | - |

| | Value at 31 March 2021 £'000 | Purchases during the year £'000 | Sales during the year £'000 | Change in market value £'000 | Value at 31 March 2022 £'000 |
|---|---|---|---|---|---|
| **Net Asset** | **1,002,973** | | | **60,250** | **1,051,039** |

## 12 (b) Analysis of investments

| 31 March 2022 £'000 | | 31 March 2023 £'000 |
|---|---|---|
| | **Equities:** | |
| 150 | UK unquoted | 150 |
| **150** | **Total equities** | **150** |
| | **Pooled investment vehicles:** | |
| 149,310 | Managed funds – UK property unquoted | 131,304 |
| 140,991 | Managed funds - UK GILTS | 103,429 |
| 53,858 | Managed funds - Overseas Equities & Bonds | 50,695 |
| 84,730 | Managed funds – Overseas limited liability partnership unquoted | 95,572 |
| 51,798 | Illiquid Credit | 51,653 |
| | London Collective Investment Vehicle (LCIV) Pooled Sub-Funds - Global Unquoted: | |
| 322,255 | Global Equity Fund | 307,696 |
| 136,511 | Global Bond Fund | 126,037 |
| 35,213 | Infrastructure Fund | 59,202 |
| **974,666** | **Total pooled investment vehicles** | **925,588** |
| 76,224 | Cash/temporary investments | 30,512 |
| - | Investment income due | - |
| **76,224** | **Total other** | **30,512** |
| **1,051,039** | **Total investment assets** | **956,250** |

## 12 (c) Investments analysed by fund manager

| 2021/22 | | | 2022/23 | |
|---|---|---|---|---|
| £'000 | % | | £'000 | % |
| 150 | 0 | LCIV - Shareholding | 150 | 0.0% |
| 322,255 | 30.7% | LCIV –Newton Global Equity Fund | 162,082 | 16.9% |
| N/A | N/A | LCIV – Sustainable Equity Exclusion | 145,614 | 15.2% |
| 21,380 | 2.0% | LCIV – Stepstone Infrastructure Fund | 36,832 | 3.9% |
| 13,833 | 1.3% | LCIV – Renewable Infrastructure Fund | 22,370 | 2.3% |

| 2021/22 | | | 2022/23 | |
|---|---|---|---|---|
| £'000 | % | | £'000 | % |
| 136,511 | 13.0% | LCIV – PIMCO Global Bond Fund | 126,037 | 13.2% |
| 37,140 | 3.5% | LCIV – Inflation Plus Fund | 30,175 | 3.2% |
| **531,269** | **50.5%** | **LCIV Sub total (London Collective Investment Vehicle)** | **523,260** | **54.7%** |
| 140,991 | 13.4% | BlackRock - Index linked gilt fund / corporate bond fund | 103,429 | 10.8% |
| 53,858 | 5.1% | BlackRock Composite Index Fund | 50,695 | 5.3% |
| 51,798 | 4.9% | M&G – Illiquid Credit | 51,653 | 5.4% |
| 117,067 | 11.1% | La Salle | 101,129 | 10.6% |
| 68,018 | 6.5% | Partners Group | 84,043 | 8.8% |
| 65,344 | 6.2% | AON Liquid Credit | 27,740 | 2.9% |
| 16,712 | 1.7% | UBS infrastructure Fund | 11,528 | 1.2% |
| 544 | 0.1% | Cash Held at Custodian (Northern Trust) | 2,452 | 0.3% |
| - | 0.0% | Cash Held at Fund Managers (in transit) | 320 | 0.0% |
| 5,437 | 0.5% | Money Market Funds | - | 0.0% |
| **1,051,039** | **100.0%** | **Total investments** | **956,250** | **100.0%** |

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 in 2023

| Asset Class / Security Name | Manager | 31.03.23 £'000 | 31.03.23 % of inv assets |
|---|---|---|---|
| Global Equity Fund | Newton | 162,082.17 | 16.9% |
| Global Equity Fund | RBC | 145,613.86 | 15.2% |
| Global Bond Fund | PIMCO | 126,036.87 | 13.2% |
| Index linked gilt fund / corporate bond fund | Blackrock | 103,429.21 | 10.8% |
| Property | LaSalle | 101,128.88 | 10.6% |
| Private Equity | Partners | 84,043.41 | 8.8% |
| M&G – Illiquid Credit | M&G | 51,653.27 | 5.4% |
| Blackrock Composite | Blackrock | 50,695.12 | 5.3% |

## The following investments represent more than 5% of the net assets of the scheme in 2022

| Asset Class / Security Name | Manager | 31.03.22 £'000 | 31.03.22 % of inv assets |
|---|---|---|---|
| Global Equity Fund | Newton | 322,255 | 30.7% |
| Global Bond Fund | PIMCO | 136,511 | 13.0% |
| Index linked gilt fund / corporate bond fund | Blackrock | 140,991 | 13.4% |
| Property | LaSalle | 117,067 | 11.1% |
| Private Equity | Partners | 68,018 | 6.5% |
| Liquid Credit | AON | 65,344 | 6.2% |
| Blackrock Composite | Blackrock | 53,858 | 5.1% |

## 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.

### Basis of the valuation of each class of investment asset

| 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 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 | EBITDA multiple Revenue multiple Discount for lack of | Valuations could be affected by |

| Description of asset | Valuation hierarchy | Basis of valuation | Observable and unobservable | Key sensitivities affecting the valuations provided |
|---|---|---|---|---|
| | | International Private Equity and Venture Capital Valuation Guidelines. | marketability. Control premium | material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, 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 cash flow analysis and comparable transaction multiples in accordance with the International Private Equity and Venture Capital Valuation Guidelines. | Significant unobservable inputs and observable inflation | |
| 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 cash flow analysis and comparable transaction multiples. | Significant unobservable inputs and observable inflation. | |

* 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 2023.

## Impact on closing value of investments 31 March 2023

| Investments | Assessed valuation range (+/-) | Value at 31/03/2023 £'000 | Value on increase £'000 | Value on decrease £'000 |
|---|---|---|---|---|
| Private Equity | 5.00% | 84,043 | 88,246 | 79,841 |
| UBS Infrastructure Fund | 2.50% | 11,528 | 11,816 | 11,240 |
| LCIV Renewable Infrastructure Fund | 15.00% | 22,370 | 25,726 | 19,015 |
| LCIV Infrastructure Fund | 15.00% | 36,832 | 42,357 | 31,307 |
| LCIV Aviva Inflation Plus | 10.00% | 30,175 | 33,192 | 27,157 |
| La Salle Pooled Investment Property | 11.00% | 101,129 | 112,253 | 90,005 |
| **Total** | | **286,078*** | **313,590** | **258,566** |

*This value only takes into consideration assets at level 3

### 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 data.

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.

## Analysis 2023

| Values at 31 March 2023 | Quoted market price Level 1 £'000 | Using Observable inputs Level 2 £'000 | With significant unobservable inputs Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Financial assets at Fair Value through profit and loss | - | 667,251 | 286,228 | 953,478 |
| **Net investment assets** | **-** | **667,251** | **286,228** | **953,478*** |

*Note that this figure does not contain any cash held at custodian or fund managers.

## Analysis 2022

| Values at 31 March 2022 | Quoted market price Level 1 £'000 | Using Observable inputs (restated) Level 2 £'000 | With significant unobservable inputs (restated) Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Financial assets at Fair Value through profit and loss | - | 770,756 | 269,403 | 1,040,159 |
| **Net investment assets** | **-** | **770,756** | **269,403** | **1,040,159** |

## Reconciliation of Fair Value Measurements within Level 3

| 2022/23 | Market Value 01/04/22 £'000 | Transfer into level 3 £'000 | Purchases during the year and derivative movements £'000 | Sales during the year and derivative receipts £'000 | Unrealised gains/ (losses) £'000 | Realised gains/ (losses) £'000 | Market Value 31/03/2023 £'000 |
|---|---|---|---|---|---|---|---|
| London CIV Share Capital | 150 | | - | - | - | - | 150 |
| UBS Infrastructure Fund | 16,712 | - | - | (5,804) | 443 | 177 | 11,528 |
| LCIV Infrastructure Fund | 21,380 | - | 11,455 | (0) | 3,997 | - | 36,832 |
| LCIV Renewable Infrastructure Fund | 13,833 | - | 5,974 | (2,776) | 5,339 | - | 22,370 |
| LCIV Aviva Inflation Plus | 37,140 | - | 1,225 | (242) | (7,948) | - | 30,175 |
| Private equity | 68,018 | - | 24,020 | (8,737) | (2,052) | 2,795 | 84,043 |
| La Salle Pooled Investment Property | 112,170 | - | 11,643 | (6,838) | (14,649) | (1,198) | 101,129 |
| **Total** | **269,403** | **-** | **54,317** | **(24,397)** | **(14,870)** | **1,774** | **286,227** |

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

| | | 2021/22 | | | | 2022/23 |
|---|---|---|---|---|---|---|
| Fair Value through profit and loss £'000 | Assets at amortised cost £'000 | Financial liabilities at amortised cost £'000 | | Fair Value through profit and loss £'000 | Assets at amortised cost £'000 | Financial liabilities at amortised cost £'000 |
| | | | **Financial Assets:** | 150 | | |
| 150 | | | Equities | | | |

| 2021/22 Fair Value through profit and loss £'000 | 2021/22 Assets at amortised cost £'000 | 2021/22 Financial liabilities at amortised cost £'000 | | 2022/23 Fair Value through profit and loss £'000 | 2022/23 Assets at amortised cost £'000 | 2022/23 Financial liabilities at amortised cost £'000 |
|---|---|---|---|---|---|---|
| 367,900 | | | Pooled investment vehicles (non bond) | 326,789 | | |
| 531,118 | | | Pooled investment vehicles (LCIV) | 523,110 | | |
| 140,991 | | | Pooled investment vehicles (bond) | 103,429 | | |
| | 20,052 | | Cash | | 11,796 | |
| | | | Other investment balances | | | |
| | 4,066 | | Debtors | | 2,843 | |
| | | | **Financial Liabilities** | | | |
| | | (10,955) | Creditors | | | (1,221) |
| **1,040,159** | **24,118** | **(10,955)** | **Total** | **953,478** | **14,639** | **(1,221)** |

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

| 2021/22 £'000 | Financial Assets | 2022/23 £'000 |
|---|---|---|
| **60,250** | Fair Value through profit or loss | **87,147** |

## 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.

- **Exposure to Russia and Ukraine** - On 24 February 2022, Russia invaded Ukraine, a severe escalation in the conflict which had been ongoing since 2014. Subsequently, numerous global powers implemented sanctions against major Russian banks and financial institutions, including freezing of overseas assets and removing access to SWIFT international payments. The London Borough of Bexley Pension Fund can report that as at 31 March 2023, the value of investments to Russia or Ukraine within the Pension Fund is immaterial.

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.

## Potential change in net assets 2023

### (i) Interest Rate Risk

| Asset Type | Average Duration Years | Market Value 31 March 2023 | Value on 1% increase £'m | Value on 1% decrease £'m |
|---|---|---|---|---|
| Global Bonds (Investment Grade Credit) | 5.60 | 126.04 | 133.09 | 118.98 |
| UK Bonds (Gilts) | 16.50 | 103.43 | 120.50 | 86.36 |
| Private Credit* | 0.62 | 51.65 | 51.97 | 51.33 |
| Fixed Income | 5.93 | 12.99 | 13.76 | 12.22 |

*This uses floating interest

### ii) Currency Risk

| **Asset Type** | **Market Value 31 March 2023** | **% movement** | **Movement on Increased Value 2023** | **Movement on Decreased Value 2023** |
|---|---|---|---|---|
| Global Equities | 345.41 | 6.30% | 367.17 | 323.64 |
| Private Equity | 84.04 | 5.35% | 88.54 | 79.55 |
| Infrastructure | 70.73 | 6.30% | 75.19 | 66.27 |
| Private Credit | 51.65 | 6.30% | 54.91 | 48.40 |

### iii) Price Risk

| **Asset Type** | **Market Value 31 March 2023** | **% movement** | **Movement on Increased Value 2023** | **Movement on Decreased Value 2023** |
|---|---|---|---|---|
| Global Equities | 345.41 | 13% | 388.95 | 301.86 |
| Private Equity | 84.04 | 5% | 88.14 | 79.94 |
| Infrastructure | 70.73 | 5% | 74.18 | 67.28 |
| UK Property | 131.30 | 7% | 140.51 | 122.10 |
| Global Bonds (Investment Grade Credit) | 126.04 | 10% | 138.83 | 113.25 |
| Fixed Income | 12.99 | 10% | 14.30 | 11.67 |
| UK Bonds (Gilts) | 103.43 | 10% | 113.93 | 92.93 |
| Private Credit | 126.04 | 5% | 132.19 | 119.89 |

### (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 lower credit risk involved in the Fund’s allocation to private equity (8.8% at 31 March 2023 and 6.5% at 31 March 2022).

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.

## Fund's cash holding under treasury management arrangements

| Balance as at 31 March 2022 £’000 | | Balance as at 31 March 2023 £’000 |
|---|---|---|
| | **Bank Account:** | |
| 9,172 | NatWest Account | 9,024 |
| **9,172** | **Total** | **9,024** |

Credit risk may also occur if an employing body not supported by the 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 2022/23 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 2023 the value of illiquid assets was £337.7m, which represented 35% of total fund assets (31 March 2022: £325.9m which represented 31% 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 of 31 March 2022, however the contribution rates for 2022/23 are covered by the 2019 valuation.

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 2022 actuarial valuation the Fund was assessed as 114% funded (101% at the March 2019 valuation). This represented a surplus of £126m (£11m surplus in 2019) at that time. At the 2019 valuation, 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% in 2019 (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:

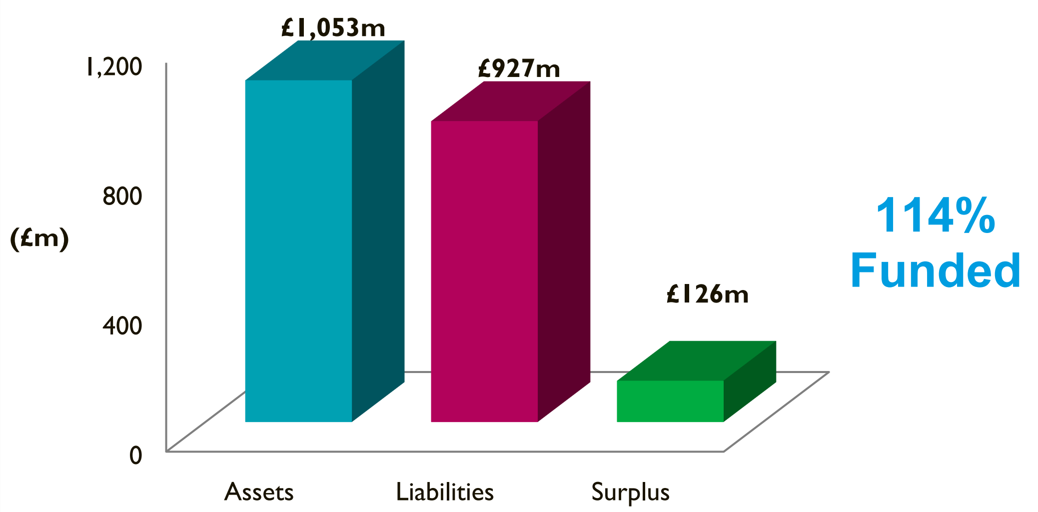
### London Borough of Bexley Pension Fund

**Accounts for the year ended 31 March 2023 - 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 2022 to determine the contribution rates with effect from 1 April 2023 to 31 March 2026.

On the basis of the assumptions adopted, the Fund’s assets of £1,053 million represented 114% of the Fund’s past service liabilities of £927 million (the “Solvency Funding Target”) at the valuation date. The surplus at the valuation was therefore £126 million.




The valuation also showed that a Primary contribution rate of 20.8% 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 may be 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 the 2022 actuarial valuation the average recovery period adopted was 8 years (12 years for employers in surplus). The total recovery payment (the "Secondary rate" for 2023/26) was on average a surplus offset of approximately £2.4m per annum (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 March 2023.

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:

## Actuarial assumptions used for assessing the Solvency Funding Target and the Primary rate of contribution

| Rates | For past service liabilities (Solvency Funding Target) | For future service liabilities (Primary rate of contribution) |
|---|---|---|
| Rate of return on investments (discount rate) | 4.35% per annum | 4.85% per annum |
| Rate of pay increases (long term)* | 4.60% per annum | 4.60% per annum |
| Rate of increases in pensions in payment (in excess of GMP) | 3.10% per annum | 3.10% per annum |

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2025. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2026.

### 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 2023 (the 31 March 2022 assumptions are included for comparison):

## Financial assumptions as at 31 March 2023

| Rates | 31 March 2022 | 31 March 2023 |
|---|---|---|
| Rate of return on investments (discount rate) | 2.8% per annum | 4.8% per annum |
| Rate of CPI Inflation / CARE benefit revaluation | 3.3% per annum | 2.7% per annum |
| Rate of pay increases* | 4.8% per annum | 4.2% per annum |
| Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation | 3.4% per annum | 2.8% per annum |

The demographic assumptions are the same as those used for funding purposes with the exception of the mortality assumption, which uses the same base table but a long-term rate of life expectancy improvement of 1.5% p.a.

Full details of the demographic assumptions are set out in the formal reports to the 2022 valuation.

The movement in the value of the Fund's promised retirement benefits for IAS 26 is as follows:

| | |
|---|---|
| Start of period liabilities | £1,253m |
| Interest on liabilities | £35m |
| Net benefits accrued/paid over the period* | £13m |
| Actuarial (gains)/losses (see below) | (£401m) |
| End of period liabilities | £900m |

*this includes any increase in liabilities arising as a result of early retirements

Key factors leading to the actuarial gains above are:

- **Change in financial assumptions:** Corporate bond yields increased significantly over the year, with a corresponding increase in discount rate to 4.8% p.a. from 2.8% p.a. In addition, there has been a reduction in long-term assumed CPI to 2.7% p.a. from 3.3% p.a. In combination, these factors lead to a significant reduction in liabilities
- **Pension increases / high short-term inflation:** The figures allow for the impact of the April 2023 pension increase of 10.1%, along with the high levels of CPI since September 2022 (which will feed into the 2024 pension increase). As current inflation is higher than the long term assumption, this increases the liabilities

M. Doman

**Michelle Doman**

**Mark Wilson**

**Fellow of the Institute and**

**Faculty of Actuaries**

**Fellow of the Institute and**

**Faculty of Actuaries**

**Mercer Limited**

**July 2023**

**Appendix - additional considerations**

**The "McCloud judgment":** The figures above allow for the impact of the judgment based on the proposed remedy.

**GMP indexation:** The above figures allow for the provision of full CPI pension increases on GMP benefits for members who reach State Pension Age after 6 April 2016.

**Covid 19 / Ukraine:** The financial assumptions allow for these factors to the degree that they are reflected in the market values on which the assumptions are based. The mortality assumption includes no specific adjustment for COVID as our view is that it is not possible at this point to draw any meaningful conclusions on the long-term impact.

**Current high inflation:** The period-end figures above allow for the impact of actual known CPI at the accounting date as noted above. The period-end assumptions then allow for expected (market implied) CPI from that point.

## 18. Current Assets

| 31 March 2022<br>£'000 | Debtors | 31 March 2023<br>£'000 |
|---|---|---|
| 330 | Contributions due - employees | 554 |
| 2,452 | Contributions due - employers | 771 |
| **2,782** | **Total contributions** | **1,325** |
| 1,284 | Sundry debtors | 1,519 |
| **4,066** | **Total** | **2,844** |
| 9,172 | **Cash balances** | 9,024 |
| **13,238** | **Total** | **11,868** |

## 19. Current and Long Term Liabilities

### Current Liabilities

| 31 March 2022<br>£'000 | Liabilities | 31 March 2023<br>£'000 |
|---|---|---|
| (87) | Sundry creditors | (81) |
| (323) | Benefits payable | (357) |
| (1,307) | Accrued expenses | (784) |
| (9,238) | Employer contributions prepayments | 0 |
| **(10,955)** | **Total** | **(1,222)** |

### Long Term Liabilities

| 31 March 2022<br>£'000 | Liabilities | 31 March 2023<br>£'000 |
|---|---|---|
| - | Employer contributions prepayments | - |
| **-** | **Total** | - |

## 20. Additional Voluntary Contributions

## Value of funds

| Market Value<br>31 March 2022<br>£'000 | | Market Value<br>31 March 2023<br>£'000 |
|---|---|---|
| **1,131** | **Value of funds at end of year*** | **1,074** |

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 of 31 March 2023. This is a draft figure.

## 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 £227,945 recharge in 2022/23 from the London Borough of Bexley to the Fund included in administration and oversight and governance costs. (£334,880 in 2021/22). This year, London Borough of Bexley have also entered a short-term oversight and governance arrangement with Westminster City Council, recharging £190k to the Pension Fund.

The Director of Finance and Corporate Services allocates 2.5% 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 2022/23 costs relating to the Director of Finance and Corporate Services post totalled £6,506 in respect of the allocation to the Fund (£9,865 in 2021/22). This includes employer pension fund contributions of £1,102 (£1,369 in 2021/22). The Director of Finance and Corporate Services 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. As of the Committee meeting held on 27 March 2023, Councillor Howard Jackson declared that he works for the Financial Ombudsman and sometimes has dealings with fund managers as part of his role.

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 £41.7m to the fund of private equity funds (£61.8m as of 31 March 2022). There is also a further £50.5m (£65.4m as at 31 March 2022) 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 2023, or material non-adjusting events subsequent to this.

## 23. External Audit Cost

| 2021/22 £'000 | | 2022/23 £'000 |
|---:|---|---:|
| 43* | External Audit fees | 13 |
| **43** | **Total** | **13** |

*The external audit fees are composed of a scale fee and additional fee

## 24. Events after the Reporting Period

Management have reviewed and can confirm that there are no significant events occurring after the reporting period.

# Asset Pool Background and Governance

## Background

Housing and Communities (DLUHC) issued guidance on LGPS asset pooling (LGPS: Investment Reform Criteria and Guidance), which sets out how the government expected funds to establish asset pooling arrangements. In January 2019, the DLUHC issued a consultation and draft guidance on asset pooling within the LGPS, setting out changes to the pooling framework. This guidance will set out the requirements on administering authorities, replacing previous guidance, and build on previous ministerial communications and guidance on investment strategies.

The Fund recognises the Government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost.

The pension funds across England and Wales have come together to form eight asset pools. The Fund joined the London Collective Investment Vehicle (LCIV) in December 2015, the pool comprises of the 32 local authorities within London and has c.£13.95bn under direct management, with 21 funds launched as of 2021/22.

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 2022 the Fund held investments in six pooled funds through LCIV (Newton Global Equity, RBC Sustainable Equity, Stepstone Infrastructure, Renewable Infrastructure, PIMCO Global Bond, Inflation Plus) . 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 Fund has assets in the London CIV with a value of £ 523.3m or 54.7% as at the 31 March 2023. Going forward the Fund will look to transition further assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

## Governance

There are a number of governance issues to be considered under pooling arrangements such as the relationship between the pension fund and asset pool, governance structure of the pool and the role of administering authorities.

The London CIV Shareholder Committee is responsible for scrutinising the actions of the LCIV Company Board, reporting and transparency, consultation on the strategy, responsible investment and emerging issues. The Committee comprises of 12 members including Councillors and Treasurers from the LLAs.

London CIV shareholders approved a new Corporate Governance and Controls framework at the July 2018 Annual General Meeting (AGM). This framework details the governance arrangements for approving the London CIV’s annual budget, business plan and objectives, governance structures and appointments, shareholder agreement and transparency of information and reporting.

The London CIV Company Board comprises of an independent Chairman, 7 non-executive Directors (NEDs), including 2 nominated by the LLAs, 3 executive Directors and the LCIV Treasurer. The Board has a duty to act in the best interests of the shareholders and has collective responsibility for; strategy oversight, budgeting, performance review, major decision making, financial reporting and controls, compliance and risk management, key policies and governance.

The London CIV has four Committees, responsible for investment oversight, audit and risk, remuneration and nominations and day to day operations of the company. These comprise of executive and non-executive members.

External independent oversight and assurance of the pool company is provided by the FCA, depositary, external auditors and the DLUHC. The London CIV hosts an AGM on a semi-annual basis, to which all 32 members are invited. This allows members the opportunity to exercise shareholder power, approve the annual budget and hold the Board to account.

# Pool Fees

## Pool Set up and Transition Costs

The set up and transition costs incurred by the Fund in relation to pooling are detailed in the following table.

| Financial Year | Development Funding Charge £'000 | Annual Service Charge £'000 | Total Set Up Costs £'000 | Total Gross Savings £'000 | Net Savings Realised £'000 |
|---|---|---|---|---|---|
| 2022/23 | 85 | 25 | 110 | (737) | (539) |
| 2021/22 | 85 | 25 | 110 | (744) | (536) |
| 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** | **510** | **200** | **710** | **-3,551** | **-2,655** |

## Other Investment Management Costs

The table below splits investment management costs between pooled and non-pooled.

| | **Asset Pool** | | | **Non-asset pool** | | | **Fund Total** |
|---|---|---|---|---|---|---|---|
| | **Direct*** | **Indirect**** | **Total** | **Direct*** | **Indirect**** | **Total** | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Management fees** | 327 | 1,310 | 1,636 | 362 | 3,044 | 3,406 | **5,042** |
| **Transaction costs** | - | 87 | 87 | - | | - | **87** |
| **Total** | **327** | **1,396** | **1,723** | **362** | **3,044** | **3,406** | **5,129** |

* 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

# Glossary of Terms

## ACCOUNTING POLICIES

The rules and practices adopted by the authority that determine how the transactions and events are reflected in the accounts.

## ACCRUALS

Amounts included in the accounts for income or expenditure in relation to the financial year but not received or paid as at 31 March.

## ACTIVE MANAGEMENT

Active management or active fund management is where the fund manager makes specific investments with the aim of outperforming an investment benchmark.

## ACTIVE MEMBER

Current employee who is contributing to a pension scheme.

## ACTUARIAL GAINS AND LOSSES

These arise where actual events have not coincided with the actuarial assumptions made for the last valuations (known as experience gains and losses) or the actuarial assumptions have been changed.

## ACTUARY

An independent professional who advises the Council on the financial position of the Fund. Every three years the actuary values the assets and liabilities of the Fund and determines the funding level and the employers' contribution rates.

## ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

An option available to active scheme members to secure additional pension benefits by making regular contributions to separately held investment funds managed by the Fund's AVC provider.

## ADMITTED BODY

An organisation, whose staff can become members of the Fund by virtue of an admission agreement made between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

## ASSET ALLOCATION

The apportionment of a Fund's assets between different types of investments (or asset classes). The long-term strategic asset allocation of a Fund will reflect the Fund's investment objectives.

## BENCHMARK

A measure against which the investment policy or performance of an investment manager can be compared.

## BONDS

Investments, mainly in government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date, but which can be traded on a recognised stock exchange in the meantime.

## CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTING)

CIPFA is the professional institute for accountants working in the public services. CIPFA publishes the Code.

## CREDITORS

Amounts owed by the Council for goods and services received but not paid for as at 31 March.

## DEBTORS

Amounts owed to the Council for goods and services provided but where the associated income was not received as at 31 March.

## DEFERRED MEMBERS

Scheme members, who have left employment or ceased to be active members of the scheme whilst remaining in employment but retain an entitlement to a pension from the scheme.

## DEFINED BENEFIT SCHEME

A type of pension scheme, where the pension that will ultimately be paid to the employee is fixed in advance, and not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised.

## DERIVATIVE

A derivative is a financial instrument which derives its value from the change in price (e.g. foreign exchange rate, commodity price or interest rate) of an underlying investment (e.g. equities, bonds, commodities, interest rates, exchange rates and stock market indices), which no net initial investment or minimal initial investment and is settled at a future date

## EMPLOYER CONTRIBUTION RATES

The percentage of the salary of employees that employers pay as a contribution towards the employees' pension.

## EQUITIES

Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

## EXCHANGE TRADED

This describes a financial contract which is traded on a recognised exchange such as the London Stock Exchange or the London International Financial Futures Exchange.

## FINANCIAL ASSETS

Financial assets are cash, equity instruments within another entity (e.g. shares) or a contractual right to receive cash or another asset from another entity (e.g. debtors) or exchange financial assets or financial liabilities under potentially favourable conditions (e.g. derivatives).

## FINANCIAL INSTRUMENT

Any contract giving rise to a financial asset in one entity and a financial liability or equity in another entity.

## FINANCIAL LIABILITIES

Financial assets are contractual obligations to deliver cash or another financial asset (e.g. creditors) or exchange financial assets or financial liabilities under potentially unfavourable conditions (e.g. derivatives).

## FORWARD FOREIGN EXCHANGE DERIVATIVE

Forward foreign exchange derivatives are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange.

## INDEX

A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

## OVER THE COUNTER

This describes a financial contract which is potentially unique as they are not usually traded on a recognised exchange

## PASSIVE MANAGEMENT

Passive management is where the investments mirror a market index.

## POOLED INVESTMENT VEHICLES

Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

## PROJECTED UNIT METHOD – PENSION FUND VALUATION

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increases, and
- the accrued benefits for members in service on the valuation date.

## RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party, to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source, to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Advice from CIPFA is that related parties to a local authority include Central Government, bodies precepting or levying demands on the Council Tax, members and chief officers of the authority and its pension fund.

## RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party, irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets of loans, irrespective of any direct economic benefit to the pension fund;
- the provision of services to a related party, including the provision of pension fund administration services; and
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, rents and payments of benefits.

## RETURN

The total gain from holding an investment over a given period, including income and increase or decrease in market value.

## SCHEDULED BODY

An organisation that has the right to become a member the Local Government Pension Scheme under the scheme regulations.  Such an organisation does not need to be admitted, as its right to membership is automatic.

## THE CODE

The Code incorporates guidance in line with IFRS, IPSAS and UK GAAP Accounting Standards. It sets out the proper accounting practice to be adopted for the Statement of Accounts to ensure they 'present fairly' the financial position of the Council. The Code has statutory status via the provision of the Local Government Act 2003.

## UNREALISED GAINS/LOSSES

The increase or decrease in the market value of investments held by the fund since the date of their purchase.

NOTE: values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.

# Contact Information

This document gives details of London Borough of Bexley Council's Annual Accounts and is available on the Council's website.

For further details please contact:

The Pensions Team
2 Watling Street
Bexleyheath
DA6 7AT

Contact details of the London Borough of Bexley Pension Fund's pool company are as follows:

London CIV
4th Floor
22 Lavington Street
London
SE1 0NZ

pensionsCIV@londonciv.org.uk

# Appendices

# 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 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 and 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:<br>i) employing authorities (including non-scheme employers, e.g. admitted bodies);<br>ii) scheme members (including deferred and pensioner scheme members),<br>iii) where appropriate, independent professional observers, and<br>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.<br>- The Fund has appointed investment advisors and a scheme actuary who provide expert advice to the Pensions Committee<br>- 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** |

# Funding Strategy Statement

## London Borough of Bexley Pension Fund

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### 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.

## 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 |
| Other | 10 |
| **Total Alternatives** | 40 |
| Cash | 0 |
| **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 Assumpxxtions

## 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%]<br>90% S3PFA_M_CMI_2018 [1.75%] |
| | Dependant | 137% S3PMA_CMI_2018 [1.75%]<br>88% S3DFA_CMI_2018 [1.75%] |
| | Ill Health | 121% S3IMA_CMI_2018 [1.75%]<br>125% S3IFA_CMI_2018 [1.75%] |
| | Future Dependant | 130% S3PMA_CMI_2018 [1.75%]<br>106% S3DFA_CMI_2018 [1.75%] |
| Active | Normal Health | 107% S3PMA_CMI_2018 [1.75%]<br>91% S3PFA_M_CMI_2018 [1.75%] |
| | Ill Health | 123% S3IMA_CMI_2018 [1.75%]<br>141% S3IFA_CMI_2018 [1.75%] |
| Deferred | All | 130% S3PMA_CMI_2018 [1.75%]<br>106% S3PFA_M_CMI_2018 [1.75%] |
| Future Dependant | Dependant | 139% S3PMA_CMI_2018 [1.75%]<br>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 | 27.0 |
| 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.

# Investment Strategy Statement

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## 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 |
|---|---|---|
| LaSalle | Property | AREF/IPD All Balanced Funds Index |
| London CIV | Global Equities (Newton) | MSCI AC World |
| | Global Equities (RBC) | MSCI World (GBP) (TRNet) |
| | Global Credit (PIMCO) | Barclays Agg. Credit Index Hedged (GBP) |
| | Inflation Plus (Aviva Property) | RPI + 1.5% |
| | Infrastructure (Stepstone) | 8.0% per annum |
| | Renewable Infrastructure (Foresight, BlackRock, Quinbrook, Stonepeak, Macquarie) | 7.0% per annum |
| BlackRock | Global Equities | MSCI World |
| | UK Credit | iBoxx Sterling Non-Gilts Index |
| | UK Index Linked Gilts | UK Index-Linked Gilts All Stocks Index |
| Partners | Private Equity | 50% FTSE USA / 40% FTSE Europe / 10% FTSE W Asia Pacific |
| UBS | Infrastructure | CPI + 5% |
| M&G | Illiquid Credit | SONIA + 5% |

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.

# 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.

# Annual Report of the Pension Board 2022/23

## 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 2022/23 the Pension Board held two meetings and the Board considered matters in line with its business plan.

## 2. Matters considered by the Pensions Board during 2022/23

### (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.

### (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.

### (e) 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

### (f) Business Plan 2022/2023

The board agreed its business plan for 2022/23 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 2022 by the Fund's actuary, with any resulting changes to employer contribution rates taking effect from 1st April 2023. The full report can be found on the Fund's website: https://www.bexley.gov.uk/sites/default/files/2023-06/Pension-Fund-Actuarial-Valuation-Report-2022.pdf. The report indicated that the Fund is in a strong position and 113% funded. The Funding Strategy Statement had also been reviewed as part of the valuation process.

The next valuation will be carried out in 2025.

Members noted that employer contributions related to 2022 were under the 2019 valuation.

# Responsible Investment Statement

The purpose of this policy is to set out our Responsible Investment beliefs and principles, and to detail the approach we are taking to fulfil our commitments. The effective date of this policy is September 2021.

## Introduction

The Bexley Council (the "Council") in its capacity as Administering Authority has responsibility to manage the London Borough of Bexley Pension Fund (the "Fund") and has delegated to us, the Pensions Committee (the "Committee") all the powers and duties of the Council in relation to its functions and authority. We are therefore responsible for making all investment decisions regarding the Fund.

Our fiduciary duty is to act in the best financial interest of members of the Fund and ensure that the Fund's objective, as set out in the Investment Strategy Statement, is met. We therefore aim to seek the best investment return to meet the funding objective subject to an appropriate level of risk and liquidity.

We seek to fulfil our statutory duty which requires us to consider responsible investment in our investment strategy and in all asset classes.

**We define Responsible Investment ("RI") as the integration and consideration of environmental, social and governance ("ESG") issues into both investment processes and ownership practices.**

We recognise that, as a long-term investor, we should incorporate ESG risks into our investment decision making process as the value of investments may be negatively impacted if these risks are not understood or evaluated properly. When referring to ESG issues, we consider financially material considerations (including climate change).

In developing the Fund's approach to RI, we seek to understand and manage ESG considerations to which the Fund is exposed, to the extent that these may impact on the portfolio or overall strategy.

This policy sets out the Committee's beliefs and approach to RI, including actions taken on behalf of Fund members and other stakeholders which aim to capitalise on ESG opportunities and to protect the Fund from ESG-related risks.

## Our beliefs

We have discussed and agreed consensus beliefs relating to RI. These beliefs and principles form the basis of our policy and are set out below.

▪ The Fund is a long-term investor and seeks to deliver long-term sustainable returns. We believe there is an opportunity to positively impact investment performance by taking decisions with a long-term outlook and recognising the significance of ESG risks.

▪ We recognise that ESG considerations are relevant to the setting of investment objectives, ongoing monitoring, and assessment of future risks. We believe that the identification and management of ESG risks that may be financially material is part of our fiduciary duty to members.

▪ We believe that investments that have a positive social impact will generate better risk-adjusted returns. Similarly, companies that are poorly governed are more likely to underperform, and consequently we expect our investment managers to engage with companies where necessary for the long-term enhancement of financial and social value.

▪ Specifically, we believe that climate change is a material ESG factor that poses a potential financial risk over the Fund’s investment time horizon. We recognise that, as institutional investors, we have the ability and duty to support the transition to a low carbon economy.

We believe that we have a responsibility to encourage our investment managers to exercise stewardship and active ownership responsibilities effectively (such as use of proxy voting rights and undertaking active engagement with investee companies). This includes using our influence as asset owners to encourage positive behaviour from the London CIV and our other investment managers.

▪ In addition to the primary objective of acting in the best financial interests of the Fund’s members, we believe we have a duty to consider the wider environmental and social impacts of investments. We believe that we should generally avoid investing in the most harmful companies and sectors.

▪ We recognise that our members may have an interest in how RI is reflected through the Fund's investment strategy. We will publish this policy and incorporate our RI policies and approach into the way that we engage and communicate with members.

## Our RI approach

We take the important steps and procedures below in order to ensure our investment strategy is aligned with our beliefs and principles toward responsible investment.

### Committee decision making

We aim to integrate consideration of ESG issues throughout all aspects of our investment decision making process, including setting investment strategy and monitoring the Fund’s investment managers. We are supported in these aims through regular and ongoing input from, and engagement with, our investment advisers and the London CIV.

We do not apply personal, ethical or moral judgments when making investment decisions, and instead remain focused on the primary objective of acting in the best financial interests of the Fund’s members. We consider the availability, suitability and depth of conviction in an idea or strategy prior to investing and will take into account the expected cost versus potential benefit from a member perspective in line with our fiduciary duty.

We undertake training on RI at least triennially to understand how ESG factors, including climate change, could impact the Fund’s assets and liabilities, and members’ retirement outcomes.

### ESG risk monitoring and assessment

Our processes to monitor and assess ESG-related risks and opportunities include the following:

▪ Our investment advisers monitor the Fund’s managers on an ongoing basis. Where available, this includes assigning an ‘ESG rating’ to equity and fixed income managers which reflects the quality of and commitment to ESG integration. We monitor ESG ratings of the Fund’s managers where available on a quarterly basis.

▪ We recognise that the market is rapidly evolving. We ask our investment advisers to highlight appropriate opportunities to invest in responsible investment strategies and will give due consideration to any proposals.

▪ At least as part of each formal triennial investment strategy review we will specifically consider RI issues, including the merits of strategies which not only seek to generate positive financial returns, but also deliver a wider positive impact on society.

▪ We include ESG-related risks, including climate change, on the Fund’s risk register as part of ongoing risk assessment and monitoring.

▪ The Fund will carry out analysis on the carbon intensity of the assets **on an annual basis** and consider climate change scenario analysis **at least triennially** to review the potential risks and consider mitigating action as required.

▪ We expect our asset managers to understand our RI beliefs and requirements. We provide our Policy to advisers and asset managers **at least triennially** and ask them to confirm their adherence.

▪ In the event that any asset manager or service provider does not meet any of the expectations listed in this policy, the Officers will engage with the respective stakeholders to encourage improvements in processes, transparency or activity as required.

## Expectations and monitoring of investment managers

▪ As part of our delegated responsibilities, we expect the Fund's investment managers to take account of financially material ESG considerations (including climate change) in the selection, retention and realisation of investments. While we do not expect all our investment managers to explicitly take into account non-financial ESG considerations, we do expect full transparency on these matters in order to facilitate a full understanding of the Fund’s investments.

▪ The majority of the Fund's assets are managed by the London CIV. We will continue reviewing its RI policy and engaging with the CIV to ensure that its strategies and beliefs are still aligned with ours.

▪ We, with the support from our investment advisers, carry out an annual review of the ESG profile of the Funds. The use of third-party data from MSCI, self-reported manager data from the PRI alongside commentary from the adviser, support the Committee in identifying areas of potential ESG risk and engagement opportunities.

▪ We expect investment managers to comply with the UK Stewardship Code Principles and expect them to be a signatory to the 2020 UK Stewardship Code and to the Principles for Responsible Investment (PRI).

## Implementation

▪ We expect the Fund's investment managers to provide their RI policy, including details of their approach to stewardship, how they integrate ESG into their investment decision making process and approach to non-financial factors. When we look to appoint a new manager, we request and consider this information as part of the selection process. We review responses with support and input from the Fund's investment adviser.

## Stewardship – voting and engagement

We recognise the importance of our role as a steward of capital. We believe in using our influence, where possible, to promote the highest standards of governance and corporate responsibility in the underlying companies in which the Fund's investments reside. We recognise that ultimately this protects the financial interests of the Fund and its beneficiaries.

We expect the Fund's investment managers to use their influence as major institutional investors to carry out our rights and duties as a shareholder including voting, along with – where relevant and appropriate – engaging with underlying investee companies.

The Committee 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. The Fund is a member of the Local Authority Pension Fund Forum ("LAPFF") and in this way joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners. Voting carried out by the London CIV is delegated to the external manager and monitored on a quarterly basis and expected to be in line with the LAPFF directions.

We expect the London Collective Investment Vehicle (LCIV) through which the Fund now invests new funds to take an active approach to voting and engagement and we will monitor its delivery of this.

We request details on an annual basis of how the Fund's other investment managers are undertaking voting and engagement activity.

Where possible, voting information should include details of voting actions and rationale with relevance to the Fund, in particular where: votes were cast against management; votes against management generally were significant and votes were abstained.

Similarly, engagement activity disclosures should be of relevance to the Fund's investments and include information on the rationale and outcome of engagement activity.

We review the stewardship activities on an annual basis with input from the Fund's investment adviser and will engage with managers as required.

## Initiatives and industry collaboration

We recognise that collaboration and support of initiatives is a powerful tool to influence behaviour. Members of the Committee, including the Chairman, are members of Aon's Responsible Investment Network which provides access to regular updates including:

- Responsible investment market innovations and developments
- Topical roadshows, events and training sessions
- Research and focus group discussions of key issues surrounding sustainable finance and RI.

We expect the Fund's investment managers to consider collaboration with others, as permitted by relevant legal and regulatory codes, where collaboration is likely to be the most effective mechanism for encouraging positive change at investee companies/issuers.

We expect our investment advisers to keep us informed of relevant global and industry initiatives and may consider participating in opportunities where there is appropriate alignment with our beliefs and principles.

## Evolving our approach

We acknowledge that the Fund's approach to RI will need to continually evolve, due to both the changing landscape with respect to ESG issues and broader industry developments.
We are committed to making ongoing improvements to our approach and the processes that underpin the delivery of this policy. We are focused on making sure that it remains relevant and appropriate for our members.

## Disclosure and reporting

We believe transparency is important. In support of this belief, we are making this policy available to members and welcome any feedback. This policy supplements additional disclosures and information available as part of our Investment Strategy Statement (available at www.bexley.gov.uk).

We will formally review this policy at least every three years as part of each formal triennial investment strategy review or as required in response to changing regulations or broader governance issues.