



Bedfordshire  
Pension  
Fund

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# Report and Accounts

## 2015/2016

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BEDFORD  
BOROUGH COUNCIL

Registration number: 00328861RF

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## Foreword

It is with pleasure that I present the annual report for the year end March 2016.

As with many recent years the Local Government Pension Scheme (LGPS) has faced enormous pressure from the Government to modify the way in which we deliver/invest for the benefit of our Members. The Chancellor of the Exchequer in his Autumn Statement, 2015, made it clear that he required the LGPS in England and Wales, to form “half a dozen pools with assets under management of at least £25 billion”. We faced up to the challenge and met the original request to submit to the Department of Communities and Local Government (DCLG) by 25 February 2016 a proposal as to how Bedfordshire Pension Fund would achieve this.

Bedfordshire Pension Fund (BPF), with Assets Under Management (AUM) of c£1.7 Billion (bn) so it was important that we sought to partner with a grouping of other funds with similar aspirations to BPF. With this in mind your Pension Committee, following several meetings with potential partners, resolved to work with “Border to Coast Pensions Partnership”. At the time of writing this foreword, I confirm we have finalised the detail submission that had to be submitted by 15 July 2016.

The members of the Border to Coast Pool are:-

Fund	Value
Bedfordshire	£1.7bn
Cumbria	£2.0bn
Durham	£2.3bn
East Riding	£3.7bn
Lincolnshire	£1.8bn
North Yorkshire	£2.4bn
Northumberland	£1.1bn
South Yorkshire	£6.3bn
South Yorkshire Transport	£0.2bn
Surrey	£3.2bn
Teesside	£3.2bn
Tyne & Wear	£6.4bn
Warwickshire	£1.6bn
<b>Total</b>	<b>£35.9bn</b>

The fund's investment performance was subdued through the period 2015 to 2016.

Throughout the year, 2015/2016 we made a review of our equity investments. This involved the committee in a series of specific training schedules and presented with several scenarios we might consider to ensure an appropriate risk versus return approach was achieved. On completion of this there was a rebalance of our active equity portfolio to move towards a more passive approach with some exposure to a global fundamental index, resulting in more passive investments within equities. This had the effect of some significant reductions in fees payable to managers.

The Fund currently employs 8 specialist (fund) managers to invest on behalf of BPF in a variety of asset classes which is explained in detail at page 48. These include equities, fixed interest securities and property. Advice is regularly received from our Investment Consultant/Adviser and appropriate action is taken as necessary.

Whilst there is improvement in the fund's value we are only too aware of the pressures that remain in our exposures to liabilities. The fund value is of course a real figure whilst the liabilities are estimated with specific assumptions forecasted – bond rates and yields.

There have been issues with extracting information from payroll systems necessary to administer calculations of benefits within the new scheme. A byproduct was the failure to deliver benefit statements to our active membership in August 2015. The failure was reported to the Pension Regulator in line with the Public Service Pensions Act 2013 requirements with regular communication with both Employers and the Regulator to guarantee benefit statements are issued in August 2016.

I would like to record my gratitude to the members of the Committee for their support and contribution during a very busy year. On behalf of the Committee, I would like to thank the Assistant Chief Executive and Chief Finance Officer and all his colleagues for their continued efforts in delivering the services to both Members and committee through this very challenging time.

*Councillor Doug McMurdo*

Chairman of the Pension Fund Committee

31 July 2016

# Management Report



## Management & Advisers as at 31 March 2016

<b>Administering Authority</b>	Bedford Borough Council
<b>Administrator</b>	Andy Watkins, Assistant Chief Executive and Chief Finance Officer
<b>Pension Fund Committee Members</b>	
Bedford Borough Councillors	Doug McMurdo (Chair)
	Shan Hunt
	Jon Gambold
Central Bedfordshire Councillors	Kevin Collins
	Richard Wenham
Luton Borough Councillors	Stephen Lewis
	John Young
Scheme Member Representative (non-voting)	Willy White
Independent Adviser	Leslie Robb
<b>Investment Managers</b>	
	BlackRock Advisors
	CBRE Global Investors
	Insight Investment Management
	Invesco Perpetual
	Legal & General Investment Management
	Newton Investment Management
	Pyrford International
	Trilogy Global Advisors
<b>Custodian</b>	The Northern Trust Company
<b>Investment Consultant</b>	William Marshall
	Hymans Robertson
<b>Actuary</b>	Gemma Sefton
	Hymans Robertson
<b>External Auditor</b>	Ernst and Young LLP
<b>AVC Providers</b>	Prudential
	Standard Life Assurance Company
<b>Bankers</b>	National Westminster Bank
	Goldman Sachs Asset Management International
	Santander UK plc



## Legal Framework & Administration

### The Scheme

The local government pension scheme is statutorily based and governed by the Local Government Pension Scheme Regulations 2013 and subsequent amendments.

### Administering Authority

The Bedford Borough Council is the administering authority for the Bedfordshire Pension Fund. The Fund Administrator is the Bedford Borough Council's Assistant Chief Executive & Chief Finance Officer.

### Role of the Pension Fund Committee

The Borough Council's responsibility as Administering Authority is undertaken via the Pension Fund Committee. The Committee consists of nominated elected members of the Bedford Borough Council, Central Bedfordshire Council and Luton Borough Council. A scheme member representative nominated by the trade unions is invited to sit on the Committee in an observer role. An independent investment adviser sits on the Committee in an advisory role. The Committee also takes advice from Borough Council officers, principally the Assistant Chief Executive & Chief Finance Officer and the Head of Pensions, and from external professional investment advisers, Hymans Robertson. The Committee meets as the Pension Fund Panel when it sits informally.

The membership of the Pension Fund Committee at 31 March 2016 is shown on page 5.

The Committee supervises the overall arrangements for management of the Fund's assets. It appoints external fund managers to manage the Fund's assets and monitors their performance. The key principle in the prudent management of the Fund's assets is maintaining the optimum balance between risk and return. The Committee seeks to achieve this by ensuring that its assets are spread over a variety of different asset classes, both in the UK and overseas, and with different managers.

### Fund Administrator

The exercise of the Borough Council's functions as administering authority is delegated to the Pension Fund Committee. The Assistant Chief Executive & Chief Finance Officer, as Fund Administrator, has delegated authority for the day-to-day management of the Fund. This delegation includes the power to seek advice and the authority to appoint external managers to handle the day-to-day investment of the Fund's assets.

### Corporate Governance

The Borough Council has issued a Governance Policy Statement in respect of the Pension Fund. This document describes how the Council will fulfil its role as administering authority in an effective and transparent manner. The statement covers policy on:

- delegations to the Pension Fund Committee;
- frequency of meetings of the Committee;
- terms of reference and operational procedures;
- representation from other scheme employers and scheme members.

The Governance Policy Statement can be seen in full on the Pension Fund's website at [www.beds pensionfund.org](http://www.beds pensionfund.org)

In addition, the Pension Fund Committee has published a governance compliance statement in accordance with current regulations. This statement is reproduced in full on page 96.

## **Changes in Legislation**

Regulations in 2013 introduced a new Career Average Revalued Earnings scheme from 1 April 2014. This benefit structure was used in the 31 March 2013 Actuarial Valuation of the Fund.

## **Administration of the Scheme**

The Borough Council is the administering authority and fund investment and administration is the responsibility of the Fund Administrator. The costs of administration and paying pensions and benefits are charged to the Pension Fund.

The local government pension fund administered by the Borough Council was established in 1974 to cover the future pension entitlements of all eligible employees of the Borough and Unitary Councils within Bedfordshire, other than teaching staff, police officers and firefighters who have their own pension schemes. A number of other bodies also participate in the pension scheme

as of right (scheduled bodies) or are admitted to the scheme following application for membership (admitted bodies).

With the advent of personal pensions, employees are free to choose whether to join or remain within the scheme or to make their own personal pension arrangements.

The local government pension scheme is required to be 'funded', i.e. it must be sufficient to sustain the future pension entitlements of both past and present employees. The scheme is financed by contributions from employees and employers and by earnings from investments. Cash not immediately required to meet pensions and other benefits is invested in a selection of securities, equities, property and other assets. The level of employers' contributions is re-assessed every three years following an actuarial review of the fund by the fund's actuary.

## Pensions Administration Performance

The Pension Administration performance as measured by agreed performance indicators is reported quarterly to the Pension Fund Committee. The table below summarises the year.

	Target days to complete	Total cases outstanding 31 March 2016	Cases ready to action 31 March 2016	2015/2016 Average days to complete	2015/2016 Number of cases	Cases completed within target 2015/2016	
						Number	%
Creation of member records	10	575	302	16.06	1,208.75	323.75	27%
Payment of refunds	10	24	5	2.19	187.75	180.5	96%
Process retirement							
Normal	10	33	7	2.02	62.75	61.00	97%
III Health	10	7	1	1.50	8.25	7.75	94%
Flexible	10	2	0	0.86	4.25	4.25	100%
Early Retirement (redundancy or Efficiency)	10	33	4	1.66	35.75	35.50	99%
Preserved Benefit into Payment	10	108	9	0.96	109.75	108.75	99%
Total Retirements		183	21	1.39	220.75	217.25	98%
Retirement Estimates							
Normal	10	21	3	8.96	91.00	60.50	66%
Long Term forecasts	20	25	1	9.82	110.25	97.00	88%
III Health	10	1	0	3.48	5.50	5.50	100%
Early Retirement (redundancy or Efficiency)	10	21	9	7.28	114.00	85.00	75%
Total Retirement Estimates		68	13	8.56	320.75	248	77%
Transfers In	35	51	17	8.90	50.50	47.25	94%
Transfers in LG	120	1088	802	18.09	99.50	82.50	83%
Transfers Out	10	4	1	6.95	11.00	9.00	82%
Transfers Out LG	60	354	16	16.18	68.50	53.75	78%
Preserved Benefits	60	3701	3390	108.50	1,223.25	433.75	39%
Death entitlement	10	81	2	5.74	113.50	98.25	87%



## Financial Performance (Administrative)

A budget for the administrative cash flows of the Pension Fund is prepared prior to the beginning of each financial year. The key elements of the 2015/2016 budget approved by the Pension Fund Committee in March 2015 are shown below together with actual performance.

<b>Administrative cash flows</b>			
£000s	Budget	Actual	Variance
Contributions received	105,000	103,000	-2,000
Transfers of value received	6,000	12,420	6,420
Benefits paid	-85,100	-86,725	-1,625
Transfers of value paid	-6,000	-2,377	3,623
Cost of administering the fund	-6,100	-6,049	51
<b>Net additions/withdrawals from dealings with members</b>	<b>13,800</b>	<b>20,269</b>	<b>6,469</b>

The cash flows shown above include the payment, and subsequent recovery, of compensatory added years benefits which are excluded from the statement of accounts.

Contributions are payable by participating employers on a monthly basis, due in arrears by the 7th working day of the following month. During 2015/2016, 94% of contributions were received by the due date.

The Pension Fund Committee formally agreed a budget for 2015/2016 at its meeting on 2 March 2015. The Committee receives regular reports on progress against the budget during the year. The final position is shown in the table below and indicates the biggest variation was due to the change in accounting treatment of transactional fees related to investment management. Savings in investment management fees were made due to the divestment from one Manager and the managed reinvestment in replacement Managers.

## Bedfordshire Pension Fund Budget Monitoring 2015/2016

	2015/2016 Current Budget	2015/2016 Outturn	2015/2016 Variance
	£000	£000	£000
Investment management – basic fees:	4,585	4,812	227
Investment Management - Underlying Property Fees	1,763	1,610	-153
Investment management – performance related fees	700	347	-353
Investment Management - Custodian & Transactional	82	118	36
<b>Total Investment management fees</b>	<b>7,130</b>	<b>6,887</b>	<b>-243</b>
Oversight and Governance			
Actuarial & other professional fees	330	389	59
Audits – Internal and external	47	40	-6
Other Expenses	57	27	-31
<b>Total Oversight and Governance</b>	<b>434</b>	<b>456</b>	<b>22</b>
Running Expenses	79	96	17
Computer costs	101	125	24
LGPS 2014 Costs	50	3	-47
Fund Administration – Bedford Borough Council recharge	1,000	914	-86
<b>Total Administration Costs</b>	<b>1,180</b>	<b>1,134</b>	<b>-46</b>
<b>Total</b>	<b>8,744</b>	<b>8,477</b>	<b>-267</b>

## Benchmarking

The Fund benchmarks its administrative costs against the SF3 data collected annually by the Office of National Statistics. The most recent data is that for the financial year 2014/2015 and is summarised in the following table:

Cost per Scheme Member (£)	2014/2015		2013/2014	
	Bedfordshire	All LGPS	Bedfordshire	All LGPS
Investment management:				
base fee	91.29		65.10	
performance fee	3.72		9.03	
Investment advice/ support:	6.77		8.45	
<b>Total Investment Costs</b>	<b>101.78</b>	<b>130.05</b>	<b>82.58</b>	<b>101.80</b>
Administration:				
	18.15		21.33	
<b>Total</b>	<b>18.15</b>	<b>22.41</b>	<b>21.33</b>	<b>23.97</b>

## Communications

The Pension Fund is committed to establishing and maintaining effective communications with its members and other interested parties. To this end, the fund has issued a Communications Policy Statement formalising the processes by which this will be achieved. This policy statement may be seen on the Fund's website at [www.bedspensionfund.org](http://www.bedspensionfund.org) and is reproduced in full on page 102.

## Systems & Technological Innovation

The Pension Fund's records and administration system are computerised, using hardware provided by the Borough Council and *altair* software provided under licence by Aquila Heywood. This licence provides for regular updates to keep abreast of changes in regulation and developments in best practice.

The Fund's financial data is collected on the Borough Council's Agresso system. This system is maintained in-house by the Council's IT team and includes comprehensive contingency and business continuity provisions.

The Fund payroll is managed in-house utilising *altair* software.

All Borough Council staff involved in Pension Fund administration and investment activities have access to the internet and the Council's intranet.

The Fund also maintains a website that is maintained by its own officers and supported by Bedford Borough Council. The web address is [www.bedspensionfund.org](http://www.bedspensionfund.org)

## Equality and Diversity

The Council's policy on Equality & Diversity is available on the Council's website at [www.bedford.gov.uk](http://www.bedford.gov.uk)

## Training – CIPFA Pensions Finance Knowledge & Skills Framework

All public sector organisations charged with the financial management of pension schemes will be aware of the growing complexity of pension schemes. Pension scheme financial management in the public sector demands appropriate skills, including a knowledge of financial markets and products, financial services procurement, pensions accounting and auditing, actuarial practices, investment performance and risk management and the implications of legal and regulatory requirements.

Every public sector organisation should secure appropriate training, having assessed the professional competence of both those involved in pensions scheme financial management and those with a policy, management and/or oversight role. They should also ensure that those charged with pension scheme governance have access to the skills and knowledge they require to carry out this role effectively.

CIPFA has published its Pensions Finance Knowledge and Skills Framework as a basis for the training and development of those involved in pension scheme finances. The six areas within the Knowledge and Skills framework are:

1. Pensions legislative and governance context
2. Pensions accounting and auditing standards
3. Financial services procurement and relationship management
4. Investment performance and risk management
5. Financial markets and product knowledge
6. Actuarial methods, standards and practices

The Pension Fund has adapted the CIPFA framework in formulating and implementing its own training plan and, as recommended by CIPFA, makes the following compliance statement:

As the administering authority of the Bedfordshire Pension Fund, the Council recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. It therefore seeks to appoint individuals who are both capable and experienced and will provide training for staff and members of the decision making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

The Fund's training plan sets out how it intends to acquire, maintain and develop the pension finance knowledge and skills necessary. The plan reflects the recommended knowledge and skills level requirements set out in the CIPFA Pensions Finance Knowledge and Skills Framework.

The Fund has appointed the Fund Administrator to be responsible for ensuring that policies and strategies are implemented. The Fund has conducted a training needs assessment and, based on the outcome, has formulated a training plan.

The following training against the plan has been provided during the year. The table reviews the training received by the Fund in 2015/2016.

## Bedfordshire Pension Fund – 2015/2016 training plan review

The table reviews the training received by the Fund in 2015/2016. Suggested optional events are shown shaded whilst others are suggested to be essential in the first two years in the committee.

Event	Length & timing of Training	Legislative & Governance	Accounting & Audit	Procurement & Relationships	Investment & Risk	Financial Markets	Actuarial	Attended
Local Event led by Investment Consultant/ investment managers	½ day Tied into Panel Training 5 June 2015, 18 Sep 2015 13 Nov 2015 19 Feb 2016			X	X	X		5 June 2015 6 members/ 1 officer 18 Sep 2015 4 members/ 1 officer 13 Nov 2015 4 members/ 2 officers 19 Feb 2016 6 members/ 2 officers
Local Government Association (LGA) Trustee training	3 days	X	X	X	X	X	X	3 Members / 1 officers Total to date 7 Members/ 2 officers 1 Observer
Training Day Skills and knowledge	1 day 17 March 2016	X	X	X	X	X	X	17 Mar 2016 6 Member/4 officers 3 Board
CIPFA - Intro to LGPS	25 Sep 2015							1 member/ 0 officers
LPSA Local Authority Conference	2 days 19/20 May 2015	X	X	X	X	X	X	0 Member/ 1 officers
LGC – Investment Seminar	2 days 10/11 Sep 2015	X			X	X		0 Member/ 2 officers
CIPFA – Pensions Conference	11 Nov 2015	X				X	X	1 Members/1 officers
LAPFF Conference	3 days 2/3/5 Dec 2015				X			1 Member/ 0 officers
330 Consulting Elected Member Educational Event	17 Feb 2016	X		X	X	X		1 Member/ 0 officers 1 Observer
LAPF Strategic Investment Forum	1 day 4 Feb 2015							1 Member/ 2 officers
LGIF Pension Investment Forum	1 day 21 Oct 2015							1 Member/ 0 officer
LGC – Investment Summit	2 days 3/4 Mar 2016	X		X	X	X	X	1 Member/ 1 officer

Officers also attended CIPFA Pension network events 22 April 2015, 16 October 2015 and 11 February 2016; Pensions Administration Managers Conference 16-18 November 2015; Local Government Pension Risk and Liabilities 22 April 2015; and various Pooling events.

Additionally, the Pensions Regulator Public Sector toolkit is available.

## Risk

The main types of risks to the Pension Fund are identified as follows:

- The value of liabilities rises too quickly;
- The value of the investments does not rise quickly enough;
- Individual Employer Circumstances make paying liabilities challenging;
- The Governance capability.

There are a number of ways these risks are attempted to be mitigated and these are detailed in the formal register. In general there is reliance on the governance requirements such as the Funding Strategy Statement (page 72) and the Statement of Investment Principles (page 50). The formal risk register is considered by the Pension Fund Committee at least annually.

The Pension Fund receives assurance from an internal audit programme that covers areas such as pensioner payroll, administration, contributions receivable and governance to ensure that internal controls are working correctly. Investment Managers and the custodian also make available a report detailing their internal control system being subject to audit. These reports can be of different formats including the AAF01/06 (Audit and Assurance Faculty of the Institute of Chartered Accountants in England and Wales release 01/06), SAS (Statement on Auditing Standards) 70, International Standard on Assurance Engagement no. 3402 and SSAE 16 (U.S. Statement on Standards for Attestation Engagements No. 16). Each report is reviewed when available and the conclusion of each was that the control procedures are suitably designed and operated as described during the period under review.



## Contributions and Benefits

The Pension Fund provides for the payment of pensions and other benefits to eligible former employees of the participating bodies. The following summary is only an illustrative guide. Full details of benefits payable are explained in the scheme booklet “A Guide to the Local Government Pension Scheme”, available from the Council’s pensions administration team or on the internet at [http://www.bedspensionfund.org/active\\_members/guides\\_to\\_the\\_lgps.aspx](http://www.bedspensionfund.org/active_members/guides_to_the_lgps.aspx)

### Contributions

Legislation requires regular three-yearly actuarial valuations of local authority pension funds to establish the annual contribution to be made by the employing bodies. The valuation on which the employers’ contributions for 2015/2016 were based was carried out as at 31 March 2013. The employers’ contributions resulting from this valuation were implemented from 1 April 2014 (see also Actuarial Statement on page 65).

Employees contribute to the scheme at a rate set by statute. On 1 April 2008, a tiered structure, in which rates vary according to salary, was introduced for all new and existing members.

Employers make a contribution to the fund at a common (or primary) contribution rate, calculated as a percentage of employees’ pensionable pay. The actuary determines the common rate of contribution at the time of valuation, having regard to any statutory requirements then in force. A secondary employer’s contribution rate is calculated for each employing body to reflect their particular individual circumstances.

The administering authority is also required to enable employees to make additional voluntary contributions (AVCs) to obtain enhanced pension benefits. The Standard Life Assurance Company and Prudential plc have been appointed to provide this facility.

### Pension Benefits

The local government pension scheme is a “defined benefit” scheme, with employees’ pensions and benefits determined in accordance with statute and regulation. The annual pension and the retirement lump sum are based on length of service and annual pensionable pay. For members who joined before 1 April 2014, part of their benefits will be based on their accrued service to 31 March 2014 and their final salary. On retirement, members can elect to commute part of their pension to increase their lump sum payment.

Contributors can transfer accumulated benefits between pension funds on change in employment, where regulations allow.

When an employee leaves the scheme with over two years’ service counting towards pension entitlement and does not transfer their benefits to another pension scheme, the employee is awarded a pension and lump sum, the payment of which is deferred until the individual’s earliest retirement age (deferred benefits).

### Pension Increases

Mandatory increases in pensions and deferred benefits are made, in accordance with annual Statutory Pensions Increase (Review) Orders, to maintain the purchasing power of the benefit. The pension increase is effective from April each year and since April 2011 has been based on the Consumer Price Index (CPI). Prior to April 2011, Pensions Increase was based on the Retail Prices Index (RPI).

## LGPS 2014 reforms

	Service pre 1st April 2014	Service post 31st March 2014
Scheme	Final Salary Scheme, with Pension based on salary at retirement	CARE scheme (career average revalued earnings) where each year builds up a pension pot that is revalued in line with inflation.
Pension	Each year is worth 1/60 x final pensionable salary.	Each year is worth 1/49 x salary earned in that year, revalued in line with inflation.
50/50 Option	Not Applicable	Option for employees to pay half the contributions to accrue half of the pension.

## Membership

During 2015/2016 the number of pensioners increased from 14,281 at 31 March 2015 to 14,889 at 31 March 2016; the number of contributors within the fund increased from 19,931 to 20,428.

Whilst local government remains the main employment, the higher education sector and civilian employees of the emergency services are also major sources of membership. The introduction of the Government's academy programme has given schools the ability to opt out of local education authority control and become autonomous. Schools awarded academy status remain in the LGPS as scheduled bodies.

### Active membership by Employer as at 31 March

2015	2016
4,685	4,771
Luton Borough Council	
4,485	4,692
Central Bedfordshire Council	
2,884	2,961
Bedford Borough Council	
3,532	3,997
Academies	
988	870
The Police and Crime Commissioner for Bedfordshire	
1,148	816
University of Bedfordshire	
404	421
Cranfield University	
1,805	1,900
Other bodies	
<b>19,931</b>	<b>20,428</b>
<b>Total</b>	

As at 31 March 2016 there were 114 members who had exercised their right to join the 50/50 section of the LGPS within Bedfordshire Pension Fund.

### Five Year Membership Summary as at 31 March

	2012	2013	2014	2015	2016
Active members	17,244	17,442	18,766	19,931	20,428
Pensioners	12,527	13,158	13,841	14,281	14,889
Deferred Pensioners	19,757	21,142	22,821	24,910	27,409
<b>Total</b>	<b>49,528</b>	<b>51,742</b>	<b>55,428</b>	<b>59,122</b>	<b>62,726</b>

## Participating Employers

The following are the employers participating in the Bedfordshire Pension Fund as at 31 March 2016. The contribution rates shown are the percentage of its employees' pensionable pay that each employer paid into the fund during 2015/2016. Common contribution rate is set at a level so as to bring the fund to 100% funding over a period of twenty years. However, some employers have opted to fund the deficit by making additional annual monetary payments and consequently have a lower contribution rate. The additional payments in 2015/2016 are included in the table below.

<b>Scheduled Bodies:</b>	<b>Contribution Rate %</b>	<b>Additional payments £000</b>
Academy Of Central Bedfordshire	23.90	
Active Education Academy Trust	20.00	
Alameda Academy	18.90	
Alban Church Of England Academy	20.50	
Aley Green Parish Council	20.30	
All Saints Academy (Dunstable)	17.80	
All Saints Lower (Post 01/10/2013) (Clifton)	24.40	
Amphill Town Council	20.30	
Ardley Hill Academy	24.90	
Arlesey Town Council	20.30	
Arnold Academy	20.20	
Barnfield College	18.00	244
Bedford Academy	17.10	
Bedford Borough Council	14.00	5,686
Bedford College	17.20	227
Bedford Free School	14.40	
Bedfordshire & River Ivel Drainage Board	20.30	
Bedfordshire Fire And Rescue Service	14.00	160
Beecroft Academy	16.00	
Biddenham Parish Council	20.30	
Biggleswade Academy Trust*	24.60	
Biggleswade Town Council	20.30	
Blunham Parish Council	20.30	
Bolnhurst Parish Council	20.30	
Brickhill Parish Council	20.30	
Bromham Parish Council	20.30	
Brooklands Middle School	18.20	
Caddington Parish Council	20.30	
Cedars Academy	21.50	
Central Bedfordshire College	19.20	130
Central Bedfordshire Council	14.00	7,212
Central Bedfordshire UTC	13.00	
Chantry Academy	22.00	
Chief Constable	12.20	
Chiltern Learning Trust	20.90	
CMAT – Hastingsbury	24.90	
CMAT – Lancot	24.90	
CMAT – Robert Bruce	24.90	
Cranfield Church of England Academy	18.40	

<b>Scheduled Bodies:</b>	<b>Contribution Rate %</b>	<b>Additional payments £000</b>
Daubeney Academy	24.50	
Dunstable Town Council	20.30	
Eastcotts Parish Council	20.30	
Eaton Bray Academy	17.90	
Etonbury Academy	23.90	
Eversholt Lower	23.60	
Ferrars Academy	19.40	
Flitwick Town Council	20.30	
Fullbrook Academy	22.80	
Gilbert Inglefield Academy	23.10	
Goldington Academy	20.40	
Goldington Green Academy	24.40	
Gothic Mede Lower Academy	23.90	
Grange Academy	20.70	
Gravenhurst Academy	23.90	
Greenfield & Pulloxhill Academy	21.20	
Greys Education Centre	24.10	
Hadrian Academy	22.70	
Harlington And Sundon Academy Trust	24.40	
Harlington Area Schools Trust	17.10	
Harlington Parish Council	20.30	
Harlington Academy	19.10	
Haynes Parish Council	20.30	
Henlow Church Of England Academy	21.00	
Holywell School	20.80	
Houghton Conquest Parish Council	20.30	
Houghton Regis Academy	22.10	
Houghton Regis Town Council	20.30	
Icknield Academy	22.10	
John Gibbard Academy	23.50	
Kempston Burial Joint Board	20.30	
Kempston Rural Parish Council	20.30	
Kempston Town Council	20.30	
Kensworth Parish Council	20.30	
Langford Lower Academy	23.90	
Lark Rise Academy	18.90	
Leighton Linlade Town Council	20.30	
Linslade Academy Trust	19.40	
Luton Borough Council	14.10	7,446
Luton Sixth Form College	19.80	47
Mark Rutherford School Trust	17.90	
Marston Moretaine Parish Council	20.30	
Marston Vale Middle School	24.40	
Meppershall Lower Academy School	23.30	
Northill Parish Council	20.30	
Oak Bank Special School Academy	17.00	
Police and Crime Commissioner for Bedfordshire	12.20	883
Potton Town Council	20.30	

<b>Scheduled Bodies:</b>	<b>Contribution Rate %</b>	<b>Additional payments £000</b>
Priory Academy	21.60	
Putnoe Academy	22.30	
Queens Park Academy	17.80	
Queensbury Academy	24.90	
Raynsford Church Of England Academy	22.60	
Redborne Academy	18.10	
Robert Bloomfield Academy	23.90	
Samuel Whitbread Academy	23.90	
Sandy Town Council	20.30	
Sandye Place Academy	15.80	
Shared Learning Trust	17.50	
Sharnbrook Academy Federation	19.10	
Sharnbrook Parish Council	20.30	
SACA – Cardinal Newman **	14.10	
SACA – St Margaret Of Scotland **	14.10	
SACA – St Martin De Porres **	14.10	
St Augustine's Academy	22.90	
St Christopher's Academy	15.60	
St Francis Of Assisi Academies Trust	24.10	
St Johns Special School and College	16.60	
St Mary's School (Stotfold)	21.30	
Stanbridge Parish Council	20.30	
Staploe Parish Council	20.30	
Stotfold Town Council	20.30	
Stratton Education Trust	21.70	
The Firs Academy	19.10	
The Hills Academy	24.40	
Tilsworth Parish Council	20.30	
Toddington Parish Council	20.30	
Toddington St George Church Of England School	24.00	
Turvey Parish Council	20.30	
University of Bedfordshire	16.00	1,128
Ursula Taylor Academy	23.90	
Vandyke Upper School	21.30	
Weathefield Academy	20.60	
Whipperley Infant Academy	20.20	
Woodland Academy	17.60	
Wootton Academy Trust	21.80	
Wootton Parish Council	20.30	

<b>Admitted Bodies:</b>	<b>Contribution Rate %</b>	<b>Additional payments £000</b>
Active Luton Trust	15.70	11
Amey Plc	23.40	63
Aragon Housing Association	17.10	187
BPHA	19.60	819
Churchill Cleaning Services	19.20	
Civica UK Limited	20.10	
Cranfield University	18.90	2,242
Creative Support	24.20	
ELFT Bedfordshire - East London NHS Foundation Trust Bedfordshire	18.80	
ELFT Luton - East London NHS Foundation Trust Luton	18.80	
Fusion Lifestyle	21.20	
Grand Union Housing	17.10	118
Luton Cultural Services Trust	18.20	
Macintyre Housing	17.10	20
Mitie	23.20	
Ridge Crest Cleaning Services	21.20	
St. Christopher's Fellowship	25.40	
St. Francis Children's Society	24.50	
Stevenage Leisure Limited	20.00	

\*Biggleswade Academy Trust certified rate is 24.6% but they have actually paid 20.58% for the year

\*\* Employer paid the same rate as the ceding rate when with Luton Borough Council. Arrears collected in 2016/2017

Further to this the following is a summary of the number of employers in the fund analysed by Scheduled bodies and Admitted bodies, showing active and ceased where there are still outstanding liabilities.

	<b>Active</b>	<b>Ceased</b>	<b>Total</b>
Scheduled body	126	15	141
Admitted body	19	11	30
<b>Total</b>	<b>145</b>	<b>26</b>	<b>171</b>

Below is a table showing the number of active employers, detailed by Scheduled body and Admitted body over a five year period

	<b>2011/2012</b>	<b>2012/2013</b>	<b>2013/2014</b>	<b>2014/2015</b>	<b>2015/2016</b>
Scheduled body	72	99	121	119	126
Admitted body	18	17	19	18	19
<b>Total</b>	<b>90</b>	<b>116</b>	<b>140</b>	<b>137</b>	<b>145</b>



# Financial Statements



- Statement of Responsibilities
- Auditors' Report
- Critical Judgements in Applying Accounting Policies
- Accounting Policies
- Five Year Financial Summary
- Fund Account
- Net Assets Statement
- Notes to the Accounts
- Actuarial Report – Present Value of Promised Retirement Benefits

## Statement Of Responsibilities

### The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. At Bedford Borough Council that officer is the Assistant Chief Executive & Chief Finance Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

### The Assistant Chief Executive & Chief Finance Officer's Responsibilities

The Assistant Chief Executive & Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper accounting practices, as set out in the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Assistant Chief Executive & Chief Finance Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

The Assistant Chief Executive & Chief Finance Officer has also:

- to ensure proper accounting records were kept which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

### Certification

This statement of accounts presents a true and fair view of the financial position of Bedford Borough Council at 31 March 2016 and income and expenditure for the year ended 31 March 2016.

*Andy Watkins*

Assistant Chief Executive & Chief Finance Officer

20 September 2016

### Approval

I confirm that the Statement of Accounts was approved by the Audit Committee at its meeting on 20 September 2016.

*Councillor Mohammed Nawaz*

Councillor Nawaz, Chair of Audit Committee

20 September 2016

## Independent auditor's statement to the members of Bedford Borough Council on the pension fund financial statements

We have examined the pension fund financial statements for the year ended 31 March 2016, which comprise the:

- Fund Account;
- Net Assets Statement; and
- Statement of Accounting Policies and related notes 1 to 22.

This report is made solely to the members of Bedford Borough Council, 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 authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Chief Finance Officer and the auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities set out on page 22, the Chief Finance Officer is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Bedford Borough Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We also read the other information contained in the pension fund annual report and statement of accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only of the Foreword, Management Report, Investment Report, Policies and Statements, Contact Points and Glossary.

We conducted our work in accordance with guidance issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinions on those financial statements.

### Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Bedford Borough Council for the year ended 31 March 2016 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.



Tim Sadler (senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Southampton  
30 September 2016

## Critical Judgements in Applying Accounting Policies

### Pension Fund Liability

The pension fund liability is calculated every three years by the Fund's actuary, with annual updates in the intervening years. The methodology used is in accordance with International Accounting Standard (IAS) 19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in the Actuarial Report on page 65. This estimate is subject to significant variances based on changes to the underlying assumptions.

### Unquoted Investments

The fair value of unquoted securities is estimated by the Fund's investment managers and subject to the professional judgement and assumptions used by those managers. It is considered that changes in those assumptions would not produce significant variations in the value of those assets other than normal market fluctuations.

### Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made about the future or events that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. There are no items in the net assets statement at 31 March 2016 for which it is considered that there is a significant risk of material adjustment in the forthcoming financial year.

### Events after the Balance Sheet Date

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

- (a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period), and
- (b) those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

An example of an adjusting event would be if new information came to light regarding the methodology employed in the valuation of an asset.

## Pension Fund Accounting Policies

### Accounting Standards

The accounts of the Pension Fund have been prepared to meet the requirements of the Local Government Pension Scheme (Administration) Regulations 2013 and in accordance with the Statement of Recommended Practice on Financial Reports of Pension Schemes (Revised 2015). The accounts are also compliant with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2015/2016 (the Code), which is based on International Financial Reporting Standards (IFRS) as amended for the UK public sector.

Under IFRS the Fund is required to disclose the actuarial present value of promised retirement benefits, either in the net assets statement, in the notes to the accounts or in an accompanying actuarial report. The financial statements include a separate actuarial report to meet this requirement.

The accounts summarise the transactions and net assets of the Fund and do not take account of liabilities to pay pensions and other benefits in the future. They should therefore be read in conjunction with the actuarial reports which take account of such liabilities.

## **Basis of Preparation**

The accounts have been prepared on an accruals basis unless otherwise stated.

## **Contribution Income**

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate. Employer deficit funding contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date. Employer's augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset.

## **Benefits Payable**

All pensions and lump sums payments have been included on the accruals basis other than some death gratuities. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities. The payment of some death gratuities is dependent upon the receipt of probate or letters of administration. Where death occurs before the end of the year but probate or letters of administration has not been received by the balance sheet date, then no accrual is made. The departure from the accruals basis for these death gratuities does not materially affect the reported figure. Only benefits paid under local government pension scheme regulations are included in the fund account. For administrative ease, the Fund also pays out compensatory added years benefits on behalf of scheme employers; these are refunded in full by the employer. Both the benefit paid and the subsequent reimbursements are excluded from the fund account.

## **Refunds of Contributions**

Refunds have been included on a cash basis. Accounting for refunds on an accruals basis would not materially alter the reported figure.

## **Transfer Values**

Transfer values to and from other schemes have been included on a cash basis. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement. Due to scheme changes there are delays in processing transfer values as further actuarial factors are awaited.

## **Management Expenses**

The Code of Practice does not require any breakdown of pension fund administrative expenses. However in the interests of greater transparency, the Council discloses its pension fund management expenses in accordance with CIPFA 2014 and 2015 Guidance on Accounting for LGPS management costs.

## **Administrative Expenses**

The administration of the Fund is undertaken by the Borough Council in its role as administering authority. The Council's costs of administering the scheme, agreed by the relevant committees of both the Council and the Pension Fund, are charged to the Fund.



## Oversight and Governance Costs

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

## Investment Management Expenses

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. In addition the fund has negotiated with the following managers that an element of their fee be performance related.

- Insight Investment – Absolute Return Bonds
- Trilogy – Global Equities

Where an investment manager's fee note has not been received by 31 March 2016, 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.

Following guidance from CIPFA in 2014 and 2015, Accounting for Local Government Pension Scheme Management Costs, the Fund extracts transactional costs from Funds where the information is available to make an estimate or where this is readily available from the Custodian. This is included within the investment management costs. For the Property Manager management costs have been extracted reflecting the unit management costs based on the NAV (Net Asset Value) of each separate fund.

## Investments

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

- Quoted securities are valued by reference to market bid price at the close of business on 31 March 2016.
- Traded futures are valued by reference to their exchange prices as at 31 March 2016.
- Other unquoted securities are valued having regard to latest dealings, professional valuations, asset values and other appropriate financial information.
- Unit trust and managed fund investments are valued by reference to the latest bid prices quoted by their respective managers prior to 31 March 2016. If bid prices are unavailable, mid prices or net asset value will be used.
- Assets, including investments, denominated in foreign currencies are valued on the relevant basis and translated into sterling at the rate ruling on 31 March 2016. Exchange gains and losses arising from movements in current assets and liabilities are included in the fund account for the year.

Investment assets include cash balances held by the fund managers and debtor and creditor balances in respect of investment activities.

## Investment Income

- Interest Income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.
- Dividend Income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.



- (iii) Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- (iv) Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

### **Acquisition Costs of Investments**

Where shown, the cost of investments includes direct costs of acquisition.

### **Additional Voluntary Contribution (AVC) Investments**

The Borough Council has arrangements with its AVC providers to enable employees to make additional voluntary contributions (AVCs) to supplement their pension benefits. AVCs are invested separately from the Fund's main assets and the assets purchased are specifically allocated to provide additional benefits for members making AVCs. The value of AVC assets is not included in the Fund's net asset statement.

### **Taxation**

The Fund is an exempt approved fund under section 1(1) of Schedule 36 of the Finance Act 2004, and as such is exempt from tax on capital gains and from UK income tax on interest receipts. As the Council is the administering authority for the Fund, VAT is recoverable on all expenditure where appropriate, and all of the fund's income is outside the scope of VAT. The Fund is liable to tax at a rate of 20% on small pensions that have been compounded into a lump sum. The Fund is exempt from United States withholding tax. Where the Fund is subject to other foreign tax, income is shown as the grossed up figure and the tax withheld as an item of expenditure.

### **New Accounting Standards**

For any new accounting standard or policy introduced, the Pension Fund is required to provide information explaining how these changes have affected the accounts.

There were no new accounting standards introduced in 2015/2016 relating to the Pension Fund.

### **Accounting Standards that have been issued but have not yet been adopted**

The Pension Fund is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new standard that been issued, but is not yet required to be adopted by the Pension Fund. There are no such disclosures.

### **Assumptions made about the future and other 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, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

### **Events after the reporting date**

There have been no major post balance sheet events since 31 March 2016, however the impact of the European Union Referendum (BREXIT) has had a significant effect on currency market and the Fund believes that the currency risk within note 22 of these accounts should reflect this and has been updated accordingly.

## Five Year Financial Summary of Net Asset Statement

	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
	£million	£million	£million	£million	£million
<b>Net assets at 1 April</b>	<b>1,280</b>	<b>1,317</b>	<b>1,467</b>	<b>1,544</b>	<b>1,710</b>
Contributions	86	86	92	102	106
Investment and other income	21	20	14	16	23
<b>Total income</b>	<b>107</b>	<b>106</b>	<b>106</b>	<b>118</b>	<b>129</b>
Benefits and other expenses	-82	-82	-89	-116	-95
Change in market value of investments	12	126	59	164	-11
<b>Increase/(decrease) in value of fund</b>	<b>38</b>	<b>150</b>	<b>77</b>	<b>166</b>	<b>23</b>
<b>Net Assets at 31 March</b>	<b>1,317</b>	<b>1,467</b>	<b>1,544</b>	<b>1,710</b>	<b>1,733</b>

## Fund Account for the Year Ended 31 March 2016

2014/2015	2015/2016	
£000	£000	See Note
<b>Contributions and Benefits</b>		
101,539 Contributions	106,220	1
4,687 Transfers in from other pension funds	12,175	2
132 Other Income	105	
<b>106,358</b>	<b>118,500</b>	
-80,266 Benefits	-83,775	3
-28,705 Payments to and on account of leavers	-2,725	4
<b>-2,613 Net additions/(withdrawals) from dealings with members</b>	<b>32,000</b>	
<b>-7,090 Management Expenses</b>	<b>-8,476</b>	<b>5</b>
Returns on Investments		
11,528 Investment income	10,792	6
-575 Taxes on income	-290	7
164,346 Profit and losses on disposal of investments and changes in value of investments	-11,168	
<b>175,299 Net return on investments</b>	<b>-666</b>	
165,596 Net increase/(decrease) in the fund during the year	22,858	
1,544,360 Net assets of the fund at 1 April	1,709,956	
<b>1,709,956 Net assets of the fund at 31 March</b>	<b>1,732,814</b>	

## Net Assets Statement

31 March 2015 £000		31 March 2016 £000	See Note
<b>Investment Assets</b>			
177,506	Equities	0	8.1
1,484,539	Managed and unitised funds	1,668,421	8.2
14,585	Cash deposits & other assets	12,312	8.3
<b>1,676,630</b>		<b>1,680,733</b>	
Investment Liabilities			
-1,048	Other liabilities	0	8.4
<b>1,675,582</b>		<b>1,680,733</b>	
2,825	Long Term Assets	2,302	9
33,625	Current Assets	52,704	10
-2,076	Current Liabilities	-2,925	11
<b>1,709,956</b>	<b>Net assets of the fund available to fund benefits at the period end</b>	<b>1,732,814</b>	

The financial statements do not take account of liabilities to pay pensions and other benefits after the end of the financial year.

## Notes to the Accounts

### Fund Account

#### 1. Contributions

2014/2015		2015/2016
£000	Contributions	£000
21,503	Employees' normal contributions	22,406
557	Employees' additional voluntary contributions	367
50,285	Employers' normal contributions	51,896
27,408	Employers' deficit funding	29,880
1,786	Employers' augmentation contributions	1,671
<b>101,539</b>		<b>106,220</b>
16,637	Administering authority	18,695
72,834	Scheduled bodies	74,818
12,068	Admitted and other bodies	12,707
<b>101,539</b>		<b>106,220</b>

Employers' augmentation contributions relate to payments for the cost of enhanced benefits and early retirements. Refunded payments from employers in respect of compensatory added years' benefits are excluded from the accounts.

#### 2. Transfers in from other pension funds

2014/2015		2015/2016
£000	Transfers in from other pension funds	£000
0	Transfers in from other pension funds - bulk	3,079
4,687	Individual transfers from other pension funds	9,096
<b>4,687</b>		<b>12,175</b>

#### 3. Benefits

2014/2015		2015/2016
£000	Benefits	£000
64,556	Pensions	62,529
14,015	Commutations of pensions and lump sum retirement benefits	19,541
1,695	Lump sum death benefits	1,704
<b>80,266</b>		<b>83,775</b>
	Further analysed as:	
11,706	Administering authority	10,931
60,586	Scheduled bodies	64,248
7,974	Admitted and other bodies	8,596
<b>80,266</b>		<b>83,775</b>

Payments to employees in respect of compensatory added years' benefits are excluded from the accounts.

#### 4. Payments to and on account of leavers

2014/2015		2015/2016
£000	Payments to and on account of leavers	£000
91	Refunds of contributions	345
23,407	Transfers to other schemes – bulk	0
5,208	Transfers to other schemes – individuals	2,380
<b>28,705</b>		<b>2,725</b>

In 2014/2015 there was a bulk transfer out in relation to The Probation Service of £23.407 million. There were no bulk transfers out in 2015/2016.

#### 5. Management Expenses

2014/2015		2015/2016
£000	Management Expenses	£000
1,073	Administrative expenses	1,134
5,617	Investment management expenses	6,887
400	Oversight and governance costs	455
<b>7,090</b>		<b>8,476</b>

2014/2015		2015/2016
£000	Investment Management Expenses	£000
26	Transaction costs	78
4,381	Management fees	4,812
235	Performance related fees	347
926	Underlying property fees	1,610
49	Custody fees	40
<b>5,617</b>		<b>6,887</b>

The administering authority charged £1.1 million of Management Expenses. In 2015/2016, £0.8 million of Investment Managers' fees were based on estimates as the final fee notes had not been received. This compares with £0.9 million in 2014/2015.

#### 6. Investment Income

2014/2015		2015/2016
£000	Investment Income	£000
3,212	Dividends from equities	2,241
7,878	Income from pooled investment vehicles	8,247
438	Interest on cash deposits	304
<b>11,528</b>	<b>Total Investment Income</b>	<b>10,792</b>

#### 7. Taxes on Income

2014/2015		2015/2016
£000		£000
<b>-575</b>	Irrecoverable with-holding tax	<b>-290</b>

## 8. Investments

2014/2015		2015/2016
£000	Contributions	£000
	<b>8.1 Equities</b>	
11,103	UK quoted equities	0
166,403	Overseas quoted equities	0
<b>177,506</b>		<b>0</b>
	<b>8.2 Managed and Unitised Funds</b>	
3	UK un-authorised unit trusts	3
778,377	UK insurance managed funds	903,670
167,849	UK property unit trusts	187,797
538,310	Overseas unit trusts	576,951
<b>1,484,539</b>		<b>1,668,421</b>
	<b>8.3 Cash Deposits</b>	
1,380	Amount receivable for sales of investments	31
637	Investment income outstanding	233
<b>2,017</b>	<b>Other Investment Assets</b>	<b>264</b>
12,568	Cash deposits	12,048
<b>14,585</b>		<b>12,312</b>
	<b>8.4 Investment Liabilities</b>	
-1,048	Amount Payable for purchases of investments	0
<b>-1,048</b>		<b>0</b>
<b>1,675,582</b>	<b>Total</b>	<b>1,680,733</b>
<b>2014/2015</b>		<b>2015/2016</b>
<b>£000</b>	<b>Quoted/Un-quoted Investments</b>	<b>£000</b>
717,801	Quoted	585,358
957,781	Un-quoted	1,095,375
<b>1,675,582</b>		<b>1,680,733</b>

Investment liabilities at year end mainly relate to equity market purchases which occurred close to 31 March 2016. These are included in our Equities holding but have not been settled. This is normal accounting practice and reflects the timing of the transactions that were settled in the following financial year's April. In 2014/2015 there were Fund Manager Creditors of £0.1 million but were none at the end of 2015/2016.



**8.5 Value of Investments**

	Market Value at 31 March 2015	Purchases at cost & derivative payments	Sale proceeds & derivative receipts	Change in Market Value	Market Value at 31 March 2016
	£000	£000	£000	£000	£000
<b>Equities</b>					
UK	11,103	0	-12,136	1,033	0
Overseas	166,403	25,083	-173,921	-17,565	0
	<b>177,506</b>	<b>25,083</b>	<b>-186,057</b>	<b>-16,532</b>	<b>0</b>
<b>Managed Funds</b>	<b>778,377</b>	<b>359,143</b>	<b>-229,690</b>	<b>-4,160</b>	<b>903,670</b>
Unit Trusts					
Property	167,849	30,817	-21,829	10,960	187,797
Other	538,314	57,237	-17,191	-1,406	576,954
	<b>706,163</b>	<b>88,054</b>	<b>-39,020</b>	<b>9,554</b>	<b>764,751</b>
<b>Other Assets</b>	<b>30</b>	<b>0</b>	<b>0</b>	<b>-30</b>	<b>0</b>
<b>Total</b>	<b>1,662,076</b>	<b>472,280</b>	<b>-454,767</b>	<b>-11,168</b>	<b>1,668,421</b>
<b>Cash &amp; other</b>	13,506				12,312
<b>Total</b>	<b>1,675,582</b>				<b>1,680,733</b>

The investments held at 31 March 2016 had a market value of £1,681 million compared to a cost of £1,355 million (at 31 March 2015 the market value of investments was £1,676 million with a cost of £1,262 million). The increase in the cost of investments of £92 million (2014/2015: £59 million) represents the net effect of purchases of £472 million (2014/2015: £429 million) and the cost price of sales of £379 million (2014/2015: £343 million) plus movements in cash of - £1 million (2014/2015: -£27 million). Brokers' commissions and other costs of acquisition are included in the cost of investments purchased.

Managed and unitised investments, other than property unit trusts, are predominantly in Blackrock Advisers' Aquila Life Funds and Legal & General's Pooled Pension Fund Policy. Invesco Perpetual Global Targeted Return Fund, Pyrford Global Total Return (Sterling) Fund and Trilogy Global Diversified Fund each comprise over 5% of the total fund. The amount and the percentage of the net assets of the fund, as at 31 March 2016, that these represent are shown over leaf:

Managed and Unitised investment	2015/2016 £000	% of Total Market Value
Legal & General Pooled Pension Fund Policy	450	27%
Blackrock Advisers Aquila Life Fund*	323	19%
Invesco Perpetual Global Targeted Return Fund	130	8%
Pyrford - Absolute Return Multi-Asset	101	6%
Trilogy Global Diversified Fund	88	5%

No other assets comprised more than 5% of the net assets of the fund as at 31 March 2016.

\*Blackrock also holds other funds which are below the 5% threshold reported in this note.

## 9. Long Term Asset

In 2005, Magistrates Courts' staff transferred from the Local Government Pension Scheme to the Civil Service Scheme. Whilst transfers of value were effected then, agreement on funding the deficit position was not finalised until February 2011 when it was agreed that the Bedfordshire Pension Fund would receive ten annual payments of £0.608 million, commencing April 2011. The fair value of these payments has been recognised in the Fund's accounts for 2015/2016. Those instalments falling due more than one year from the balance sheet date are shown as a long term debtor, £2.302 million at 31 March 2016 (£2.825 million at 31 March 2015). The amount falling due within less than a year is shown as current assets.

## 10. Current Assets

2014/2015		2015/2016
£000	Current Assets	£000
1,093	Contributions due from Administering Authority	1,131
6,119	Contributions due from other scheme employers	6,923
505	Civil Service Pensions Scheme - see note 9 above	524
139	Other	275
<b>7,856</b>		<b>8,853</b>
25,769	Cash	43,851
<b>33,625</b>	Current Assets	<b>52,704</b>

The cash balance of £43.9 million is held in the Fund's own bank accounts. Cash held by the fund's managers is included in cash deposits in Note 8.3 above.

See Note 8.3 above also for details of other investment assets of £0.3 million.

## 11. Current Liabilities

2014/2015		2015/2016
£000	Current Liabilities	£000
276	Administration costs etc. due to Administering Authority	10
1,310	Investment managers' fees	1,127
48	Other professional fees	121
9	AVCs in transit	0
196	Death grants	272
175	Other	1,239
<b>2,014</b>		<b>2,769</b>
62	Provision for Tax Reclaims over 1 Year (Note 12)	156
<b>2,076</b>	<b>Current liabilities</b>	<b>2,925</b>

## 12. Provision for Tax reclaims over 1 year

The fund's managers reclaim tax withheld from investment income where international treaties allow. Allowance is made for those claims that are over one year old and considered unlikely to be recovered. The balance at 31 March 2016 was £0.2 million.

## 13. Self-investment

The regulations governing investment of pension funds require the disclosure of any self-investment by the fund. As at 31 March 2016 there was no self-investment by the fund.

## 14. Related party transactions

Administration and investment management costs include charges by Bedford Borough Council for providing services in its role as administering authority. For 2015/2016 these amounted to £1.1 million (2014/2015 £1.1 million).

The Administration team provide the legacy payroll for Teachers added years.

The Fund pays compensatory added years benefits on behalf of some of its employers. The costs of these are invoiced to the employer. In 2015/2016 £3.2 million (2014/2015 £3.2 million) was paid and recovered from their employer.

The senior officers involved in the financial management of Bedfordshire Pension Fund in 2015/2016 were the Assistant Chief Executive & Chief Finance Officer (The Fund Administrator) and the Head of Pensions. Both of these officers charge a proportion of their time to Bedfordshire Pension Fund as part of Bedford Borough Council's charge as administering authority.

A specific declaration has been received from Pension Committee members and relevant senior officers regarding transactions and relationships between themselves, and their related parties, and the Pension Fund. A number of the members also act as councillors or board members of the Fund's scheduled or admitted bodies, who maintain a conventional employer relationship with the Fund. These are listed below but do not include representation of their respective bodies as Committee members:

- Councillor Doug McMurdo is a member of the Bedfordshire & River Ivel Drainage Board.
- A member of Councillor McMurdo's immediate family is an employee of the Sharnbrook Academy Federation.
- Councillor Shan Hunt is a board member of BPHA, a scheme employer.

There were no material transactions between members and officers and the Fund during 2015/2016.

The only material related party transactions during 2015/2016 were in respect of contributions paid by the employing bodies into the fund please see Note 1.

## 15. Contingent Liabilities and Contractual Commitments

There were no material contingent liabilities and/or contractual liabilities as at 31 March 2016.

## 16. Stock Lending

The Fund did not undertake any stock lending in 2015/2016.

## 17. Additional Voluntary Contributions (AVC)

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits.

These contributions are invested separately from the Fund's other assets with the Standard Life Assurance Company and Prudential.

2014/2015		2015/2016
£000	Additional Voluntary Contributions	£000
<b>4,002</b>	Value at 1 April	<b>4,174</b>
	<b>Income</b>	
783	Contributions received	822
<b>783</b>		<b>822</b>
	<b>Expenditure</b>	
-905	Retirements	-734
-41	Transfers values paid	-29
<b>-946</b>		<b>-763</b>
335	<b>Change in market value</b>	2
<b>4,174</b>	Value at 31 March	<b>4,235</b>

In accordance with Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, additional voluntary contributions are excluded from the Fund Account and Net Assets Statement.

The Prudential AVC information included in the 2012/2013 Statement of Accounts was provisional. The adjustment to the opening value in 2014/2015 reflects the increase following confirmation of the 2012/2013 values. The balance of AVCs is held by Standard Life.

There have been no major post balance sheet events since 31 March 2016, however the impact of the European Union Referendum (BREXIT) has had a significant effect on currency market and the Fund believes that the currency risk within note 22 of these accounts should reflect this and has been updated accordingly.

In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/2016, based on International Financial Reporting Standards and issued by the Chartered Institute of Public Finance and Accountancy, the future liabilities of the Fund to pay pensions and other benefits are disclosed in a report by the Fund's actuary as set out on page 65.

## Classification of Financial Instruments

### **Net Gains & Losses on Financial Instruments**

All gains and losses arising in respect of financial instruments are attributable to those classified as “designated as fair value through profit & loss”.

### **Fair Value of Financial Instruments**

All financial instruments are carried in the balance sheet at their fair value.

## **21. Valuation of financial instruments carried at fair value**

The valuation of financial instruments has been classified by the Code into three levels, according to the quality and reliability of information used to determine fair values.

### **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 as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. This bid value of the investment is based on the bid market quotation of the relevant stock exchange.

### **Level 2**

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

### **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. Such instruments would include unquoted equity instruments and some of the indirect property investments, which are valued using various valuation techniques that require significant judgment in determining appropriate assumptions. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

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

	31 March 2016			
	Quoted Market Price	Using Observable Inputs	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
<b>Financial Assets</b>				
Financial Assets at Fair Value through profit and loss	519,353	1,031,909	117,167	1,668,429
Loans and Receivables	60,998			60,998
<b>Total Financial Assets</b>	<b>580,351</b>	<b>1,031,909</b>	<b>117,167</b>	<b>1,729,427</b>
<b>Financial Liabilities</b>				
Financial liabilities at fair value through profit and loss	0			0
Financial liabilities at amortised cost	-2,653			-2,653
<b>Total financial liabilities</b>	<b>-2,653</b>	<b>0</b>	<b>0</b>	<b>-2,653</b>
<b>Net financial assets</b>	<b>577,698</b>	<b>1,031,909</b>	<b>117,167</b>	<b>1,726,774</b>

	31 March 2015			
	Quoted Market Price	Using Observable Inputs	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
<b>Financial Assets</b>				
Financial Assets at Fair Value through profit and loss	652,151	892,482	118,793	1,663,426
Loans and Receivables	43,451			43,451
<b>Total Financial Assets</b>	<b>695,602</b>	<b>892,482</b>	<b>118,793</b>	<b>1,706,877</b>
<b>Financial Liabilities</b>				
Financial liabilities at fair value through profit and loss	-1,048			-1,048
Financial liabilities at amortised cost	-1,881			-1,881
<b>Total financial liabilities</b>	<b>-2,929</b>	<b>0</b>	<b>0</b>	<b>-2,929</b>
<b>Net financial assets</b>	<b>692,673</b>	<b>892,482</b>	<b>118,793</b>	<b>1,703,948</b>

## 22. Nature and Extent of Risks Arising from Financial Instruments

The Pension Fund's assets are fully comprised of financial instruments which are managed by the Council, predominantly by the appointment of external investment managers as determined by the Pension Fund Committee. Each investment manager is required to invest the assets in accordance with the terms of a written mandate or fund prospectus. The Pension Fund Committee has determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Funds' investment strategy. The Pension Fund Committee receives regular reports from each of the managers on the nature of the investments made on the Fund's behalf and the associated risks.

The allocation of assets between various types of financial instrument is determined by the Pension Fund Committee, in line with the Statement of Investment Principles. Divergence from benchmark asset allocations and the composition of each portfolio is monitored by the Pension Fund Committee.

The Fund's investment activities expose it to the following risks from the use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk

The nature and extent of the financial instruments employed by the Fund and the associated risks are discussed below. This note presents information on the Fund's exposure to each of the above risks and the Fund's policies and processes for managing those risks.

The Fund's Statement of Investment Principles is formulated to identify the risks managed by its investment managers, to set appropriate risk limits and to monitor adherence to those limits. The Statement of Investment Principles is reviewed regularly to reflect changes in market conditions and the Fund's activities.

### Market Risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Fund's income or the value of its assets. The object of market risk management is to control market risk exposures within acceptable parameters while optimising returns. The fund has used State Street to help it identify market risks.

### Interest Rate Risk

Interest rate risk is the risk that interest rate fluctuations will cause the value of fixed interest securities to deviate from expectations. The Fund manages interest rate risk by:

- The use of specialist external investment managers to manage the Fund's cash and fixed interest assets.
- Ensuring asset allocations include a diversity of fixed interest investments with appropriate durations.

The Fund's direct exposure to interest rate risk, as at the period end, is shown in the table following. The table also shows the effect in the year on the net assets available to pay benefits of a +/- 100 basis points (bps) change in interest rates. Comparatives for the previous year are shown in the table below.



Asset type	Carrying value at 31/03/2016  £000	Change in year in net assets available to pay benefits	
		+100 bps £000	-100 bps £000
Fixed interest securities	285,722	2,857	-2,857
Cash & cash equivalents	106,409	1,064	-1,064
Total	392,131	3,921	-3,921

Asset type	Carrying value at 31/03/2015  £000	Change in year in net assets available to pay benefits	
		+100 bps £000	-100 bps £000
Fixed interest securities	266,632	2,666	-2,666
Cash & cash equivalents	59,566	596	-596
Total	326,198	3,262	-3,262

NB. The Fund's direct exposure includes managed fund assets.

### Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund manages currency risk by instructing investment managers to use hedging techniques with foreign currencies.

The following table summarises the Fund's currency exposure as at 31 March 2016 and also shows the increase/decrease in the value of net assets available to pay benefits arising.

After consultation with State Street, the Fund initially considered 6.18% to be the likely volatility associated with foreign exchange rate movements in 2014/2015 previously 5.96%. However the impact of the European Union Referendum (BREXIT) has had a significant effect on currency markets and the Fund believes 15.00% to be more reflective of the volatility associated with foreign exchange rate movements since 31 March 2016.

Comparatives for the previous year, using the same criteria but adjusted for the different weightings then applying, are shown in the table below.

### Currency Risk by Asset Class 2015/2016

Asset Type	Value (£000)	% Change	Value on Increase (£000)	Value on Decrease (£000)
Overseas Equities	599,005	15.00%	688,856	509,154
Overseas Bonds	48,712	15.00%	56,019	41,405
Overseas Property	6	15.00%	7	5
Overseas Alternatives	182,835	15.00%	210,260	155,409
Overseas Cash	0	15.00%	0	0
Total	830,558	15.00%	955,141	705,974

### 2014/2015

Asset Type	Value (£000)	% Change	Value on Increase (£000)	Value on Decrease (£000)
Overseas Equities	607,734	5.96%	643,970	571,497
Overseas Bonds	36,610	5.96%	38,793	34,427
Overseas Property	27	5.96%	29	25
Overseas Alternatives	210,062	5.96%	222,587	197,537
Overseas Cash	134	5.96%	142	126
Total	854,567	5.96%	905,521	803,612

### Market Price Risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether from factors specific to individual assets or those applying to the market as a whole.

As the Fund's assets are valued at market value, with changes to that value reflected in the Fund account, all changes in market conditions will directly affect the Fund's income.

The Fund manages market risk by the application of the following principles:

- Ensuring a diversity of exposures to different financial markets and market sectors
- By ensuring that investments have the sufficient liquidity to enable the appropriate response to changing market conditions

### Sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisers (State Street), the Fund has determined that the following movements in market price risk are reasonably possible for the 2015/2016 reporting period.

<b>Price Risk Asset Type</b>	<b>% Change</b>
UK Equities	9.80%
Overseas Equities	10.02%
Total Bonds	4.23%
Cash	0.01%
Property	2.25%
Alternatives	13.62%
Total Assets	5.70%

Had the market price of the Fund's investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as shown in the following table. Comparatives for the previous year are shown in the table below.

**2015/2016**

<b>Asset Type</b>	<b>Value (£000)</b>	<b>% Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
UK Equities	371,016	9.80%	407,376	334,657
Overseas Equities	599,005	10.02%	659,026	538,985
Total Bonds	285,722	4.23%	297,808	273,636
Cash	106,303	0.01%	106,313	106,292
Property	187,827	2.25%	192,053	183,601
Alternatives	182,941	13.62%	207,857	158,024
Total Assets	1,732,814	5.70%	1,831,585	1,634,044

**2014/2015**

<b>Price Risk Asset Type</b>	<b>Value (£000)</b>	<b>% Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
UK Equities	378,333	10.04%	416,317	340,348
Overseas Equities	607,734	8.69%	660,546	554,922
Total Bonds	266,632	4.23%	277,911	255,354
Cash	59,700	0.01%	59,706	59,694
Alternatives	167,880	2.81%	172,598	163,163
Property	229,677	13.44%	260,546	198,809
Total Assets	1,709,956	5.20%	1,798,873	1,621,038

The % change for Total Assets includes the impact of correlation across asset classes

### **Credit Risk**

Credit risk is the risk that a counterparty to a transaction involving a financial instrument will fail to discharge an obligation or commitment it has entered into with the Fund. The net market value of the Fund's assets, as shown in the Net Assets Statement, represents the Fund's maximum exposure to credit risk in relation to those assets. The Fund does not have any significant exposure to any individual counterparty or industry. Credit risk is monitored through ongoing reviews of the investment managers' activity. Apart from a small number of outstanding tax reclaims, represented by the provision for tax reclaims over 1 year in the Net Assets Statement, the Fund has no assets that are past due or impaired.

### **Liquidity Risk**

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due. The Fund's liquidity is monitored on a daily basis, and the Fund seeks to ensure that it will always have sufficient liquid funds to pay benefits to members and liabilities when due, without incurring unacceptable losses or risking damage to the Fund's reputation.

The Fund manages liquidity risk by:

- giving careful consideration to the anticipated income and expenditure required for the administration of the Fund and the payment of benefits and by maintaining in-house managed cash balances sufficient to meet day-to-day cash flows.
- a large proportion of the Fund being held in highly liquid investments such as actively traded equities and unit trusts.

## Pension Fund Accounts Reporting Requirement

### Introduction

CIPFA's Code of Practice on Local Authority Accounting 2015/16 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;

as a note to the accounts; or

by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the Bedfordshire Pension Fund, which is in the remainder of this note.

### Present value of Promised Retirement Benefits

<b>Present value of Promised Retirement Benefits (£m)</b>	<b>Year ended 31 Mar 2016</b>	<b>Year ended 31 Mar 2015</b>
Active members	1,423	1,440
Deferred pensioners	592	671
Pensioners	903	999
<b>Total</b>	<b>2,918</b>	<b>3,110</b>

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits. The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

### Assumptions

The assumptions used are suitable for IAS19 purposes as required by the Code of Practice. They are given below. I estimate that the impact of the change of assumptions to 31 March 2016 is to decrease the actuarial present value by £288m.

## Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2015 % p.a.	31 Mar 2014 % p.a.
Inflation/Pensions Increase Rate	2.2%	2.4%
Salary Increase Rate	3.2%	3.3%
Discount Rate	3.5%	3.2%

## Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI\_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.4 years	24.3 years
Future Pensioners*	24.4 years	26.8 years

\*Future pensioners were assumed to be aged 45 at the last formal valuation date.

Please note that the assumptions are identical to last year's IAS26 disclosure for the Fund.

## Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

## Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Change in assumptions for the year ended 31 March 2016	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% decrease in discount rate	11%	307
1 year increase in member life expectancy	3%	88
0.5% increase in salary increase rate	3%	95
0.5% increase in pensions increase rate	7%	208

## Professional notes

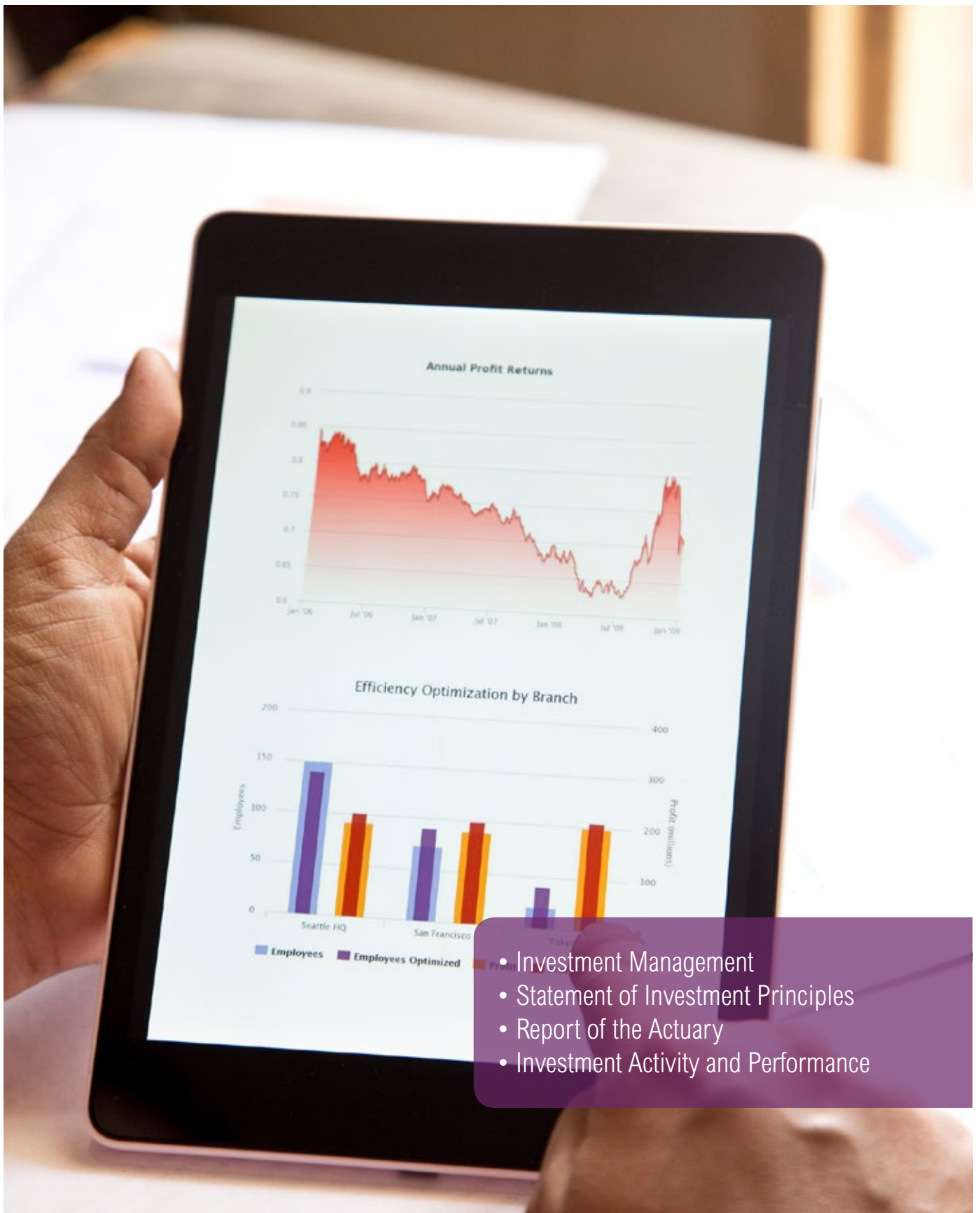
This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2016 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions. Prepared by:-



Gemma Sefton FFA

19 April 2016, For and on behalf of Hymans Robertson LLP

# Investment Report





## Investment Management

### Investment Powers

The principal powers to invest are contained within the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. These regulations permit a wide range of investments, subject to specific restrictions limiting the proportion of the fund that may be invested in any one holding. In undertaking investment, the regulations require that the administering authority shall obtain and take regard of proper advice. It must also consider the suitability of investments and the need for diversification. The Pension Fund Committee is satisfied that these requirements are fully met.

### Myners' Principles for Institutional Investment Decision Making

In 2002, the Chartered Institute of Public Finance and Accountancy (CIPFA) published a document called "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom" containing ten principles of good governance and investment practice. These are known as the Myners' principles after their author. In 2009, following an extensive review of the principles conducted by the National Association of Pension Funds, the ten original principles were updated and consolidated into six new principles.

Legislation requires administering authorities to publish a written statement of investment principles, which is to include the extent to which the administering authority has complied with the Myners' principles. The Borough Council complies fully with all six of the principles as is reported in the Fund's statement of investment principles, reproduced in full on page 50.

### Investment Management

The Pension Fund Committee is responsible for the appointment of external investment managers, to whom is delegated the day-to-day management of the fund's investments within guidelines agreed with the Committee. Each manager has discretion in the selection of its range of investments, within the parameters of each portfolio, to achieve its performance target.

The present investment structure involves a passively managed portfolio, together with actively managed specialist portfolios for UK equities, overseas equities, bonds, property and absolute return multi asset funds. The objective is for the specialist portfolios to add value by diversifying from the traditional asset classes. The investment managers and their appointed portfolios are shown below, the figures in brackets showing the percentage of the Fund's assets that each manager handles based on market values at 31 March 2015..

Manager	Asset Class	2015/2016	
		£ million	%
Legal & General	Passive UK Equities	308	18%
Blackrock Advisors	Passive Multi-Asset	292	17%
CBRE Global Investors	Indirect Property	193	11%
Legal & General	MSCI All World	180	10%
Insight Investment	Absolute Return Bonds	162	9%
Legal & General	Global Equities	142	8%
Invesco Asset Management	Absolute Return Multi-Asset	130	8%
Pyrford	Absolute Return Multi-Asset	101	6%
Trilogy Global Advisors	Global Equities	88	5%
Newton Investment Management	Absolute Return Multi-Asset	78	5%
<b>Net Assets Managed by External Bodies</b>		<b>1,674</b>	<b>97%</b>
Net Assets Managed by the Administering Authority		59	3%
<b>Total Assets</b>		<b>1,733</b>	<b>100%</b>

The benchmarks and target returns governing these portfolios are detailed in the Statement of Investment Principles, included in full within this report.

### Custody Arrangements

The Northern Trust Company is appointed global custodian with responsibility for custody of all of the fund's investment assets.

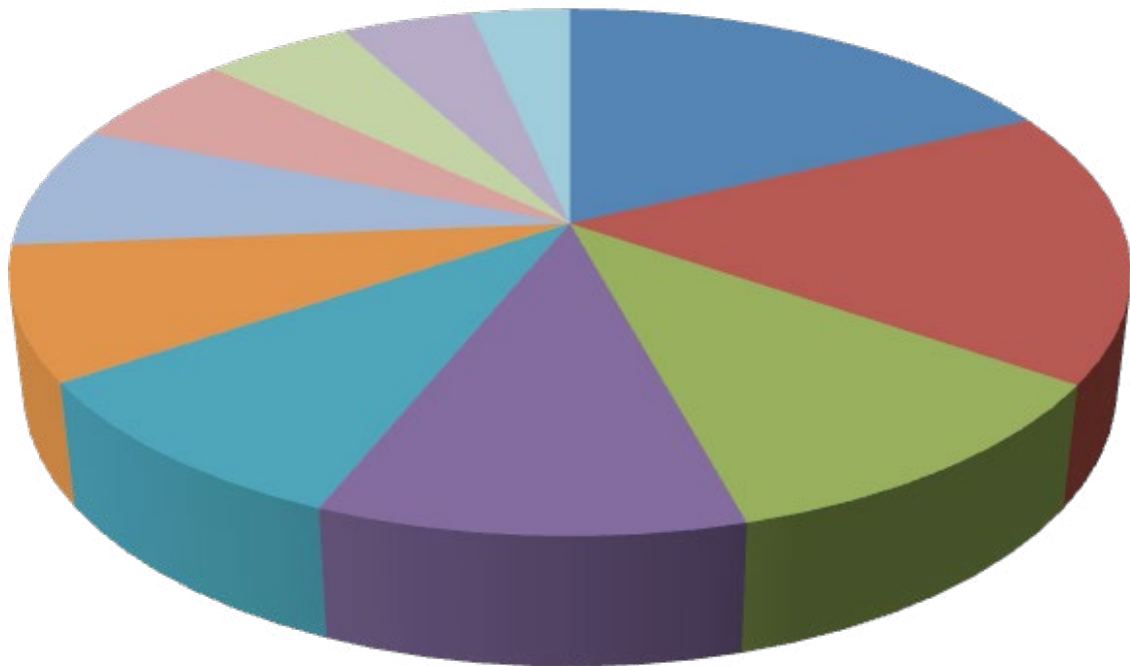
### Stock lending

There were no direct stock lending arrangements in place during 2015/2016.

### Monitoring and Review

The Pension Fund Committee holds quarterly meetings to monitor and review the investment performance of the investment managers. Regular business meetings are held to consider other relevant issues as and when they arise. An annual meeting of the Committee is held to specifically consider the investment performance of the managers over the previous calendar year and appropriate rolling periods. An annual general meeting of the Pension Fund is held at which the various employers participating in the scheme are invited to question the Committee and its advisers.

**Composition of the fund by portfolio as at 31 March 2016**



■ Passive UK Equities - Legal & General (£308m)	■ Passive Multi-Asset - Blackrock Advisors (£292m)
■ Indirect Property - CBRE Global Investors (£193m)	■ MSCI All World - Legal & General (£180m)
■ Absolute Return Bonds - Insight Investment (£162m)	■ Global Equities - Legal & General (£142m)
■ Absolute Return Multi-Asset - Invesco Asset Management (£130m)	■ Absolute Return Multi-Asset - Pyrford (£101m)
■ Global Equities - Trilogy Global Advisors (£88m)	■ Absolute Return Multi-Asset - Newton Investment Management (£78m)
■ Net Assets Managed by the Administering Authority (£59m)	

# Statement of Investment Principles

## 1. Introduction

### 1.1 Fund Details

- 1.1.1 This document describes the investment principles pursued by Bedford Borough Council in its role of administering authority of the Bedfordshire Pension Fund (the Fund).
- 1.1.2 The Fund operates for the exclusive purpose of providing retirement benefits and death benefits to eligible participants and beneficiaries.
- 1.1.3 Administration of the Fund is the responsibility of the Borough Council, which also has overall responsibility for the investment of the Fund's assets. Day to day administration of the Fund is delegated to the Assistant Chief Executive & Chief Finance Officer (the Fund Administrator) supported by the Council's Pension Fund Panel (the Panel).

### 1.2 Requirement to Produce a Statement of Investment Principles (SIP)

- 1.2.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require that an administering authority must, after consultations with such persons as they consider appropriate, prepare, maintain and publish a written statement of the principles governing their decisions about investments.

The statement must cover their policy on:-

- (a) the types of investments to be held;
- (b) the balance between different types of investments;
- (c) risk;
- (d) the expected return on investments;
- (e) the realisation of investments;
- (f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments,

and

- (g) the exercise of the rights (including voting rights) attaching to investments if they have any such policy.

Statements must also state the extent to which the administering authority is compliant with the six principles of investment practice and give reasons for not complying where they do not do so. The Fund's compliance is addressed in section 8 – Myners Investment Principles for Pension funds.

- 1.2.2 The written statement must be revised by the administering authority in accordance with any material change in their policy on the matters referred to above and published.
- 1.2.3 This document is linked to the Fund's Funding Strategy Statement which sets out the Fund's strategy for meeting employers' pension liabilities. The aim of the funding strategy is to ensure the long-term solvency of the Fund while not unnecessarily restraining the investment strategy outlined below.
- 1.2.4 The two strategies set out the common objective of the Fund to maximise returns on investments to control the level of employers' contributions.
- 1.2.5 In drawing up this document, the Committee has sought advice from the Fund's Investment Consultant and Independent Investment Adviser. A copy of the document has been provided to each Investment Manager. The Committee will review this document at least once a year.

### 1.3 Financial Services and Market Act 2000

- 1.3.1 In compliance with the Financial Services and Markets Act 2000, the Panel will set general investment policy, but will delegate the responsibility for selection of specific investments to appointed Investment Managers in accordance

with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Investment Managers of portfolios of stock market securities will be authorised by the Financial Services Authority or equivalent and shall provide the skill and expertise necessary to manage the investment of the Fund competently.

## 2. Division Of Responsibilities

### 2.1 Pension Fund Committee

2.1.1 The Bedford Borough Council delegates responsibility for the Adminstrating Authority role to the Pension Fund Committee. This includes investing the Fund's assets. This Committee comprises three members of Bedford Borough Council, two members of Central Bedfordshire Council, two members of Luton Borough Council supported by the Fund Administrator and an Independent Investment Adviser. A fund member (nominated by the trade unions) and the Chief Finance Officers of Luton Borough Council and Central Bedfordshire Council, all with observer status, are also invited to join the Committee. The Committee responsibility for investment matters includes:

- (a) To determine the overall strategy relating to the investment of the Fund's assets and to meeting the Fund's liabilities;
- (b) To keep under review the performance of the Fund and the Fund's Managers;
- (c) To approve the appointment of Advisers and Fund Managers;
- (d) To approve any elated investment policy E.G. ESG, Voting;
- (e) To decide on requests for admission to the Bedfordshire Pension Scheme and to ensure a first rate service to its members;
- (f) To publicise its stewardship role to all Scheduled and Admitted Bodies of the Bedfordshire Pension Fund and to all contributors and beneficiaries in accordance with the Fund's Communication Strategy.

### 2.2 Fund Administrator

- 2.2.1 The Bedford Borough Council delegates day to day responsibility for the Fund's investment arrangements to the Fund Administrator.
- 2.2.2 The Fund Administrator delegates responsibility for the day to day management and monitoring of the investment management function to the Head of Pensions and his staff.
- 2.2.3 The Fund Administrator, through the Head of Pensions, will ensure that compliance with the Statement of Investment Principles is monitored and appropriate action taken in respect of any breach.

### 2.3 Pension Fund Panel

2.3.1 The Panel has the same membership as the Committee but acts in an advisory capacity to the Pension Fund Committee. It is responsible for reviewing investment matters and, in particular, the following activities prior to approval by the Committee:

- (a) To keep under review the overall strategy relating to the investment of the Fund's assets and to meeting the Fund's liabilities;
- (b) To keep under review the performance of the Fund and the Fund's Managers;
- (c) To consider the appointment of advisers and fund managers;

### 2.4 Investment Managers

- 2.4.1 Each Investment Manager will be responsible for:
  - (a) Discretionary management of their portfolio, in accordance with the terms of their management agreement, having regard to the need for diversification of investments so far as appropriate and the suitability of investments;

- (b) Providing the Panel with quarterly statements of the assets together with a quarterly report on their actions and future intentions, and any changes to the processes applied to their portfolio;
- (c) Providing the designated provider with the information necessary to calculate performance statistics;
- (d) Instructing the Custodian in respect of any corporate actions, which the Investment Manager deems necessary in the interests of the portfolio.

## 2.5 Custodian

2.5.1 The Custodian will be responsible for:

- (a) Safekeeping of the assets within the Fund's investment portfolio;
- (b) Providing the Fund Administrator with regular statements of the assets, cashflows and corporate actions;
- (c) Undertaking all appropriate administration relating to the portfolio's assets;
- (d) Processing all dividends and tax reclaims in a timely manner;
- (e) Investing cash in a suitable low risk manner consistent with the Fund's guidelines;
- (f) Dealing with corporate actions;
- (g) Measuring and reporting the investment performance of both the Fund and the investment managers.

## 2.6 Investment Consultant

2.6.1 The Investment Consultant will be responsible for providing prompt, consistent and competent advice and support through one or two named representatives, in respect of investment matters when so requested by the Fund. Advice and support is likely to be sought in regard of:

- (a) Annual reviews of the Statement of Investment Principles;
- (b) Presentation and interpretation of

investment performance measurement results;

- (c) The potential impact of:
  - any changes in the Investment Managers' organisations that could affect the interests of the Fund;
  - any changes in the investment environment that could present either opportunities or problems for the Fund;
- (d) Investment manager selection, retention and termination;
- (e) Benchmark adjustments;
- (f) The appropriate content of Investment Management and other related agreements;
- (g) Appropriate investment structures for the Fund in the light of the Fund's liability profile. This will involve working with the Fund's Actuary;
- (h) Ad-hoc project work as required including research reviews of Investment Managers.

## 2.7 Independent Investment Adviser

2.7.1 The Independent Investment Adviser will contribute independent advice to the Committee and/or Panel on the management, composition of portfolios and investment strategy of the Fund's Investment Managers.

2.7.2 The Independent Investment Adviser will also provide independent advice informally to the Fund Administrator between meetings and formally to the Committee or Panel on any appropriate investment related issues with which the Fund has to deal, including the performance of the Investment Managers.

## 2.8 Actuary

2.8.1 The Actuary will be responsible in respect of investment matters, when so requested by the Fund, for:

- (a) Advising the Fund on how any changes within the Fund's membership and funding position may affect the manner in which the assets should be invested. This would be undertaken in consultation with the Fund's Investment Consultant;
- (b) Undertaking project work as required including reviews of asset allocation policy.

## 2.9 Audit

2.9.1 The Fund is subject to review by both the Borough Council's external auditors (Ernst and Young LLP) and the Borough Council's Internal Audit Section.

- (a) The external auditors are responsible for reporting on whether or not the Fund's Report and Accounts presents fairly the income and expenditure and the financial position of the Fund for each financial year. The auditor's report is contained within the Fund's Report and Accounts;
- (b) The Internal Audit Section carries out a programme of work designed to assure the Assistant Chief Executive & Chief Finance Officer that pension fund investment systems and records are properly controlled to safeguard the Fund's assets and income.

## 3. Long Term Policy

### 3.1 Objectives

3.1.1 The major objectives of the Fund are as follows:

- (a) to maintain a portfolio of secure and sufficiently liquid assets, which, together with new contributions from active members of the fund and employing bodies will generate sufficient income and capital growth to meet the cost of current and future benefits that the Fund provides;
- (b) to minimise the long term costs of the Fund by maximising the return on the assets whilst having regard to the objectives shown under 3.1.1(a) above;
- (c) to ensure that employer contributions rates are set at a level to attain and maintain solvency, as certified by the Fund's Actuary, whilst keeping the employer contribution rate as stable as possible.

3.1.2 The Fund commissioned an Asset Liability modelling in November 2013. This review helped inform the decision regarding a suitable investment strategy for the Fund. The Fund's strategy is shown in section 3.1.3. The long-term return on this strategy is expected to produce a return over the long term in excess of the investment return assumed in the Actuarial Valuation

### 3.1.3 The Fund has set an overall strategic asset allocation for the Fund.

UK equities	19%	Range 40% - 60%
Global/Overseas equities	31%	
UK Gilts	8%	Range 13% -23%
Absolute Return Bonds	10%	
Absolute Return Multi Asset	20%	Range 15% -25%
Property	10%	Range 5% -15%
Cash/Opportunistic	2%	Opportunistic Range 0%-4% Cash Range 0%-10%

### 3.1.4 For each asset class the Fund has set a benchmark against which performance will be measured.

<b>UK equities</b>	<b>FTSE All Share Index</b>
UK equities	83% - FTSE All Share Index 17% - FTSE 250
Overseas equities	45% - FTSE America 35% - FTSE Developed Europe ex UK 15% - FTSE Japan 5% - FTSE Developed Pacific ex Japan
Global equities	RPI + 5% *
UK Gilts	42 % - FTSE A All Stocks Gilt Index 58 % - FTSE A Index-Linked Index (all stocks)
Absolute Return Bonds	LIBID + 2%
Absolute Return Multi Asset	RPI +5% & 3 month LIBOR + 5% & 1 month LIBOR + 4%
Property	IPD Index

#### Key

IPD Investment Property Databank Ltd

FTSE Financial Times/ Stock Exchange

RPI Retail Price Index

LIBOR London Interbank Offer Rate

LIBID 'London Interbank Bid Rate

\* In the short term the MSCI All world index is also referred to.



3.1.5 The Funds overall performance benchmark is the weighted average of the asset allocation and the asset allocation performance index. The Committee currently considers that these benchmarks in aggregate are consistent with achieving the objectives in 3.1.1 above.

3.1.6 The above performance benchmark was determined following a review of the strategic asset allocation. The review caused the Committee to eliminate its corporate bond allocation due to valuation concerns and maintain the Absolute Return Multi Asset weighting.

3.1.7 The cost of carrying out the investment management function, which includes both the fees paid to the Investment Managers and the internal costs of the Borough Council are benchmarked against annual data derived by the Department of the Communities and Local Government from the Pension Funds' Accounts return completed for all Local Government Pension Scheme Funds (Form SF3).

## 3.2 Risk

3.2.1 The investment objectives are subject to the strategy being carried out within acceptable levels of risk. Risk associated with investments is controlled through the diversification between asset classes and Investment Managers. The risk within each portfolio is monitored with the Managers. Benchmark risk is controlled by indexing a proportion of the Fund's assets to passively track appropriate indices. Benchmark risk is the risk that investments in a particular asset class (i.e. UK equities, overseas equities) do not match the broad market return on that asset class as represented by an appropriate index for that asset class.

3.2.2 The Fund's cash balance is invested by the Custodian, who invests the small working cash balances held by each active Investment Manager to enable day to day operation of their

respective portfolios. A small cash balance is also maintained by the Administering Authority to meet the liquidity requirements of the Fund. In both cases risk is controlled by using a wide range of counterparties of high credit rating.

3.2.3 To control risk a detailed set of performance targets and restrictions has been agreed with each manager, subject to advice and guidance from the investment consultant and specialist legal advice. (See sections 4.2 and 5).

3.2.4 The Fund also has a risk register that it reviews at least annually to ensure that it is kept current.

## 3.3 Diversification

3.3.1 The choice of a well diversified strategic asset allocation benchmark, as referred to in sections 3.1.2 and 3.1.3 and the 12 month target for the maximum level of under-performance relative to each benchmark, as specified in section 4.2.1, are designed to ensure that the Fund's investments are adequately diversified. In addition, the investment restrictions covered in section 5 ensure that, at a stock selection level, the Fund avoids undue concentration.

## 3.4 Suitability

3.4.1 The Fund has taken advice from the Investment Consultant, the Independent Investment Adviser and the Actuary to ensure that the benchmark is suitable for the Fund, given its liability profile and financial position.

## 3.5 Review

3.5.1 The above objectives are subject to formal annual review by the Fund and triennial review following the completion of the actuarial valuation and review of the relative value of the assets and liabilities.



## 4. Investment Management Arrangements

### 4.1 Investment Management Structure

4.1.1 The Committee has divided the Fund's assets between eight Investment Managers responsible for five asset classes (see below).

4.1.6 The Committee's policy is that there should be sufficient investments in readily realisable assets to meet unexpected cash flow requirements in the majority of foreseeable circumstances, so that the realisation of assets will not disrupt the Fund's overall investment policy.

Manager	Asset Class
BlackRock Advisers UK Ltd	Passive Equities and Bonds *
CB Richard Ellis	Indirect UK and European Property
Insight	Bond Absolute Returns*
Invesco Perpetual Global Returns Fund	Multi Asset Absolute return*
Legal and General Investment Management	Passive Equities *
Newton Real Return Strategy	Multi Asset Absolute return*
Pyrford	Multi Asset Absolute return*
Trilogy Global Advisors	Active Global Equities *

\* Via Pooled Investments

4.1.3 The Committee will review the overall asset allocation of the Fund on a quarterly basis.

4.1.7 The Custodian for all the assets of the Fund is The Northern Trust Company.

4.1.4 Each of the Investment Managers is required to maintain a well-diversified portfolio of suitable liquid stocks within the asset class they are responsible for. These portfolios may comprise of individual securities. However, with the agreement of the Committee, the Manager may make use of in-house pooled funds to ensure adequate diversification in some asset classes.

4.1.8 The Fund has diversified its investments by investing in a portfolio of indirect property, a global tactical asset allocation fund and two multi asset absolute return funds.

4.1.5 The Committee reviews quarterly the flexibilities available under the revised Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 to temporarily increase some of the limits that the Fund is constrained by. At present the Fund has increased the limit for a single insurance contract to 35% to enable it to maintain its asset allocation.

## 4.2 Performance Targets

4.2.1 The performance targets, which have been set for the Investment Managers, and these targets are gross of the appropriate manager's fees, are shown overleaf:

4.2.2 The Fund expects that each Investment Manager should achieve their out-performance target in the majority of three-year periods under consideration, although it is acknowledged that the Manager will not achieve this target in every three-year period. However, the Manager should demonstrate that the skill that they exercise on the portfolio is consistent with this target, given the levels of risk adopted.

4.2.3 Over the longer term, the Fund also expects that each Investment Manager should not breach the downside limit in more than 20% of the one-year periods considered. Again, it is expected that the Manager should demonstrate that the skills applied to the portfolio and the risk taken makes this a realistic target.

## 4.3 Stocklending

4.3.1 The Pension Fund does not currently allow stocklending in its segregated accounts

Manager	Asset Class	Performance Target
BlackRock Advisers UK Ltd	Passive Equities and Bonds	To track appropriate benchmark indices as follows within a benchmark tolerance of +/-0.5%. - UK Equities – FTSE Actuaries All Share Index - Overseas Equities – FTSE America FTSE Europe ex UK FTSE Japan FTSE Pacific ex Japan MSCI Emerging Markets Index MSCI World Index Fund - UK Gilts – FTSE A All stocks Gilt Index - UK Index-Linked – FTSE A Index Linked Index (all stocks)
CBRE Global Investors	Indirect UK Property	0.5% p.a. above the AREF/IPD UK QPFI All Balanced Property Fund Index1, net of fees and costs, on a rolling three year basis.
Insight	Active Absolute return Bonds	50% LIBID + 2% 50% LIBID + 4%
Invesco Perpetual	Active Absolute Return Multi Asset	3 Month LIBOR +5%
Legal and General Investment Management	Passive Equities	To track the appropriate benchmark indices within a tolerance of +/-0.5%. - UK Equities – FTSE Actuaries All Share Index FTSE 250- Global Equities FTSE RAFI AW 3000
Newton	Active Absolute Return Multi Asset	1 Month LIBOR +4%
Pyrford	Active Absolute Return Multi Asset	RPI+5%
Trilogy Global Advisors	Active Global Equities	To achieve a return of at least the benchmark return (net of fees) over rolling seven-year periods. Performance Benchmark – RPI + 5%

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## 5. Investment Restrictions

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### 5.1 Overall Restriction

- 5.1.1 Each Investment Manager is obliged to use all reasonable endeavours to comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 subject (in relation to the limits on investments) to the Fund providing the Managers with all necessary information about the investment of the Fund's assets as a whole to enable each Manager to comply with this obligation.

### 5.2 Specific Restrictions

- 5.2.1 In addition to the overall restriction above, specific restrictions apply to each portfolio as relevant, including specific restrictions as to the use of derivatives.

### 5.3 Breaches of Limits

- 5.3.1 Each Investment Manager's portfolio will be monitored monthly, in conjunction with the Custodian, to ensure that the restrictions applying to that portfolio are not breached.
- 5.3.2 Any breach will be reported to the Investment Manager. Where a breach has arisen because of price movements of existing holdings, the Investment Manager will be required to rectify the breach immediately, but this will not be viewed as a serious breach. However, where a breach occurs through a new investment transaction, this will be treated as a more serious breach. The Manager will be required to rectify the breach immediately and appropriate representation made to the Investment Manager, depending on the circumstances, nature and seriousness of the breach.
- 5.3.3 Occasionally breaches may occur which indirectly result from actions of the Investment Manager and which would act to the detriment of the Fund if rectified immediately. These may be allowed, subject to the Fund's agreement being obtained, and this will depend on the nature of the circumstances and duration of the proposed breach.

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## 6. Corporate Governance And Socially Responsible Investment

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- 6.1.1 As a responsible long-term investor, Bedfordshire Pension Fund considers that it is important to place priority on enhancing shareholder value recognising that environmental, social and corporate governance issues (ESG) can affect the performance of its investment portfolio.
- 6.1.2 Consideration of such matters is inherent to the investment process; therefore the fund aims to integrate material ESG issues, into different parts of the management of the Fund.
- 6.1.3 In this context, responsible investment incorporates promoting best practice in governance standards, managing financially material corporate social responsibility risks such as those associated with climate change and employee relations, focused stakeholder engagement and improved company performance in relevant equity investment holdings.
- 6.1.4 The Fund considers that the pursuit of such standards aligns the interests of fund members and beneficiaries with those of society as a whole and has adopted the UK Shareholders Code for Institutional Investors.
- 6.1.5 The Fund will take into account any relevant ESG considerations when selecting, retaining, and realising any of its investments. An example of this is the consideration of climate change risks and opportunities in the investment process. Day-to-day responsibility for the integration of ESG issues into investment decisions is delegated to the Fund's Asset Managers.
- 6.1.6 In turn asset managers' commitment to assessing and integrating ESG issues into decision making is a factor that is taken into account in the award of investment management mandates.

6.1.7 The fund supports standards of best practice on disclosure and management of ESG issues by companies and constructive engagement with companies on these concerns is integral to carrying out its fiduciary responsibilities.

6.1.8 In line with these responsibilities, the Fund has drawn up its own policies which are set out in Appendix 1.

6.1.9 These policies are reviewed from time to time and where it is deemed necessary, Investment Managers are engaged in discussion on them and activities related to their implementation. The policies thus lay the foundation for the fund's activities relating to proxy voting, corporate engagements and market-wide governance initiatives.

## **6.2 The exercise of rights including voting rights**

6.2.1 The Fund views stewardship as part of the responsibilities of share ownership, and, therefore, an integral part of the investment strategy. As an active shareholder, the Fund will seek to use its own efforts, its fund managers and alliances with other investors to promote the standards of best practice as set out in the Fund's policies.

6.2.2 The UK Stewardship Code sets out best practice for investors that choose to engage with the companies in which they invest. The Fund has adopted the principles of the Code and encourages all its appointed fund managers to apply the Code.

6.2.3 Voting policies are aligned with its views on best practice as set out in fund's ESG policies. In practice, investment managers have delegated authority to exercise the Funds' voting rights in line with the fund's corporate governance policy.

6.2.4 The Fund exercises its voting rights attaching to its UK equity holdings and seeks to vote where practical in overseas markets.

6.2.5 The Fund managers/proxy agencies are responsible for reporting, on a quarterly basis, a statement of voting instruction submitted to Company meetings on behalf of the Fund and any significant company issues, if any, which arose during the quarter. Voting decisions are published on the Fund's website.

6.2.6 Engagement with investee companies is undertaken to encourage accountability between directors, shareholders, and other stakeholders; to strengthen the integrity of relationships between these bodies; and improve board transparency in the way companies are run. This includes engagement to ensure companies are minimising the risks and maximising the opportunities presented by climate change and climate policy.

6.2.7 The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The fund seeks to achieve this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members and membership of the Institutional Investors Group on Climate Change, which has an aim to encourage companies and markets in which its members invest to address any material risks and opportunities to their businesses associated with climate change. The Fund also monitors and receives reports back on engagement activity undertaken by its Asset Managers.

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## 7. Monitoring And Implementation of Investment Policy

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### 7.1 Monitoring and Review

7.1.1 The Committee will meet on a quarterly basis with the Investment Managers to review and discuss the operation of each Investment Manager's portfolio, including past and future policy decisions. The performance of the Investment Managers will be monitored by the Committee on a quarterly basis at the Pension Committee meetings.

7.1.2 The Committee, in conjunction with the Investment Consultant, will normally review on an annual basis the allocation of assets between the passive and specialist portfolios, property and other asset classes.

7.1.3 The appointments of the Investment Managers will be subject to review at the meeting held annually to consider the Annual Performance Results from the designated provider. The review will be based on the monitoring of the Investment Managers' processes as well as their performance.

7.1.4 The Investment Managers' appointments, whilst subject to annual monitoring, would generally be reviewed over rolling 3 year periods, in line with their performance benchmarks.

7.1.5 If an Investment Manager's performance, or other key criteria identified in 7.2.1, prompts concerns then the Committee may ask the Manager to come to Borough Hall for a special review meeting.

7.1.6 If, after this, the Investment Manager's performance continues to cause concern, or if as a result of the review meeting the Fund is sufficiently worried about the performance, it may ask officers and the Independent Investment Adviser to visit the manager and undertake a

due diligence review. The results of this would be reported back to the Committee who will then decide on a course of action.

### 7.2 Criteria for Selection

7.2.1 The Committee has identified the criteria by reference to which Managers should be selected.

These include:

- Past performance
- Quality of the investment process
- Roles suitability
  - level of fees
  - reputation of the Manager
  - familiarity with such mandates
- Service
  - reporting
  - administration
- Team proposed
  - the quality of the individual fund managers working for the Fund.

### 7.3 Criteria for Dismissal

7.3.1 Investment Managers may be replaced if:

- (a) they fail to meet the performance targets set out in section 4.2.1, in line with reviews as set out in sections 7.1.3 and 7.1.4;
- (b) the Committee believes that the Manager is not capable of achieving these performance objectives in the future; and/or;
- (c) the Manager's company status changes or there are significant staff changes to their investment team; and or;
- (d) they fail to maintain satisfactory standards in respect of the other criteria listed in section 7.2.1.

### 7.4 Custodian

7.4.1 The appointment of the Custodian will also be reviewed every three years to ensure that the responsibilities listed in section 2.5 are being fulfilled. The next review is 2020.

## 7.5 Investment Consultant

- 7.5.1 The appointment of the Custodian will also be reviewed every five years to ensure that the responsibilities listed in section 2.5 are being fulfilled. The next review is 2020.

## 7.6 Independent Investment Adviser

- 7.6.1 The appointment of the Independent Investment Adviser will be reviewed every three years to ensure that the responsibilities listed in section 2.7 are being fulfilled. The next review is 2016.

## 7.7 Actuary

- 7.7.1 The appointment of the Actuary will also be reviewed every six years to ensure that the responsibilities listed in section 2.8 are being fulfilled. The next review will be 2017.

## 8. Myners Investment Principles for Pension Funds

### 8.1 Compliance with the Myners Investment Principles for Pension Funds

- 8.1.1 The table below shows the Fund's compliance with the Myners Investment Principles for Pension Funds.

Principle		Comments
Principle 1: Effective decision making	Administering authorities should ensure that: Decisions are taken by persons or organisations with the skills, knowledge, advice and resource necessary to make them effectively and monitor their implementation; and Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest	Full compliance
Principle 2: Clear objectives	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 and scheme employers, and these should be clearly communicated to advisors and investment managers	Full compliance
Principle 3: Risk and liabilities	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	Full compliance

Principle 4: Performance assessment	Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report this to scheme members.	Full compliance
Principle 5: Responsible ownership	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 statement of investment principles Report periodically to scheme members on the discharge of such responsibilities	Full compliance
Principle 6: Transparency and reporting	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 scheme members in the form they consider most appropriate	Full compliance

Further copies of this document may be obtained from:

**Head of Pensions**

Pension Section  
Borough Hall  
Bedford MK42 9AP

Or from the internet: [www.bedspensionfund.org](http://www.bedspensionfund.org)

## Appendix 1

### Voting Policy

#### Directors' Contracts

1.	Combination of Chairman and Chief Executive posts	Vote Against
2.	No requirement for subsequent re-election	Vote Against
3.	Rolling contracts up to 1 year	Vote For
4.	Rolling contracts longer than one year	Vote Against
5.	Fixed contracts up to 2 years	Vote For
6.	Fixed contracts over 2 years	Vote Against

#### Share Options or Incentive Schemes

7.	Where full disclosure of all emoluments received by Directors is not made	Vote Against reappointment of all Directors
8.	Where full and clear disclosure of the basis of performance related payments is not made	Vote against reappointment of Chairman of Remuneration Committee as a Director
9.	Share Options or Incentive schemes with no performance targets	Vote against
10.	Share Options with unclear or unambitious targets	Vote against

#### Internal Committees

11.	Where the Remuneration Committee is not composed solely of independent Non Executive Directors	Vote Against all Executive Directors on Remuneration Committee
12.	Where there is no Audit Committee	Vote Against acceptance of Accounts
13.	Where the Audit Committee does not have a majority of Non Executive Directors	Vote Against acceptance of Accounts

#### Other Issues

14.	Issue of shares not consistent with pre-emption guidelines	Vote Against
15.	Material inadequacies in the Annual Report and accounts	Vote Against acceptance of Accounts
16.	Resolution to make party political donations	Vote Against



## Remuneration

The Pension Fund Committee/Panel recognises that remuneration has become an emotive subject which, because of excess media attention, can cloud the real issues. Nevertheless it feels that there should be an approved remuneration policy in place which:

- (a) regards performance related bonuses as an investment by the company to improve its performance. Therefore the Remuneration Committee should satisfy itself that, as with any other investment, the returns justify the expenditure;
- (b) should not be based upon performance reward criteria which disbenefit the long term interests of the company;
- (c) rewards recipients for exceptional and not for average performance;
- (d) awards bonuses in the form of shares (held in trust) thereby subjecting Directors to the same risks and interests as shareholders;
- (e) requires any contractual compensation for loss of office to be paid annually and be dependent upon the individual not acquiring another post.

## Bedfordshire Pension Fund – Statement of Investment Principles

Investment Managers to the Fund will be expected to monitor companies' compliance with these guidelines and, in the event of any material variation, will vote against the reappointment of Remuneration Committee members.

The Committee also recognise that there are certain areas of Corporate Governance where it is more difficult to be prescriptive. In these circumstances it has asked the Investment Managers to the Fund to judge each issue on a case by case basis and vote the shares in the best long term interests of the Fund. Issues which fall into this area are:-

1. The Board shall consist of at least 3 Non Executive Directors;
2. Insufficient biographical information on any Director;
3. Bundled resolutions at AGM;
4. Resolutions not supported by the Board.

## Actuarial Statement for 2015/16

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

### Description of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated March 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency

of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the administering authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than a 2/3rds chance that the Fund will return to full funding over 20 years.

### Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £1,467 million, were sufficient to meet 70% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £625 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 20 March 2014.

#### Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

## Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.90%	2.40%
Pay increases	3.30%	0.80%
Price inflation/Pension increases	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI\_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.4 years	24.3 years
Future Pensioners*	24.4 years	26.8 years

\*Future pensioners were assumed to be aged 45 as at the last formal valuation date

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from Bedford Borough Council, the administering authority to the Fund.

## Experience over the period since April 2013

Experience has been worse than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen placing a higher value on liabilities. The effect of this has been only partially offset by the effect of strong asset returns. Funding levels are therefore likely to have worsened and deficits increased over the period.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.



**Gemma Sefton FFA**

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

22 April 2016

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow

## Investment Activity and Performance

### Investment Activity

Under the current investment management arrangements, the asset class of each portfolio is defined, giving less volatility in the asset allocation of the fund and less risk of over-exposure to under-performing sectors, relative to the benchmark.

However the active managers have discretion to select investments within the parameters of each portfolio and changes in weightings between the various categories of investments occur.

In June 2015, the Pension Fund Committee confirmed the reallocation of £50 million from the FTSE All share index to the FTSE 250 index to increase the exposure to the UK economy.

Also, in June 2015 the Pension Fund Committee sold £25 million of Gilts and moved the receipts into the absolute return fixed interest managed by Insight Investments.

Following a review of the investment managers by the investment consultant, in November 2015 the Pension Fund Committee approved the switch of global equities from the active manager, Lazard Asset Management, to the passive manager, BlackRock.

### Market review – Year to 31 March 2016

Global equity markets struggled over the period – the FTSE All World index fell by almost 7% in local currency terms. Dividend income and the weakness of sterling offset almost all of these losses for unhedged UK investors.

Global GDP growth in 2015 was a little lower than in 2014, falling short of forecasts at the start of the period. A similar pace is expected this year, but forecasts are again being trimmed.

Falling oil prices helped to keep headline inflation low, both in the UK and elsewhere. As the year progressed, there were signs that any disinflationary pressures were easing, but monetary policy remained very accommodative.

The Federal Reserve did raise US interest rates in December, but seem in no hurry to do it again. The Bank of England has made little effort to counter market conviction that UK interest rates will not be rising in 2016. Both the Bank of Japan and European Central Bank expanded existing quantitative easing programmes and cut official deposit rates below zero and further below zero, respectively.

Subdued growth and inflation provided a helpful background for the major government bond markets. 10-year gilt yields did rise initially, but had retreated to their lows of January 2015 by the first quarter of 2016. The background was less supportive of corporate bond markets, which underperformed equivalent government bonds over the period.

UK property continued to rally. The IPD Monthly Index returned 11.7% over the period.

## UK Equities

UK equities decreased their value with the FTSE all share benchmark falling by about 3.9% in the 12 months to March 2016. As an asset class, UK equities was managed passively during 2015/2016 and slightly out-performed the benchmark by 0.1%.

## Overseas Equities

For another year, US equity markets performed well at a 3.6 % gain, although other markets showed a reduction in value ranging from a reduction of 7.3% in emerging markets to a reduction in Japanese equities of 3.3%.

The Fund's overseas equity portfolio showed a return of - 2.5% for the year. Overseas equities are benchmarked against UK RPI over a rolling seven year period. Because of the long term nature of the benchmark, annual returns are compared to MSCI global developed equities index, which gave a return of -0.3% for 2015/2016.

## Fixed Interest

As an asset class, UK government fixed income gave a benchmark return of 3.2% for the year. The Fund invests passively in Fixed Income and returns in this asset class were 3.1%.

## Absolute Return Bonds

The Fixed Interest Absolute Return fund returned 0.3% and was behind its benchmark for the year. This is included to protect against raising interest rates.

## Index Linked Bonds

The benchmark for UK Government index linked was 1.7% and are passively invested with the Fund's Index Linked Gilts holding returned 1.5% for the year.

## Property

The capital values of the UK commercial property market continued to rise throughout 2015/2016. The allocation to property increased 1% with some additional investment also explaining the overall rise in the Fund value. The investment was scheduled over the 12 months and has resulted in a slight drag on performance for the year due to the bid-offer spread of new investment. Overall, the property portfolio returned 10.1%, compared to a benchmark of 10.6% in 2015/2016.

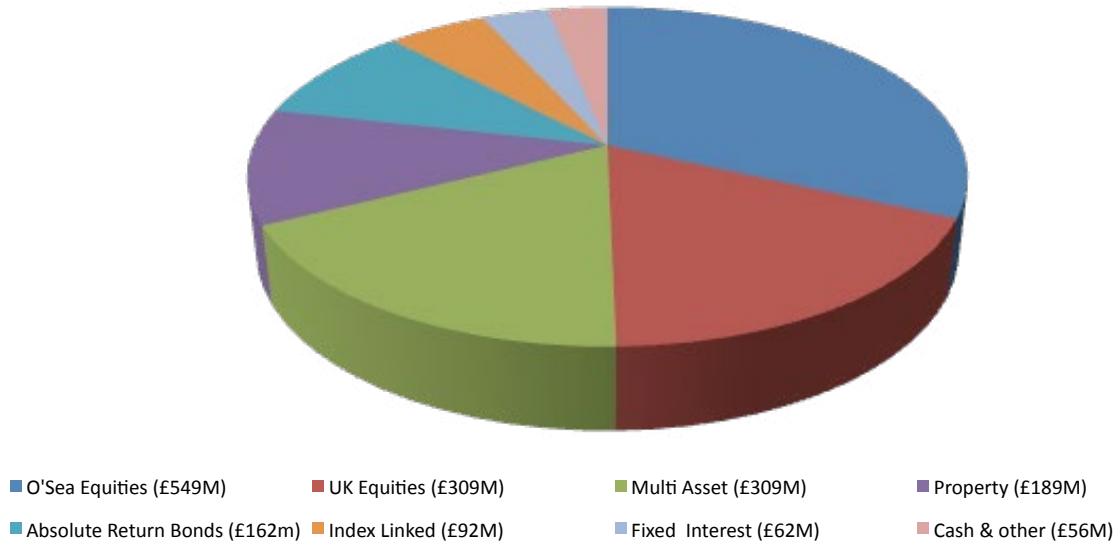
## Multi Asset Absolute Return

As a strategic mix of other asset classes, the mandate is seeking to smooth the return profile and over the medium term provide equity like investment returns. The Fund uses three managers and they averaged a return of 1.5% in 2015/2016 behind the combined benchmark return of 5.2% but providing a positive return in difficult equity markets.

## Future Developments

The Pension Fund continues to monitor the strategic asset allocation of the fund, seeking to improve performance within its accepted risk parameters and has implemented a revision of its equity holdings to move from UK Equities to overseas equities in the early part of 2016/2017 as a result of the on-going review and the process was started mid-June 2016. There are no further developments in progress at the time of writing.

### Investments as at 31 March 2016 analysed by asset class



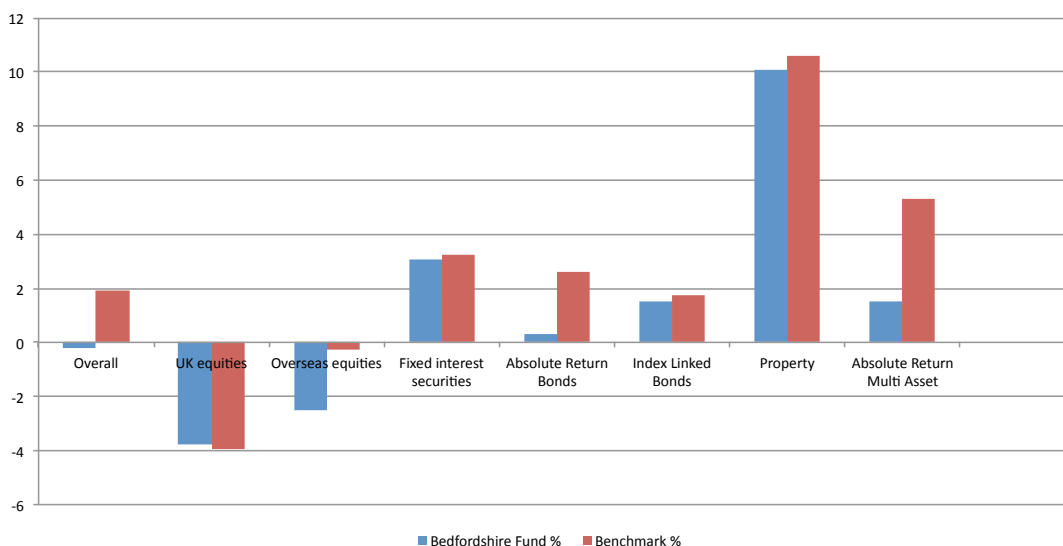
### Investment Performance

The Fund measures performance using the service provided by its custodian, Northern Trust.

The investment target for each manager with an active portfolio is to out-perform an appropriate benchmark that reflects market performance in their respective asset class. The performance of the Fund as a whole is measured against a blended benchmark based on the individual portfolio benchmarks set out in the Statement of Investment Principles.

Hyman Robertson's analysis for the year to 31 March 2016 showed an overall return on the Fund's assets of -0.2%, behind its benchmark return of 1.9%. Returns achieved by the major asset classes are shown in the graph below. Over the three-year period to 31 March 2016, the Fund's assets in total gave a 5.2% return against a benchmark of 5.8% and the five year period showed a return of 5.8% compared to a benchmark of 6.4%.

### Returns by asset class for the year ended 31 March 2016



## Voting and Engagement

The Funds voting and engagement arrangements are contained in its Statement of Compliance with the U.K. Stewardship Code for Institutional Investors, the latest version of which is shown below.

### Updated Statement of Compliance with the U.K. Stewardship Code for Institutional Investors

Bedfordshire Pension Fund has a long-standing commitment to the values of stewardship, in relation to its conduct as an asset owner. It considers the Responsibilities of stewardship to be part of its fiduciary duty to its stakeholders.

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

Bedfordshire Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code and encourages its appointed asset managers to do so too.

In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers and other agents and through membership of collaborative groups. The Fund makes this explicit in its Statement of Investment Principles (SIP) and directly refers to the Stewardship Code in Section 6 of the SIP, 'Corporate Governance and Socially Responsible Investment'.

The Fund has previously required its asset managers to state their approach to the ISC (Institutional Shareholders Committee) Code on the Responsibilities of Institutional Investors on a comply or explain basis. The Fund's investment strategy seeks long-term returns from investing in equities and appoints asset managers who best reflect this long-termism in their investment philosophy and process.

The Fund does not delegate all responsibility for stewardship to its asset managers. It publishes within its SIP a Voting Policy that its asset managers are expected to follow.

Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed

The Fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest, when it comes to matters of stewardship.

The Fund requires all those who are directly involved in its management and governance to disclose any interest in any company, or other entity, in which the Fund has an ownership interest.

Principle 3 – Institutional investors should monitor their investee companies

Day-to-day responsibility for managing equity holdings is delegated to appointed asset managers. The Fund expects them to monitor companies, and intervene where necessary, and to report back regularly on activity undertaken. Quarterly review meetings with asset managers are used to raise particular issues of note or concern. All the Fund's investments are currently pooled investment.

In addition, the Fund receives an 'Alerts' service from Local Authority Pension Fund Forum (LAPFF), which highlights corporate governance issues of concern at investee companies.

Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.

However, the Fund may itself choose to escalate activity, principally through engagement activity with LAPFF. When it believes it is warranted by the egregious conduct of a company board causing a loss of shareholder value, the Fund will seek redress by pursuing shareholder litigation, of whatever form and in whatever jurisdiction deemed suitable. The Fund considers this an appropriate tool for use by long-term shareholders to send a powerful message of reproach to a company's directors and to the wider industry.

Principle 5 – Institutional investors should be willing to act collectively with other investors where appropriate

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund seeks to achieve this through membership of the LAPFF, which engages with companies over environmental, social and governance issues on behalf of its members.

On environmental issues in particular, the Fund also pursues engagement with companies through membership of the Institutional Investors Group on Climate Change (IIGCC). One of the core objectives of the IIGCC is to engage in dialogues with companies to standardize and improve disclosure on climate change and improve performance.

Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activity

The Fund has its voting policy detailed as part of its SIP. Where practical, the Fund seeks to exercise its voting rights attaching to its non- UK equity holdings.

The Fund discloses its voting activity by company on its website.

Principle 7 – Institutional investors should report periodically on their stewardship and voting activities

The Fund maintains a Responsible Investment section on its website. Annual reporting on stewardship activity has formed part of the report and accounts. In future the annual report will include information about the Fund's voting and engagement work.

Date Agreed: 7 June 2016



# Funding Strategy Statement

## 1. Introduction

### 1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the Bedfordshire Pension Fund ("the Fund"), which is administered by Bedford Borough Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2014.

### 1.2 What is the Bedfordshire Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the Bedfordshire Pension Fund, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth;
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

### 1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

## 1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

## 1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will

also minimise the costs to be borne by Council Tax payers);

- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

## 1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations. In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Geoff Reader, Head of Pensions and Treasury Management in the first instance at e-mail address [Geoff.Reader@bedford.gov.uk](mailto:Geoff.Reader@bedford.gov.uk) or on telephone number 01234 228562

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## 2. Basic Funding issues

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(More detailed and extensive descriptions are given in Appendix D).

### 2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being built up from year to year, referred to as the “future service rate”; plus
- b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the “past service adjustment”. If there is a deficit the past service adjustment will be an increase in the employer’s total contribution; if there is a surplus there may be a reduction in the employer’s total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the “deficit recovery period”).

### 2.2 How is a deficit (or surplus) calculated?

An employer’s “funding level” is defined as the ratio of:

- the market value of the employer’s share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer’s employees and ex-employees (the “liabilities”). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer’s deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer

contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

### 2.3 How are contribution rates calculated for different employers?

The Fund’s actuary is required by the Regulations to report the Common Contribution Rate, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E.

The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund’s Rates and Adjustments Certificate.

In effect, the Common Contribution Rate is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 20 March 2014, including an analysis at Fund Level of the Common Contribution Rate. Further details of individual employer contribution rates can also be found in the formal report.

### 2.4 What else might affect the employer’s contribution?

Employer covenant, and likely term of membership, are also considered when setting contributions: more details are given in Section 3.

For some employers it may be agreed to pool

contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

## 2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called

because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – community admission bodies ("CAB") or those providing a service on behalf of a scheme employer – transferee admission bodies ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

## 2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education;
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;

- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.



On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

### 3. Calculating contributions for individual Employers

#### 3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range ("stabilisation")
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting

individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

#### 3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
	Local Authorities, Police, Fire	Colleges	Academies	Open to new entrants	Closed to new entrants	
Basis used	Ongoing, assumes long-term Fund participation (see <a href="#">Appendix E</a> )			Ongoing, but may move to "gilt basis" - see <a href="#">Note (a)</a>		Ongoing, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )
Future service rate	Projected Unit Credit approach (see <a href="#">Appendix D - D.2</a> )			Attained Age approach (see <a href="#">Appendix D - D.2</a> )		Projected Unit Credit approach (see <a href="#">Appendix D - D.2</a> )
Stabilised rate?	Yes - see <a href="#">Note (b)</a>	No	Yes - see <a href="#">Note b</a>	No	No	No
Maximum deficit recovery period - <a href="#">Note (c)</a>	20 years	15 years	15 years	15 years	Remaining working lifetime - subject to risk assessment by Administering Authority	Outstanding contract term - subject to risk assessment by Administering Authority
Deficit recovery payments - <a href="#">Note (d)</a>	cash	cash	% of pay (may be revised at next valuation)	cash	cash	cash
Treatment of surplus	Covered by stabilisation arrangement	TBC	TBC	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the remaining contract term if appropriate
Phasing of contribution changes	Covered by stabilisation arrangement		Covered by stabilisation	3 years - <a href="#">Note (e)</a>	3 years - <a href="#">Note (e)</a>	TBC
Review of rates - <a href="#">Note (f)</a>	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations			Particularly reviewed in last 3 years of contract		
New employer	n/a	n/a	<a href="#">Note (g)</a>	<a href="#">Note (h)</a>	<a href="#">Notes (h) &amp; (i)</a>	
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per <a href="#">Note (i)</a> .			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation - see <a href="#">Note (j)</a> .		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

### Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

### Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have

been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	"Standard" Council	"Mature" Council	Academy School
Max cont increase	0.5% of pay	0.5%	+0.5%
Max cont decrease	0.5% of pay	0.5%	-0.5%

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors. At this point; the parameters for standard and mature Councils may diverge.



### **Note (c) (Deficit Recovery Periods)**

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 15 years.

### **Note (d) (Deficit Recovery Payments)**

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will be set as monetary amounts:

### **Note (e) (Phasing in of contribution changes)**

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Employers which have no active members at this valuation will not be phased.

### **Note (f) (Regular Reviews)**

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

### **Note (g)**

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- d) The academy will have the pay contributions initially in line with the ceding LEA instead and thereafter stabilisation overlay will be applied. At some point the Academy's rate may diverge from the LEAs

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. Note that from 1 April 2014, the minimum rate payable by an Academy School is the calculated future service cost.

### Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

### Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”).

This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

#### i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which is may be under the stabilisation approach.

#### ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

### iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority should be informed when any of the above options are exercised. Any risk sharing agreements should be detailed in a side letter to the admission agreement. It may be the case that this details what the contractor is and isn't responsible for. For example the contractor may typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions.

### Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus.

Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;
- b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee. This can only be done with the agreement of the guarantor and may impact on the guarantor's contribution rate.
- c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date

As an alternative, and subject to appropriate legal advice, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified.

### 3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

### 3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

### 3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (NB the relevant age may be different for different periods

of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

### 3.7 Ill health early retirement costs

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer may be charged additional contributions on the same basis as apply for non ill-health cases.

### 3.8 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

### 3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all

its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

### 3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.



## 4. Funding strategy and links to investment strategy

### 4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

### 4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

### 4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption

contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

### 4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- **Prudence** - the Fund should have a reasonable expectation of being fully funded in the long term;
- **Affordability** – how much can employers afford;
- **Stewardship** – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- **Stability** – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

#### **4.5 Does the Fund monitor its overall funding position?**

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to regular Pensions Committee meetings.

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### **Appendix A – Regulatory framework**

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#### **A1 Why does the Fund need an FSS?**

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

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

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

#### **A2 Does the Administering Authority consult anyone on the FSS?**

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers in 20 December 2013 for comment;
- b) Comments were requested within 30 days;
- c) Following the end of the consultation period the FSS was updated where required and then published, in March 2014.

#### **A3 How is the FSS published?**

The FSS is made available through the following routes:

- The FSS is published on the website, under [http://www.bedspensionfund.org/fund\\_information/fund\\_governance.aspx](http://www.bedspensionfund.org/fund_information/fund_governance.aspx)
- A summary issued to all Fund members;
- A full copy [included in/linked from] the annual report and accounts of the Fund;
- Copies made available on request.

#### **A4 How often is the FSS reviewed?**

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

#### **A5 How does the FSS fit into other Fund documents?**

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at [http://www.bedspensionfund.org/fund\\_information/reports\\_and\\_accounts.aspx](http://www.bedspensionfund.org/fund_information/reports_and_accounts.aspx)

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### **Appendix B – Responsibilities of key parties**

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The efficient and effective operation of the Fund needs various parties to each play their part.

#### **B1 The Administering Authority should:-**

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures 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 a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.



## **B2 The Individual Employer should:-**

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

## **B3 The Fund Actuary should:-**

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

## **B4 Other parties:-**

- Investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

## Appendix C – Key risks and controls

### C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

### C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.
	Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.
	Analyse progress at three yearly valuations for all employers.
Inappropriate long-term investment strategy.	Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.
	Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.
	Inter-valuation monitoring, as above.
	Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.
	Inter-valuation monitoring, as above, gives early warning.
	Some investment in bonds also helps to mitigate this risk.
	Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.
	If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

### C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

### C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.

## C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.
	The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations.
	Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way.	The Administering Authority maintains close contact with its specialist advisers.
	Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.
	Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.
	Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.
	The risk is mitigated by:
	Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).
	Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.
	Vetting prospective employers before admission.
	Where permitted under the regulations requiring a bond to protect the Fund from various risks.
	Requiring new Community Admission Bodies to have a guarantor.
	Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).
	Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

## **Appendix D – The calculation of Employer contributions**

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

### **D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?**

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “future service rate”; plus
- b) an adjustment for the funding position of accrued benefits relative to the Fund’s solvency target, “past service adjustment”. If there is a surplus there may be a reduction in the employer’s contribution rate. If there is a deficit there will be an increase in the employer’s contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund’s actuary is required by the regulations to report the Common Contribution Rate, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer. It is the adjusted contribution rate which employers are actually required to pay. The sorts of “peculiar” factors which are considered are discussed below.

In effect, the Common Contribution Rate is a notional quantity. Separate future service rates are calculated for each employer together with individual past service

adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

### **D2 How is the Future Service Rate calculated?**

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members’ future service in the Fund. This is based upon the cost (in excess of members’ contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the “ongoing” valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

The approach used to calculate each employer’s future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

#### **a) Employers which admit new entrants**

These rates will be derived using the “Projected Unit Method” of valuation with a one year period, i.e. only considering the cost of the next year’s benefit accrual and contribution income. If future experience is in line with assumptions, and the employer’s membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

### **b) Employers which do not admit new entrants**

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

### **D3 How is the Solvency / Funding Level calculated?**

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency' is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

### **D4 What affects a given employer's valuation results?**

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;
- over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

### **D5 How is each employer's asset share calculated?**

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's

actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as “analysis of surplus”.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary’s approach addresses the risks of employer cross-subsidisation to an acceptable degree.

## Appendix E – Actuarial assumptions

### E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth

and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

### E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

### E3 What assumptions are made in the ongoing basis?

#### a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can



deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.9% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

#### **b) Salary growth**

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set equal to the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a three year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

#### **c) Pension increases**

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation,

we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund’s liabilities (all other things being equal).

#### **d) Life expectancy**

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with “medium cohort” and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach, is to increase life expectancy. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

#### **e) General**

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.



## Governance Compliance Statement

### Structure

- a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council. Fully Compliant – Pension Committee
- 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. Mostly Compliant – All Unitary Councils represented, Observers for academy schools and scheme member
- c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. Fully Compliant: membership is the same.
- 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.

Fully Compliant: membership is the same.

	Not Compliant*				Fully Compliant
a)					✓
b)				✓	
c)					✓
d)					✓

\* Please use this space to explain the reason for non-compliance

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

b) Due to the preferred size of the Panel more observers not invited. The current Committee structure covers 78% of the active membership (based on 2013/2014 Annual Report).

**Meetings (frequency/quorum)**

- a) That an administering authority's main committee or committees meet at least quarterly. Fully Compliant: Meets four times a year
- b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. Fully Compliant – Panel meets at least 4 times a year and dates are around Committee dates
- c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.

Fully compliant: via annual general meeting

	Not Compliant*				Fully Compliant
a)					✓
b)					✓
c)					✓

\* Please use this space to explain the reason for non-compliance

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

## Representation

a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-

- i) employing authorities (including non-scheme employers, e.g., admitted bodies);
- ii) scheme members (including deferred and pensioner scheme members),
- iii) independent professional observers, and
- iv) expert advisors (on an ad-hoc basis).

Partially compliant as not all scheme employers or admitted bodies have the opportunity to be represented. There is also an independent advisor who attends the meetings.

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

Full compliance

	Not Compliant*				Fully Compliant
a)				✓	
b)					✓

\* Please use this space to explain the reason for non-compliance

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

a) Due to the preferred size of the Committee more employers not invited. The current Committee structure covers 78% of the active membership (based on 2013/2014 Annual Report). The Committee also has an independent investment advisor and a scheme member observer.

## 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.

Compliant – See governance statement

	Not Compliant*				Fully Compliant
a)					✓

\* Please use this space to explain the reason for non-compliance

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

Delegation

a) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.

	Not Compliant*				Fully Compliant	
a)					✓	

\* Please use this space to explain the reason for non-compliance

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

### Local Pension Board

- a) That administering authorities has prepared a written statement details of the terms, structure and operational procedures relating to the local pension board established under regulation 106

Full compliance – See governance statement

	Not Compliant*				Fully Compliant
a)					✓

\* Please use this space to explain the reason for non-compliance

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

# Communications Policy Statement



Bedfordshire Pension Fund  
February 2016



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## Introduction

This is the Communications Policy Statement of Bedfordshire Pension Fund, administered by Bedford Borough Council (the Administering Authority).

The Fund liaises with over 140 employers and approximately 62,000 scheme members in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

Any enquiries in relation to this Communication Policy Statement should be sent to:



**Mrs Claire Bennett**

Pensions Administration Manager  
Bedford Borough Council  
Cauldwell Street  
Bedford  
MK42 9AP



01234 228873



[claire.bennett@bedford.gov.uk](mailto:claire.bennett@bedford.gov.uk)

## Regulatory Framework

This policy statement is required by the provisions of Regulation 106B of the Local Government Pension Scheme Regulations 1997. The provision requires us to:

“...prepare, maintain and publish a written statement setting out their policy concerning communications with:

- (a) members.
- (b) representatives of members.
- (c) prospective members.
- (d) employing authorities.”

In addition it specifies that the statement must include information relating to:

- “(a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;
- (b) the format, frequency and method of distributing such information or publicity; and
- (c) the promotion of the Scheme to prospective members and their employing authorities.”

## Responsibilities and Resources

Within the Pensions function the responsibility for communication material is performed by our Pension Administration Manager with the assistance of the Communications and Employer Liaison Officer.

Bedfordshire Pension Fund write and design all communications including any web based or electronic material. They are also responsible for arranging all forums, workshops and meetings covered within this statement.

Printing is carried out by an external supplier, which is usually decided based on the most economic of three quotations from local suppliers. In exceptional circumstances (either due to lack of skills or inability to meet delivery timescales), we may use external consultants to assist with the preparation or design of communications. Any such circumstances are agreed in advance with the Fund Administrator.

### Communication with key audience groups Our audience

We communicate with a number of stakeholders. For the purposes of this communication policy statement, we are considering our communications with the following audience groups:

- active members;
- deferred members;
- pensioner members;
- prospective members;
- employing authorities (scheme employers and admission bodies);
- union representatives;
- elected members/the Pension Panel;
- Pension Section staff;
- tax payers;
- the specialist media.

In addition there are a number of other stakeholders with whom we communicate on a regular basis, such as Her Majesty's Revenue and Customs, the Communities and Local Government Department, solicitors, the Pensions Advisory Service, and other pension providers. We also consider as part of this policy how we communicate with these interested parties.

### How we communicate General communication

We will use both paper based communication and electronic methods to communicate. For security reasons, e-mails containing sensitive data are sent using Bedford Borough Council's ICT secure email solution. So as to minimise costs, we will tend to develop alternative means of communication only where necessary.

Our pension section staff are responsible for specific tasks and a specific proportion of our scheme members. Any phone calls or visitors are then passed to the relevant person within the section. Direct line phone numbers are advertised to allow easier access to the correct person.

### Accessibility

We recognise that individuals may have specific needs in relation to the format of our information or the language in which it is provided. Demand for alternative formats/languages is not high enough to allow us to prepare alternative format/language material automatically. However, on all communication from the Pension Fund office we will include a statement offering the communication in large print, Braille, or in another language on request.

## Policy on Communication with Active, Deferred and Pensioner Members

Our objectives with regard to communication with members are:

- for better education on the benefits of the LGPS.
- to provide more opportunities for face to face communication.
- as a result of improved communication, for queries and complaints to be reduced.
- to reassure stakeholders.

Our objectives will be met by providing the following communications, which are over and above individual communications with members (for example, the notifications of scheme benefits or responses to individual queries).

**The communications are explained in more detail beneath the table:**

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group (Active, Deferred, Pensioner or All)
Scheme booklet	Paper based and on website	At joining and major scheme changes	Post to home address/via employers	All
Pension Fund Report and Accounts	Paper based and on website	Annually (September)	On request	All
Pension Fund Accounts – Summary	Paper based	Annually	On request	All
Estimated Benefit Statements	Paper based	Annually	Post to home address	Active and Deferred
Factsheets	Paper based and on website	On request	On request	Active and deferred
Website	Electronic	Continually available	Advertised on all communications	All
Roadshows	Face to face	Annually	Advertised in newsletters and via posters.	All
Face to face education sessions	Face to face	On request	On request	All
Joiner packs	Paper based	On joining	Post to home addresses/via employer	Active members

## Explanation of communications

**Scheme booklet** - A booklet providing a relatively detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to increase the value of benefits.

**Pension Fund Report and Accounts** - Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers. This is a somewhat detailed and lengthy document and, therefore, it will not be routinely distributed except on request. A summary document, as detailed below, will be distributed.

**Pension Fund Report and Accounts Summary** - provides a handy summary of the position of the Pension Fund during the financial year, income and expenditure as well as other related details.

**Estimated Benefit Statements** - For active members these include the current value of benefits as well as the projected benefits to State Pension Age. In relation to deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well.

**Factsheets** - These are leaflets that provide some detail in relation to specific topics, such as topping up pension rights, transfer values in and out of the scheme, death benefits and, for pensioners, annual pensions increases.

**Website** - The website will provide scheme specific information, forms that can be printed or downloaded, access to documents (such as newsletters and report and accounts), frequently asked questions and answers, links to related sites and contact information.

**Roadshows** - Every year a number of staff will tour the geographical area of the fund. The roadshows provide the opportunity to have a face to face conversation about your pension rights.

**Face to face education sessions** - These are education sessions that are available on request for small groups of members. For example, where an employer is going through a restructuring, it may be beneficial for the employees to understand the impact any pay reduction may have on their pension rights.

**Joiner packs** - These provide confirmation of membership status and include forms for completion regarding previous pension benefits, personal information and an Expression of Wish form to nominate person(s) to receive a death grant.

## Policy on provision of information about the scheme to Prospective Members and their Employing Authorities

Our objectives with regard to communication with prospective members are:

- to inform about LGPS.
- for public relations purposes.

As we, in the Pension Fund office, do not have direct access to prospective members, we will work in partnership with the employing authorities in the Fund to meet these objectives. We will do this by providing the following communications:

### Explanation of communications

Overview of the LGPS leaflet - A short leaflet that summarises the costs of joining the LGPS and the benefits of doing so.

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group
Overview of the LGPS leaflet	Paper based	On issuing contract	Via employers	New employees

## Policy on communication with Employing Authorities

Our objectives with regard to communication with employers are:

- to improve relationships.
- to assist them in understanding costs/funding issues.
- to work together to maintain accurate data.
- to ensure smooth transfers of staff.
- to ensure they understand the benefits of being an LGPS

employer.

- to assist them in making the most of the discretionary areas within the LGPS.

**Our objectives will be met by providing the following communications:**

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group
Employers' Guide (Under development)	Paper based and on employer website	At joining and updated as necessary	Post or via email	Main contact for all employers
Annual employers meeting	Face to face	Annually	Invitations by email	All contacts for all employers
Employers focus groups	Face to face	Quarterly	Invitations by e-mail	Either main contacts or specific groups (e.g. HR or payroll) depending on topics
Pension Fund Accounts - Summary	Paper based and employer website	Annually	On request	Main contact for all employers
Meeting with Employer contact	Face to face	On request	Invite sent by post or email	Senior management involved in funding and HR issues.



## Explanation of communications

**Employers' Guide** - A detailed guide that provides guidance on the employer responsibilities including the forms and other necessary communications with the Pension Section and scheme members.

**Annual employers meeting** - A formal seminar style event with a number of speakers covering topical LGPS issues.

**Employers' focus groups** - Generally workgroup style sessions set up to debate current issues within the LGPS.

**Pension Fund Report and Accounts** - Details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.

**Adviser meeting** - Gives employers the opportunity to discuss their involvement in the scheme with advisers.

## Policy on communication with union representatives

Our objectives with regard to communication with union representatives are:

- to foster close working relationships in communicating the benefits of the scheme to their members
- to ensure they are aware of the Pension Fund's policy in relation to any decisions that need to be taken concerning the scheme

- to engage in discussions over the future of the scheme
- to provide opportunities to education union representatives on the provisions of the scheme

**Our objectives will be met by providing the following communications:**

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All
Pension Board representative	Meeting	At least twice a year	Email and hard copy	All
Face to face education sessions	Face to face	On request	On request	All

## Explanation of communications

**Briefing papers** – a briefing that highlights key issues and developments relating to the LGPS and the Fund.

**Pension Board representative** – an Employee side representative sitting on the Pension Board

**Face to face education sessions** – these are education sessions that are available on request for union representatives and activists, for example to improve their understanding of the basic principles of the scheme, or to explain possible changes to policies.

## Policy on communication with elected members/the Pension Fund Committee

Our objectives with regard to communication with elected members/the Pension Fund Committee or Pension Board are:

- to ensure they are aware of their responsibilities in relation to the scheme
- to seek their approval to the development or amendment of discretionary policies, where required
- to seek their approval to formal responses to government consultation in relation to the scheme

**Our objectives will be met by providing the following communications:**

### Explanation of communications

**Training Sessions** - providing a broad overview of the main provisions of the LGPS, and elected member's responsibilities within it.

**Briefing papers** - a briefing that highlights key issues and developments to the LGPS and the Fund.

**Pension Fund Committee meetings** - a formal meeting of elected members, attended by senior managers, at which local decisions in relation to the scheme (policies, etc) are taken.

**Pension Fund Board meetings** – a formal meeting of elected members, attended by senior managers, at which decisions of the Pension Fund Committee are reviewed and examined

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group
Training sessions	Face to face	When new members join the Pension Fund Committee or Board and as and when required	Face to face or via the Employers Organisation for local government	All members of the Pension Fund Committee or Board
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All members of the Pension Fund Committee or Board
Pension Fund Committee Meetings	Meeting	Monthly/quarterly/half yearly	Members elected onto Pension Fund Panel	All members of the Pension Fund Committee
Pension Fund Board Meetings	Meeting	At least twice per year	Members elected onto Pension Fund Board	All members of the Pension Fund Board

## Policy on communication with pension section staff

Our objectives with regard to communication with pension section staff are:

- ensure they are aware of changes and proposed changes to the scheme
- to provide on the job training to new staff

- to develop improvements to services, and changes to processes as required
- to agree and monitor service standards

**Our objectives will be met by providing the following communications:**

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group
Face to face training sessions	Face to face	As required	By arrangement	All
Staff meetings	Face to face	As required, but no less frequently than monthly	By arrangement	All
Attendance at seminars	Externally provided	As and when advertised	By email, paper based	All

## Explanation of communications

**Face to face training sessions** - which enable new staff to understand the basics of the scheme, or provide more in depth training to existing staff, either as part of their career development or to explain changes to the provisions of the scheme.

**Staff meetings** - to discuss any matters concerning the local administration of the scheme, including for example improvements to services or timescales.

**Attendance at seminars** - to provide more tailored training on specific issues.

## Policy on communication with tax payers

Our objectives with regard to communication with tax payers are:

- to provide access to key information in relation to the management of the scheme
- to outline the management of the scheme

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group
Pension Fund Accounts - Summary	Paper based and on Pension Fund website	Annually	Post	All, on request
Pension Fund Committee Papers	Paper based and on Pension Fund website	As and when available	Website	All, on request
Investment Strategy	Pension Fund website	As and when available	Website	All, on request
Governance Policy	Pension Fund website	As and when available	Website	All, on request
Media	Newspapers, radio etc.	As and when	News releases	All, on request

## Explanation of communications

**Pension Fund Report and Accounts** - details of the value of the Pension Fund during the financial year, income and expenditure as well as other related details, for example, the current employing authorities and scheme membership numbers.

**Pension Fund Committee Papers** - a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members.

**Investment Strategy** - a formal document setting out relevant issues in respect of the Pension Fund investments

**Governance Policy** - a formal document setting out how the Pension Fund is administered by the Borough Council.

**Media** - use of the local and national press

## Policy on communication with the specialist press

Our objectives with regard to communication with the media are:

- to ensure the accurate reporting of Fund valuation results, the overall performance of the Fund and the Fund's policy decisions against discretionary elements of the scheme

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group
News releases	Paper based or electronic	Every three years following the valuation of the Fund, annually on the publication of the Fund accounts and as and when required for other matters	Post or email	Specialist
Specific queries	Paper based, electronic or telephone	As and when	As requested	Specialist

### Explanation of communications

**News releases** – provide statements setting out the Fund's opinion of the matters concerned (i.e. Fund valuation results). These tend to be reactive to specific queries.

**Specific queries** – respond to specific questions about the Fund e.g. current size and make up.

All enquiries from the media will be handled through the Bedford Borough Council communications team.

All news releases and statements will also be issued by the Bedford Borough Council communications team.

## Policy on communication with other stakeholders/interested parties

Our objectives with regard to communication with other stakeholder/interested parties are:

- to meet our obligations under various legislative requirements
- to ensure the proper administration of the scheme
- to deal with the resolution of pension disputes
- Our objectives will be met by providing the following communications

Method of Communication	Media	Frequency of issue	Method of Distribution	Audience Group
Pension Fund valuation reports <ul style="list-style-type: none"> <li>• R&amp;A certificates</li> <li>• Revised R&amp;A certificates</li> <li>• Cessation valuations</li> </ul>	Electronic	Every three years	Via email and post	Office of the Deputy Prime Minister ODPM)/ Her Majesty's Revenue and Customs HMRC)/all scheme employers
Details of new employers entered into the Fund	Hard copy	As new employers are entered into the Fund	Post	DCLG/HMRC
Completion of questionnaires	Electronic or hard copy	As and when required	Via email or post	DCLG/HMRC/the Pensions Regulator

### Explanation of communications

**Pension Fund Valuation Reports** - a report issued every three years setting out the estimated assets and liabilities of the Fund as a whole, as well as setting out individual employer contribution rates for a three year period commencing one year from the valuation date.

**Details of new employers** - a legal requirement to notify both organisations of the name and type of

employer entered into the Fund (i.e. following the admission of third party service providers into the scheme).

**Completion of questionnaires** - various questionnaires that my received, requesting specific information in relation to the structure of the LGPS or the make up of the Fund.

## Performance Measurement

So as to measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

**We will measure against the following target delivery timescales:**

Communication	Audience	Statutory delivery period
Scheme booklet	New joiners to the LGPS	Within two months of joining
Estimated Benefit Statements as at 31 March	Active members	By 31 August
Telephone calls	All	Not applicable
Issue of retirement benefits	Active and deferred members retiring	Within two months of retirement
Issue of deferred benefits	Leavers	Within two months of withdrawal
Transfers in	Joiners/active members	Within two months of request

## Review Process

We will review our communication policy to ensure it meets audience needs and regulatory requirements at least every three years. A current version of the policy statement will always be available on our website at [www.beds pensionfund.org](http://www.beds pensionfund.org) and paper copies will be available on request.

# Bedfordshire Local Pension Board





# Annual Report of the Bedfordshire Local Pension Board – 2015/2016

## 1 Introduction

- 1.1 I am pleased to present the first report of the Local Pension Board of Bedford Borough Council for the year 2015/2016
- 1.2 Pension Boards were introduced in to the Local Government Pension Scheme (LGPS) from April 2015 under the Public Sector Pensions Act 2013 with the responsibility to assist administering authorities, in particular pension managers, and to secure compliance with the LGPS regulations.
- 1.3 The Bedford Borough Council Local Pension Board was established by the Administering Authority in March 2015 and operates independently of the Pensions Committee.

## 2 Purpose

- 2.1 The purpose of the Board is to assist the Administering Authority in its role as a Scheme Manager of the Scheme. Such assistance is to:
- secure 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 and;
  - to ensure the effective and efficient governance and administration of the Scheme.

This includes undertaking work requested by the Administering Authority and covers all aspects of governance and administration of the LGPS including funding and investments.

## 3 Constitution and Membership

- 3.1 The membership of the Board during the period was as follows:
- 4 Employer Representatives – Councillors James Jamieson (Central Bedfordshire Council), Stephen Moon (Bedford Borough Council) - Chair, Hazel Simmonds (Luton Borough Council) and one vacancy
  - 4 Member Representatives – Cliff Anderson (GMB), Stewart Briggs, Liam McKeating (Unison) and Frances Bowler (from March 2016)
- 3.2 Three meetings were held within the period – 25 June 2015, 21 October 2015 and 25 January 2016.

## 4 Programme

- 4.1 At June's meeting the Terms of Reference for the Board were agreed and the Policies and Statements of the Bedfordshire Pension Fund were presented to the Board for consideration. The Pensions Regulator Code of Practice No. 14 'Governance and Administration of Public Service Pension Schemes' was acknowledged. The Code covers the following areas
- Governance
  - Knowledge and Understanding
  - Conflicts of Interest
  - Representation on Pension Boards
  - Risks
  - Internal controls
  - Administration
  - Keeping Records
  - Maintaining Contributions
  - Providing Information to Members
  - Resolving Issues
  - Internal dispute resolution
  - Reporting breaches of the law

4.2 In June's meeting the Board also considered the Bedfordshire Pension Fund Business Plan 2015-2019, indicating that it would support the Administering Authority in delivering the Business Plan.

4.3 In October's meeting the Board received a presentation from the Actuary explaining the Importance of Clean Data in the context of the 2014/2015 Year end Data collection exercise. The members also reviewed the Training Plan 2015/2016 and committed to undertaking the Pension Regulator e-learning public sector toolkit. This aims to ensure that Pension Board Members have sufficient knowledge and understanding, in order to effectively fulfil their roles in relation to the effective and efficient governance of the Local Government Pension Scheme (LGPS).

4.4 In October the Board was also introduced to the key concepts of CIPFA's Knowledge & Skills Framework:

- Pensions Legislative and Governance Context;
- Pension Accounting and Auditing Standards;
- Financial Services Procurement and Relationship Management;
- Investment Performance and Risk Management;
- Financial Market and Products Knowledge;
- Actuarial Methods, Standards and Practices.

4.5 It was also resolved to hold meetings in the future, on a quarterly basis, approximately 1 month following the Pensions Committee, so that the committee decisions could be reviewed along with its own agenda.

4.6 In January the Board discussed several issues:

- [Year End Data Update](#)
- [Administration Costs and Team Structure](#)
- [Local Government Pension Scheme: Pooling Investments](#)

Following on from this meeting, the Board requested the officers address the issue of Pensions Administration Strategy and provide an update on the work on this going forward.

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## 5 Conclusion

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5.1 This is the first report of the Board. Over the year, the role of the Board has become clearer and the members look forward to the second year to develop its role further.

5.2 I would like to thank the Board members for their significant input and support during the year.

*Councillor Stephen Moon*

Chairman

*June 2016*

## Contact Points

Further information regarding the Pension Fund or the report and accounts may be obtained from the following contacts:

### Accounts and Investments:

Geoff Reader  
Head of Pensions  
Telephone: 01234 228562

### Benefits and Contributions:

Claire Bennett  
Pensions Administration Manager  
Telephone: 01234 228873

### Advisory and Regulatory Bodies:

The Pensions Regulator  
Napier House  
Trafalgar Place  
Brighton  
East Sussex, BN1 4DW  
Telephone: 0845 6000707

### The Pensions Advisory Service

11 Belgrave Road  
London SW1V 1RB  
Telephone: 0845 6012923

### Pensions Ombudsman

11 Belgrave Road  
London SW1V 1RB  
Telephone: 020 7630 2200

### The Pensions Regulator

Napier House  
Trafalgar Place  
Brighton  
BN1 4DW  
Telephone: 0845 600 0707



## Glossary

### 2014 Scheme

On 1 April 2014, the LGPS scheme changed. The key element was changing from a Final Salary scheme to a Career Average Revalued Earnings (CARE) Scheme. This has resulted in more complexity in terms of benefits and membership calculations. Details on this can be found on our website in our short guide [www.bedspensionfund.org/active\\_members/guides\\_to\\_the\\_lgps.aspx](http://www.bedspensionfund.org/active_members/guides_to_the_lgps.aspx)

### Absolute Return

This is an approach to active investment management that focuses on an absolute return rather than a traditional index based benchmark. Freed from following an index, absolute return managers have the flexibility to pursue a range of strategies and are not pushed into holding certain assets just because they are in the benchmark.

### Actuarial valuation

Every three years the Fund undergoes an actuarial valuation. An actuary assesses whether the Fund has enough money to pay everyone, and how much will need to be paid into the Fund in future to make sure all the benefits can be paid.

### Actuary

An actuary is a business professional who analyses the financial consequences of risk. Actuaries use mathematics, statistics and financial theory to study uncertain future events, especially those relating to pensions and insurance.

### Annual allowance

If the value of your pension benefits increases by more than the annual allowance in one year, you'll have to pay income tax at 40% on the excess. Most members of the scheme won't be affected by this - the annual allowance is set by the treasury at £40,000 for 2014/15. If you fill in a self-assessment tax return, ask the pension office about the increase in the value of your benefits, and don't forget that any other pensions you may have will count as well. An accountant will be able to help you with your tax return.

### Assets

The Fund's investments.

### Bonds

Governments issue bonds in order to borrow money. The purchaser gets a fixed annual interest payment as well as eventual repayment of the purchase price.

The Fund has some bonds from many of the largest governments, as well as "company bonds", which are similar but are issued by companies not governments.

### Civil partnership

A civil partnership is a legally registered relationship between two people of the same sex.

### Consumer Price Index (CPI)

This shows the changes in the cost of living. It reflects changes in prices of a cross-section of goods and services over time.

The amount pensions are raised annually is based on the Consumer Price Index from the previous period September - September. This has been used from April 11th 2011 and was previously based on the Retail Prices Index.

### Contracted-out

The Local Government Pension Scheme (LGPS) is contracted-out of the State Second Pension Scheme (S2P).

This means you won't get a State Second Pension when you retire - the LGPS is guaranteed to pay at least as much as S2P. It also means that you'll probably pay less National Insurance.

### Currency investors

Currency investment involves buying currency when it is cheap and selling for a profit when it becomes stronger.

### Deficit

If assets are less than liabilities, the Fund is said to be in deficit - there isn't enough money in the Fund to pay

all future pension payments, so contributions may need to go up. This won't affect your pension because it's guaranteed by law.

### **Discretion**

This is the power given by the LGPS to enable your employer or your administering authority to choose how they will apply the scheme in respect of certain provisions. Under the LGPS, your employer or your administering authority are obliged to consider how to exercise their discretion and, in respect of some (but not all) of these discretionary provisions, to have a written policy on how they will apply their discretion. They have a responsibility to act with "prudence and propriety" in formulating their policies and must keep them under review. You may ask your employer or your administering authority what their policy is in relation to a discretion.

### **Enhanced protection**

See protection - primary lifetime allowance protection.

### **Equities**

Equities are shares in companies. The owner shares the profits (or losses) and growth (or fall) in the value of the company. The Fund owns shares in all the major markets in the world as well as some smaller, emerging markets.

### **ESG**

Environmental, Social and Governance refers to the three main areas of concern that have developed as central factors in measuring the sustainability and ethical impact of an investment in a company or business. There is growing evidence that suggests that ESG factors, when integrated into investment analysis and decision making, may offer investors potential long-term performance advantages.

### **Final pay**

This figure is used to calculate the pre April 2014 element of your pension benefits and it's normally pensionable pay received over the last 365 days before retiring. If your pay went down in your last year, it could

be the pay from one of the two previous years.

If you work part time, your final pay is normally scaled up to the full-time equivalent.

If your pay is reduced because of sickness, your final pay is taken to be the pensionable pay you would have received had you not been off sick.

If you're off on maternity, paternity, or adoption leave and are paying (or are considered to be paying) pension contributions, final pay is taken to be your pensionable pay if you were working normally.

### **Funding level**

The percentage of the Fund's liabilities which can be paid out of the Fund. If the funding level falls below 100%, more will need to be paid into the Fund. This doesn't affect your pension because it's guaranteed by law.

### **Global equity**

Investors in global equity can invest in equities from anywhere in the world, although they are limited by other aspects of their mandate. They are expected to give better returns than standard indices like the FTSE 100 or the local equivalent.

### **Guaranteed minimum pension (GMP)**

The LGPS guarantees to pay you a pension that is at least as high as you would have earned had you not been contracted out of the State Earnings Related Pension Scheme at any time between 6 April 1978 and 5 April 1997. This is called the Guaranteed Minimum Pension.

### **Index-linked bonds**

A type of bond where the annual interest payment varies with inflation.

### **Liabilities**

The total expected value of future pension payments from the Fund to its members.

### **Lifetime allowance**

The lifetime allowance is the maximum amount of pension and/or lump sum that you can get from your pension schemes that benefit from tax relief. The current lifetime allowance is £1.25 million.

### **Lower earnings limit**

This is the amount you have to earn before you pay any National Insurance. For 2015/16 it is £5,824 per year. It usually increases every year.

### **Managed Funds**

Managed Funds are defined as Insurance Managed Funds.

### **Multi-asset passive investment**

Multi-asset passive investors can invest in global markets and need only match the returns given by indices like the FTSE 100 (or the local equivalent)

### **Overseas Unit Trusts**

Overseas Unit Trusts are categorised as all unitised funds that are not included within the Managed Fund category.

### **Pension Account**

Since April 2014, the LGPS operate a Career Average Revalued Earnings (CARE) Scheme. Each scheme year the amount of pension you have built up during the year is worked out and this amount is added into your active pension account.

### **Pensionable pay**

This is your salary or wages plus shift allowance, bonuses, contractual and non contractual overtime, Maternity Pay, Paternity Pay, Adoption Pay and any other taxable benefit specified in your contract as pensionable.

Pay doesn't include expenses, payment in lieu of notice, pay in lieu of lost holidays, any payment as inducement not to leave ("golden handcuffs") or company cars or payment in lieu of a company car.

### **Policy statement**

Your employer must produce a policy statement. It sets out how they will treat discretionary items within the pension scheme.

If any changes are made to the policy statement, you should be told within one month. You can ask your employer or the Pension Fund for the latest copies of their policy statements.

### **Property**

In investment, property can refer to offices, shops, shopping centres, retail parks and warehouses. Returns from property can include rental income and growth in value (capital growth).

### **Protection - primary lifetime allowance protection and enhanced protection**

When the lifetime allowance was introduced on 6 April 2006, it was decided that benefits accrued up to this point could be protected. If the pension you'd built up by 5 April 2006 exceeded the lifetime allowance, you could apply for primary protection up to 5 April 2009 so you had a new, personal, lifetime allowance.

If you reached the lifetime allowance by 5 April 2006 or thought you might in the future, you could also apply for enhanced protection. Provided your benefits at 5 April 2005 had not increased beyond certain limits (more than 5% per year, the retail price index, or increases in pensionable pay, whichever is greater) you would not then pay tax on benefits greater than the lifetime allowance.

If you pay into another pension scheme or transfer your Local Government Pension Scheme pension, you will lose your enhanced protection. If you don't inform Her Majesty's Revenues and Customs within 90 days of this, you could be fined up to £30,000.



### **Protected members and the 85 year rule**

If you joined the Local Government Pension Scheme after 30 November 2006 and decide to retire earlier than 65 years of age, your pension and lump sum will be reduced by a percentage relating to the number of years early you retire.

If you were a member of the scheme on or before 30 November 2006, some or all of your benefits paid early could be protected from the reduction under what is called the 85 year rule.

The 85 year rule is satisfied if your age at the date you draw your benefits and your scheme membership (each in whole years) add up to 85 or more.

The rules on deciding whether you have protection under the 85 year rule, and the level of that protection, are quite complex. If you are thinking of voluntarily retiring or asking for flexible retirement before age 65 you should contact the Pensions Section for a quotation of benefits payable.

### **Retail Prices Index (RPI)**

This shows the changes in the cost of living. It reflects changes in prices of a cross-section of goods and services over time.

The amount pensions are raised annually used to be based on the Retail Prices Index from the previous period September - September. From April 11th 2011 it is based on Consumer Prices Index.

### **Specialist mandate**

An investor with a specialist mandate will invest only in a particular geographical area, industry sector, or other limited field.

### **State Earnings Related Pension Scheme (SERPS)**

This is the extra earnings related part of the state pension that employed people could earn up to 5 April 2002. LGPS members were automatically contracted out of SERPS, and most paid lower national insurance contributions as a result. SERPS was replaced with the Second State Pension (S2P) from 6 April 2002.



## State Pension Age

This is the earliest age you can receive the state basic pension. State Pension Age (SPA) is currently age 65 for men. SPA for women is currently being increased to be equalised with that for men. The Government has announced that it will speed up the pace of SPA equalisation for women, so that women's SPA will reach 65 by November 2018.

### State Pension Age Equalisation Timetable for Women

Date of birth	New State Pension Age
Before 6 April 1950	60
6 April 1950 - 5 April 1951	Between 60 & 61
6 April 1951 - 5 April 1952	Between 61 & 62
6 April 1952 - 5 April 1953	Between 62 & 63
6 April 1953 - 5 August 1953	Between 63 & 64
6 August 1953 - 5 December 1953	Between 64 & 65
After 5 December 1953	65

## Increase in State Pension age from 66 to 67 under the Pensions Act 2014

The Pensions Act 2014 brought the increase in the State Pension age from 66 to 67 forward by eight years. The State Pension age for men and women will now increase to 67 between 2026 and 2028. The Government also changed the way in which the increase in State Pension age is phased so that rather than reaching State Pension age on a specific date, people born between 6 April 1960 and 5 March 1961 will reach their State Pension age at 66 years and the specified number of months.

### Increase in State Pension age from 66 to 67, men and women

Date of birth	Date State Pension age reached
6 April 1960 – 5 May 1960	66 years and 1 month
6 May 1960 – 5 June 1960	66 years and 2 months
6 June 1960 – 5 July 1960	66 years and 3 months
6 July 1960 – 5 August 1960	66 years and 4 months (1)
6 August 1960 – 5 September 1960	66 years and 5 months
6 September 1960 – 5 October 1960	66 years and 6 months
6 October 1960 – 5 November 1960	66 years and 7 months
6 November 1960 – 5 December 1960	66 years and 8 months
6 December 1960 – 5 January 1961	66 years and 9 months (2)
6 January 1961 – 5 February 1961	66 years and 10 months (3)
6 February 1961 – 5 March 1961	66 years and 11 months
6 March 1961 – 5 April 1977*	67

\*For people born after 5 April 1969 but before 6 April 1977, under the Pensions Act 2007, State Pension age was already 67.

#### Notes

For the purposes of calculating an individual's State Pension age the following applies:

A person born on 31st July 1960 is considered to reach the age of 66 years and 4 months on 30th November 2026.

A person born on 31st December 1960 is considered to reach the age of 66 years and 9 months on 30th September 2027.

A person born on 31st January 1961 is considered to reach the age of 66 years and 10 months on 30th November 2027.

### Surplus

If assets are greater than liabilities, the Fund is said to have a surplus - there's enough to pay all future pensions to fund members, with some to spare. This is the ideal situation to be in.

### Total membership

This is the amount of membership that counts for working out different benefits you may be due.

### Working out if you're entitled to a benefit

There are two different ways your service counts within the Local Government Pension Scheme:

1. Your service counts in the calculation of your benefits in the scheme.
2. Your service in the scheme counts towards entitling you to a benefit in the scheme.

Although these statements may seem similar, both periods of service can be different. For example if a member works part-time, let's say 17.5 hours instead of 35 hours, the service for calculating benefits would be half it's actual length, i.e. 3 years service would only count as 1.5 years.

Having less than 2 years service the member would not normally be entitled to a retirement benefit, however, although the reduced service of 1.5 years is used to calculate the member's benefits, the full length service of 3 years is used in deciding the member's entitlement to benefit.

### For working out the amount of pension you'll get, your total membership includes:

- The number of years and days you are a member - if you're part time, this is scaled down to the full time equivalent. For example, if you work exactly half time, every year worked counts for 6 months' membership.
- The number of years and days bought by transferring in a previous employer's pension plan, a personal pension plan, or a stakeholder pension scheme.
- Any additional years you've opted to buy or which have been granted to you by your employer.
- Any additional years from converting additional voluntary contributions to membership, available only to members who took out AVC contracts prior to 30/06/2005.
- Any membership given because of ill health enhancement.
- Any membership you're already receiving a pension from, or in an earlier deferred pension, will not be counted.
- If you were over 45 when you joined (or the last time you joined if you have any deferred membership), and you bought extra membership before 1 December 2006, that extra membership won't count towards lump sum calculations. It will instead be used in your annual payment calculation, but rather than dividing this membership by 80, it will be divided by 60.

### Upper earnings limit

On anything you earn over the upper earnings limit, you only pay 1% National Insurance contributions. The upper earnings limit is usually increased annually by Parliament.

For 2015/16 it is £42,385 pa.

## Finding out more

If you would like further copies, a large-print copy or information about us and our services, please telephone or write to us at our address below.

Për Informacion

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المعلومات

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Informacja

برای اطلاع

Za Informacije

Per Informazione

তথ্যের জন্য



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