London Borough of Bexley Pension Fund

Annual Report 2013/14

LONDON BOROUGH OF BEXLEY

Welcome to the 2013/14 Pension Fund Annual Report

Contents

Further details on the Local Government Pension Scheme (LGPS) can be found on our website www.yourpension.org.uk/bexley .

We welcome feedback on this annual report. Please contact Nigel Bate at Treasury Section, Civic Offices, 2 Watling Street, Bexleyheath DA6 7AT or nigel.bate@bexley.gov.uk or 020 3045 5139.

INVESTMENT POLICY AND PERFORMANCE

Scheme Investment Allocations

Following a review of investment strategy, a new long term asset allocation target was set for the fund in March 2014, updating that set in February 2011.

	Benchmark Feb 2011 %	Benchmark March 2014 %
UK Equities	15	15
Global Equities	45	45
Total Equities	**60**	**60**
Gilt Fund	2.5	-
Corporate Bond Fund	2.5	-
Dynamic Bond Fund	5	5
Global Bond Fund	-	5
Total Bonds	**10**	**10**
Property	10	10
Private Equity	10	7
Infrastructure	-	3
Diversified Growth Fund	10	10
Total Alternatives	**30**	**30**
Cash	0	0
Total	**100**	**100**

By the end of 2013/14 implementation of the previous allocation was almost complete as the following table shows:-

	Allocation at 31.3.13	Allocation at 31.3.14	Target %
UK Equities	15.5	16.1	15
Global Equities	47.8	44.4	45
Total Equities	**63.3**	**60.5**	**60**
Index Linked Bond Fund	2.8	2.4	2.5
Corporate Bond Fund	2.8	2.6	2.5
Dynamic Bond Fund	4.6	4.3	5
Total Bonds	**10.2**	**9.3**	**10**

Property	5.6	10.2	10
Private Equity	5.7	7.5	10
Diversified Growth Fund	13.9	10.2	10
Total Alternatives	**25.2**	**27.9**	**30**
Cash	1.3	2.3	0
Total	**100.0**	**100.0**	**100**

The fund assets as at 31 March 2014 may be summarised as follows:-

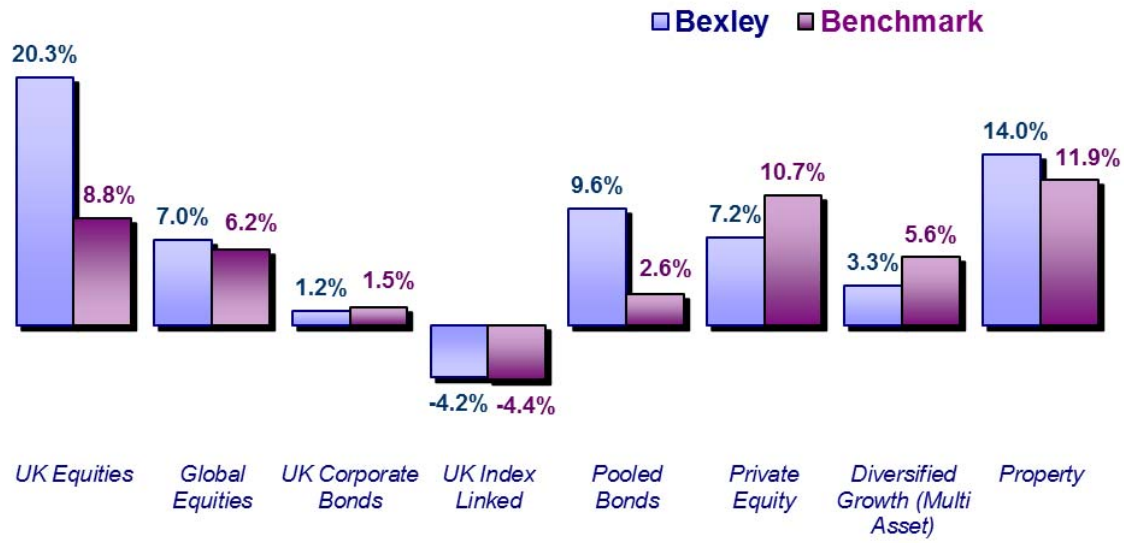
	UK £m	**Non-UK £m**	**Global £m**	**Total £m**
Equities	98.7		271.7	370.4
Bonds			56.7	56.7
Alternatives	63.1		45.8	108.9
Cash and cash equivalents			15.6	15.6
Other			62.4	62.4
Total	**161.8**		**452.2**	**614.0**

The fund investment income accrued during 2013/14 may be summarised as follows:-

	UK £000s	**Non-UK £000s**	**Global £000s**	**Total £000s**
Equities	3,582		6,029	9,611
Bonds			599	599
Alternatives	1,572		158	1,730
Cash and cash equivalents			36	36
Other				
Total	**5,154**		**6,822**	**11,976**

Scheme Investment Returns

Bexley Total Return	= 8.3%
Benchmark Return	= 7.0%
Excess return	= 1.3%



This graph shows that, in the past year, UK Equities, Global Equities, Pooled Bonds and Property have outperformed their benchmarks for Bexley's Fund. The UK Equity return was exceptional. Property performed very well again this year and with increased impact owing to the sector's increased allocation from 5.6% to 10.2% during the year. Property is now at its target asset allocation. Index linked is the only sector to have produced a negative return however the benchmark return was equally disappointing, indicating a poorly performing sector in general. All investments should be seen in a long term context and should not be judged entirely on the returns of one year.

Sector Returns

The benchmark return reflects the return that would be achieved by the market indices invested in the asset allocation recommended by the asset liability study. The pension fund managers may deviate from the set asset allocation by a predetermined range. This deviation and also stock selection is where the managers can add value and beat the benchmark return. This year the combined fund, which is under the management of Newton, UBS, Partners, Standard Life, BlackRock and Aviva Investors returned 8.3% against the benchmark return of 7.0%. This year Bexley's Pension Fund return ranked it in the 18th percentile of Local Authority funds.

A long term look at investment returns

This past year Bexley's return of 8.3% was ahead of the benchmark by 1.3%.

Over the last 15 years the fund return is equivalent to an annual return of 6.4%. This compares favourably with both the average earnings index and the retail price index.

The pension fund has slightly out-performed the target over the 15, 10 and 5 year periods.

	Annualised Return (%)		
	15 yrs	10 yrs	5 yrs
Fund Return	6.4	8.3	13.8
Benchmark	5.7	8.3	13.7
Outperformance	0.7	0.0	0.1

Further detail on the performance of the current managers and mandates is shown below.

Manager/mandate		**Return** %	**Relative Return** %
Newton			
Global Equities	1 Year	7.0	+0.8
	3 Years	6.9	+0.2
	5 Years	13.6	-0.7
Dynamic Bond Fund	1 Year	1.9	-0.6
UBS			
UK Equities	1 Year	20.1	+10.3
	3 Years	13.6	+4.4
	5 Years	19.4	+2.6

	10 Years	9.0	+0.4
BlackRock			
Index-Linked Gilts and Corporate Bonds	1 Year	-1.5	0.0
Partners			
Private Equity	1 Year	6.5	-3.8
	3 Years	8.4	-1.4
	5 Years	3.7	-10.6
Aviva Investors			
Property	Part Year	12.0	+1.5
Standard Life			
Diversified Growth Fund	1 Year	3.3	-2.2

Benchmark indices used for the mandates are:-

Newton Global Equities: MSCI AC World NDR

Newton Global Dynamic Bonds: 1 month LIBOR + 2%

UBS UK Equities: FTSE All Share

BlackRock Bonds: 50% FTSE 5+ Years Index Linked Gilts
50% iBoxx Sterling Non Gilt Bonds

Partners Private Equity: 50% FTSE USA, 40% FTSE Europe, 10% FTSE W Asia Pacific

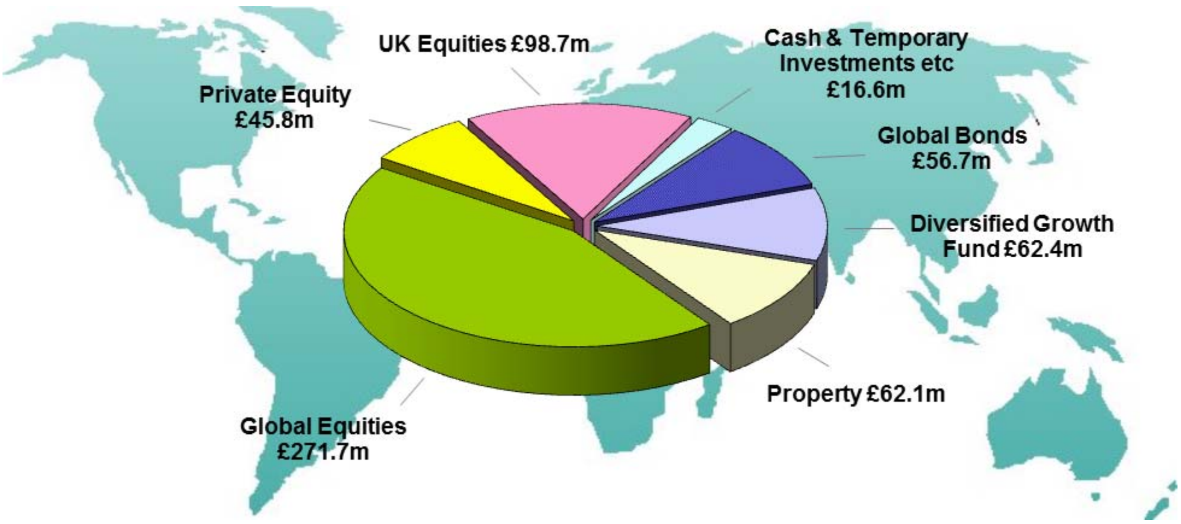
Aviva Investors Property: IPD UK All Balanced Funds Index

Standard Life Diversified Growth: 6 month LIBOR + 5%

The Fund's assets invested with Newton are held in a custodian relationship by BNY Mellon, whilst JP Morgan act as custodian for investments with UBS and Aviva Investors. All other investments are in pooled or unit trust type arrangements which do not require separate custody.

Where the money is invested

The chart summarises the asset types in which the total investments of £614.0m were made at 31 March 2014.

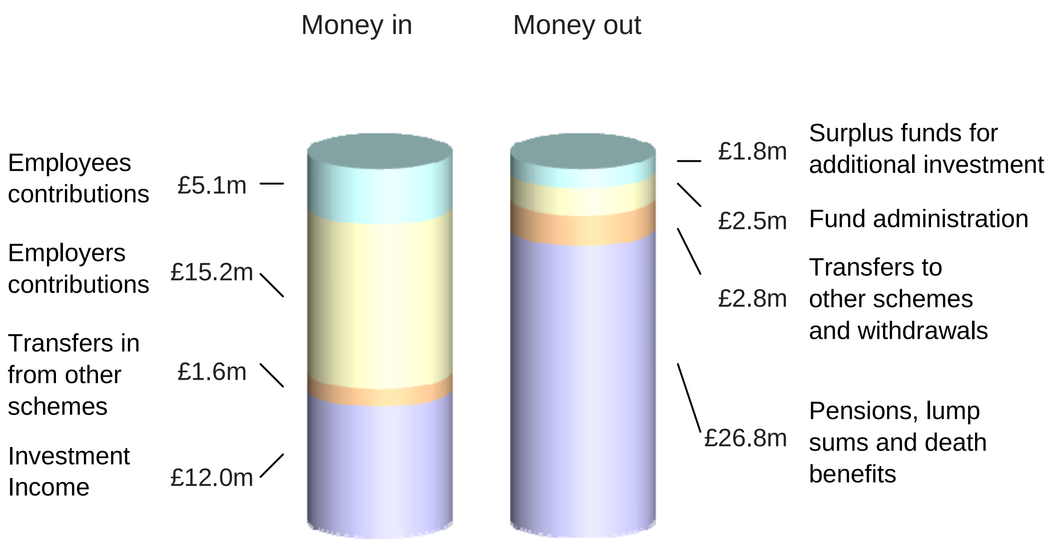


The ten largest equity investments

Company	Market Value (£m)	Percentage of Fund (%)
GlaxoSmithKline	9.9	1.6
BP	9.4	1.5
Royal Dutch Shell	9.0	1.5
Microsoft	8.4	1.4
Roche	7.0	1.2
Google	6.5	1.1
Centrica	6.3	1.0
Bayer	6.1	1.0
Novartis	6.1	1.0
Vodafone	6.1	1.0

How the Fund was used in 2013/14

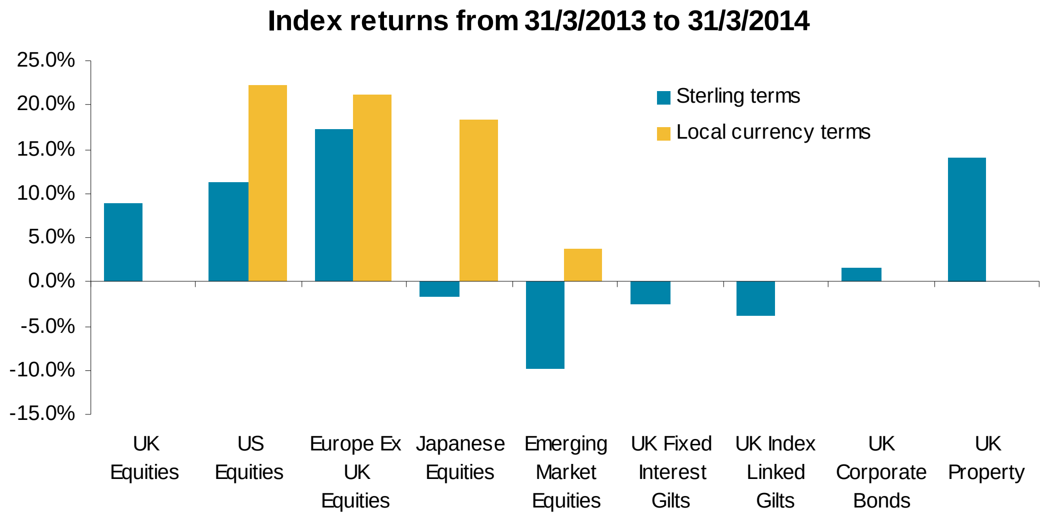
During the year the fund received £33.9m in income, the main sources of which were the income from assets and contributions from both employees and employers.



From this income, £26.8m was needed to cover the payment of pensions, lump sums and death benefits. After other costs were met the balance was held for investment.

Market Background

Market Background



Source: Datastream/IPD

General Background

The Federal Reserve (Fed) continued its open-ended quantitative easing (QE) programme to support the US economy. However, investors became anxious in May as Fed Chairman Bernanke signalled a reduction in QE sooner than expected, possibly in September. In the event, the Fed actually initiated its withdrawal of QE in December. As the Fed continued to wind down its asset purchases, Bernanke's successor Janet Yellen emphasised her commitment to maintain accommodative monetary policy in order to support continuing economic growth.

Both Janet Yellen and Bank of England Governor Mark Carney changed course on their respective forward guidance policies, playing down dependence on the unemployment rate, which had been falling faster than anticipated in both the US and UK.

Tensions in the Ukraine surfaced in early 2014, sparking a fresh bout of volatility in equity markets, after which Russia's president Vladimir Putin calmed investors by saying that he wanted to rebuild ties with independent Ukraine.

The Eurozone emerged from recession in Q2 2013, led by stronger German growth, although many peripheral countries continued to struggle. Deflationary concerns caused the ECB to lower its policy rate to 0.25%.

For many developed economies, economic data picked up over the year, with a string of strong Purchasing Managers' Index (PMI) releases globally in the second half of 2013. Growth in emerging economies slowed however, with the larger economies, such as China, particularly disappointing investors.

Markets brushed aside concerns over a reduction in QE, and despite various economic and political difficulties, global equity returns were strong over the 12 months to 31 March 2014, and the MSCI All Country World Index returned 17.4% in local currency terms. However, sterling strength over the year eroded the majority of these returns, and the sterling return on the index was 6.7%.

UK fixed interest gilts provided negative return over the year as better economic data and speculation over an end to QE in the US put upward pressure on UK bond yields.

UK corporate bonds returned 1.6% over the year as the narrowing of credit spreads offset the rise in gilt yields.

UK property returns were positive, with the IPD Monthly Index rising 14.0% over the period, its highest 12-month return since December 2010.

A few words from our Investment Managers

NEWTON

Investment Review

During the 12-month period under review, financial market returns continued to be affected by policymaking in the world's dominant Western economies. Emerging markets (previously the beneficiaries of ultra-loose developed-world policy) weakened significantly during the second quarter of 2013 as the US Federal Reserve introduced the notion of 'tapering' its quantitative easing programme. Although outflows from emerging markets did begin to slow (and in some cases reverse) in the second half of 2013, concerns about political instability (sparked by impending elections in many countries and conflict in the Ukraine) and unease about the outlook for the Chinese economy served further to deter investors.

Throughout 2013, investors kept a close watch on data releases, with developed-world equity markets continuing to strengthen as economic reports improved. The US showed the clearest signs of recovery. However, the appointment of Janet Yellen as the new Chair of the Federal Reserve and her subsequent testimony to Congress, in which she mounted a forceful justification of the US central bank's 'easy' monetary policy, suggest that the reduction in quantitative easing ('QE') will be gradual. Elsewhere, the eurozone emerged during the summer from its longest recession, and sovereign bond yields in a number of 'peripheral' countries fell significantly. However, the sustainability of the recovery in this region remains questionable, particularly in light of the threat of deflation, which came to the fore in the first quarter of 2014.

Investors remained wary of Japan, given the uncertainty surrounding the success of the government's stimulus plans, and concerns over an impending sales tax increase in April 2014. Japanese government debt, which reached more than one trillion yen in the summer (about twice Japan's GDP) remains a serious challenge for the country.

Global bond markets lost ground over the year as a whole amid investors' anticipation of the Fed's reduction in the pace of QE. In response to an improving economic outlook and concern over interest-rate rises, yields in core government bond markets rose over the year (prices fell). As the eurozone recovery appeared to gain traction, yields on 'peripheral' eurozone bonds began to converge towards those of German bunds in the latter part of the year. Corporate bonds on the whole, however, were supported by encouraging developed-world economic data.

Over the 12 months to 31 March 2014, Continental European equity markets led the way, returning +17.3% to the UK-based investor, followed by North America (+10.3%) and the UK (+8.8%).

The markets of the Asia-Pacific (ex Japan) region lagged those of the West, generating an aggregate sterling return of -6.5%. Emerging stock markets were negatively affected by political unrest and capital outflows, spurred by policymaking developments in the US. Emerging markets delivered a collective return of -9.9% to the UK investor. Japan also trailed, returning -1.6% in sterling terms.

In government bond markets, gilts lost ground amid signs of global economic recovery and the preliminary stages of 'tapering' by the Federal Reserve, with the FTA Government All Stocks Index returning -2.6%. Returns from overseas bonds were also weak, with the JPM Global Government Bond Index (ex UK) returning -8.5% in sterling terms. Corporate bond markets delivered returns comfortably ahead of government bond markets. The ML Non-Gilts Index returned a positive 1.6% over the period.

Performance to 31 March 2014

	1 Year	3 Years	Since Inception
	%	% pa	% pa
Fund	6.07	8.33	6.45
Benchmark	5.79	7.87	5.51

Newton has an active investment approach and looks to invest in high-quality securities around the world. Newton uses themes in seeking to identify good investment opportunities, as well as areas of risk.

UBS Global Asset Management

UK Economy:

After a slow start to the year, economic activity accelerated through to Q1 2014 with GDP data indicating that the economy expanded at a strong pace, and activity returned to pre-crisis levels. The recent data seems to confirm that the recovery in coming months will be driven by the housing sector that is benefiting from the BoE Funding for Lending Scheme and the recent measures introduced by the Treasury to further stimulate lending to small and medium sized enterprises. Despite the improvement in the data, the BoE Monetary Policy Committee (MPC) continues to remain very cautious, keeping both interest rates (at 0.5%) and the Quantitative Easing Programme on hold.

Unemployment continues to fall while the Bank of England (BoE) broadened its forward guidance to include productivity and wage growth. They also looked through the stronger-than-expected developments in activity with inflation (CPI) falling close to the target rate of 2%. Mortgage approvals hit a five-year high but lending to non-financial corporations did not follow suit. The BoE did however upgrade its outlook for growth, lower its inflation estimate and predict a faster convergence of the unemployment rate towards the 7% threshold than was previously anticipated.

Fund Performance	Fund %	Benchmark %
1 Year	+20.1	+8.8
3 Years (p.a.)	+13.6	+8.8
5 Years (p.a.)	+19.4	+16.4

Investment activity

The FTSE All Share Index returned +8.8% during the twelve months to 31 March 2014. Until late 2011 value investors in the UK, and other equity markets, had operated against a headwind of risk aversion following the global financial crisis and its consequent impact on economies and government finances. Global markets' risk tolerance subsequently increased, assisted by government and central bank actions across the world to support economies. This led to a rerating of equity markets despite relatively lacklustre growth in profits. However, during the second half of the period under review the market was forced to recognise that monetary policy in the US and UK would tighten in response to an improved economic outlook. The first signs of this were the 'tapering' of bond purchases by the US Federal Reserve which particularly impacted emerging equity and bond markets that were thought to have benefited disproportionately from the original easing of US monetary policy.

The stimulatory action taken by central authorities has started to be reflected in economic growth rates, particularly in the US and UK. UK GDP growth forecasts have been revised up and the fact this has been accompanied by falling consumer price inflation has allowed the Bank of England to defer increases in the base rate until late 2014 or 2015. Of some concern is that the UK recovery appears to be housing and consumer led with few signs of a rise in investment spending.

UK equities appear to be approaching fair value on most valuation measures. However, relative to some other assets UK equities still appear reasonably attractive. A dividend yield of around 3.5% with the promise of steady real dividend growth to come should allow the UK market to make progress in the coming year.

As shown in the table above, the relative performance of the UK Equity Fund for the year ended 31st March 2014 was strongly positive. This performance was driven mainly by the more cyclical holdings in the portfolio, which benefited from low starting valuations, improved investor sentiment in the stock market and management action to improve operations. Larger individual positive contributors to outperformance were Lloyds Banking Group, Dixons, International Consolidated Airlines (IAG), Darty and Aviva.

In terms of portfolio activity over the year, we reduced positions in those cyclical companies which had performed very well over the past two years, including Lloyds Banking Group, Dixons, IAG and Darty. The largest purchases were concentrated in more defensive companies which had previously been poor performers such as Unilever, British American Tobacco and United Utilities.

In terms of outlook, we would not expect the strong relative gains from the portfolio versus the market to be repeated over the coming year. Much of the valuation dispersion within the market that drove the strong performance has closed. However, the share prices of the majority of the portfolio holdings stand at below their long-term fair values so upside potential remains.

Responsible Investment

The Pension Fund's policies on responsible investment are set out in section 5 of the Fund's Statement of Investment Principles (SIP), which is shown in full later in this report in Appendix 5. This document also sets out how the Fund demonstrates its compliance with the Investment Governance Principles. The Fund is not a member of the NAPF, LAPFF, UKSIF, IIGCC or any such bodies. The Fund expects its investment managers to exercise their voting rights and actively engage with the companies in which they invest in accordance with the principles set out in the SIP.

The Fund's equity managers, Newton and UBS, report regularly on the meetings they have with investee companies and the issues they raise. They both vote on all resolutions at the UK companies they invest in, as well as a significant number of overseas holdings. In 2013/14 UBS voted at 57 UK meetings for the Bexley Fund. They voted for 935 (99%) resolutions in total and against 8 (1%). Newton voted at annual meetings of 165 companies worldwide in which stock was held for Bexley's portfolio. At these meetings there were 2428 proposals that could be voted on, and Newton voted for 2031 (84%) proposals, against/withheld 291 (12%), and did not vote on 80 (3%) as this would have restricted trading in those stocks.

The Council's overriding duty to the members of its pension fund and Council Tax payers is to maximise financial returns within a prudent pattern of risk. Subject to complying with that duty, the Pension Fund expects its investment managers to engage actively with the companies in which they invest with a view to encouraging those companies to adopt practices and procedures in respect of social, economic, governance and environmental matters which

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

In March 2013 the Pensions Committee agreed the Fund's statement of compliance with the Financial Reporting Council's UK Stewardship Code.

Funding Strategy

The Fund's Funding Strategy Statement was updated in March 2014 to reflect the principles and assumptions used in the 2013 actuarial valuation and the results produced. The changes were made in consultation with scheduled and admitted bodies, and are referenced later in this document in Appendix 4.

Contribution rates agreed following the 2010 valuation were implemented for 2013/14, the final year of that triennial period.

Discussions were held with admitted bodies where their contract periods were coming to an end or where the number of admitted employees were reducing so that a funding plan could be established prior to termination. An extension to the admission agreement was agreed with one admitted body.

MANAGEMENT AND FINANCIAL PERFORMANCE

Management Structure

Administering Authority	London Borough of Bexley	
Fund Officers	Mike Ellsmore Nigel Bate Terry Pearce Jane Eggleton Richard Smyth	Director of Finance & Resources Head of Finance (Technical) Pensions and Treasury Manager Pensions Officer Pensions Consultant
Investment Advisers	Colin Cartwright	Aon Hewitt Limited
Fund Managers	Newton Investment Management UBS Global Asset Management BlackRock Partners Group Standard Life Investments Ltd Aviva Investors	
Custodians	JP Morgan Chase Bank Bank of New York Mellon	
Performance Measurement	The WM Company	
Actuaries	Mercer Ltd	
Administrators	London Pensions Fund Authority	
AVC Providers	Prudential plc	
Bankers	NatWest Bank plc	
Auditors	Grant Thornton	
Legal Advisors	Bexley Legal Services	
Pension Scheme Tax References	PSTR 00329946RE LGPS England and Wales (Split Scheme) PSTR 00329108RA LGPS London Borough of Bexley Fund (Sub Scheme)	

Employing Bodies

Major Employer

London Borough of Bexley

Scheduled Bodies

Barnehurst Infant School
Barnehurst Junior School
Belvedere Junior School
Beths Grammar School
Bexley College
Bexley Grammar School
Bexleyheath Academy
Blackfen School for Girls
Bursted Wood Primary School
Chislehurst and Sidcup Grammar School
Christ Church Primary
Cleeve Park School
East Wickham Primary Academy
Erith School
Harris Academy Falconwood
Hope Community School
Hurst Primary School
Hurstmere School
Pelham Primary School
Sherwood Park Primary School
St Augustine of Canterbury Primary School
St Catherine's Catholic School
St Columba's Catholic Boys School
Townley Grammar School
Trinity Church of England School, Belvedere
Welling School
Woodland Academy Trust

Admitted Bodies

Avante Partnership
Bexley Heritage Trust
Blenheim CDP
Business Academy Bexley
Capita Business Services Ltd
Caterlink
Danson Youth Trust

Inspire Community Trust

Kier Street Services Ltd

London & Quadrant Housing Trust

MCCH Society Ltd

Mytime Active

Orbit South Housing Association

Rose Bruford College

Serco Ltd

Wilson James Ltd

This may be summarised in the following table:-

	Active	Ceased	Total
Scheduled Body	27	1	28
Admitted Body	16	6	22
Total	43	7	50

Risk Management

There is financial risk in undertaking investments for the Pension Fund. This risk has to be managed, minimised and monitored as far as possible. Details of how this is done are set out in the various documents governing the activities of the Pension Fund:-

- The annual accounts discuss investment risk (note 12f) and set out the nature and extent of risks arising from financial instruments (note 13c).
- The statement of investment principles covers risk and liabilities in section 3.
- The funding strategy statement identifies risks and counter-measures (section 7).

The roles of the Pensions Committee, officers, and third party advisors are also clearly laid out in these documents. Third party investment advisors are employed to provide expert advice on investments, and the Fund's actuary provides similar expertise in assessing liabilities. They both report to the Pensions Committee. Both strands are brought together in the asset liability review, which models series of economic scenarios. This leads to the formulation of the investment strategy and asset allocation. In this way investment risk is minimised consistent with the capability of meeting the returns needed to meet the assessed liabilities. Performance against this strategy is then reviewed quarterly by the Pensions Committee.

Risk management is a set of co-ordinated activities designed to direct and control operations with regard to risk. Risk management for the Pension Fund is therefore co-ordinated with that of the London Borough of Bexley as a whole, and the risk register entries for the Pension Fund are part of the overall risk management strategy. Risk management in Bexley is regularly reviewed by the Audit Committee.

One of the key financial risks for the Council is that of the Pension Fund. The resultant impact of poor investment performance or failure to address other financial risks would be an increase in employers' contributions to be met largely (as the London Borough of Bexley constitutes 85% of the Pension Fund) by Council Tax payers. Each risk in the risk register is scored according to its probability and its impact. Combinations of these scores indicate the overall level of risk to the Council. The risk assessment for the Pension Fund shows the probability as "likely" and any impact as "serious" which gives it an overall "medium" risk rating.

All main entries in the risk register are sub-divided into triggers which might increase the risk, and consequences of each of those occurring. In addition control measures to minimise these risks are allocated for regular review. The appropriate measures for the Pension Fund are set out below:-

Triggers	Consequences
a) There is a prolonged decrease in the stock market which in turn decreases the value of the fund. b) Fall in the number of contributors. c) Employers contributions rise	a) Investment income from the stock market declines. b) The authority must increase its contributions to the Pension Fund. c) Pressure on Council Tax is increased

Control Measures
Policies on early retirement
Actuarial valuation
Asset/liability study
Review of asset allocation

The Pension Fund's accounts and processes are subject to scrutiny by the Council's internal auditors and the Fund's independent external auditors.

During the year internal audit carried out risk based reviews of Pension Fund Management in December 2013, and of Pensions Administration in January 2014. The independent auditor's report is included later in this report.

Assurance on third parties is gained from the audited internal control reports (AAF01/06, ISAE3402, or SSAE16) prepared by the Fund's investment managers. These are reviewed by officers and any relevant weaknesses are reported to Pensions Committee.

Financial Performance

The Pension Fund has started to produce detailed budgets to monitor cash flows and gauge the maturity of the fund. The tables below show the actual cash flow for the last year and the forecast for the period of the triennial valuation.

	Actual 2013/14 £'000	Forecast 2014/15 £'000	Forecast 2015/16 £'000	Forecast 2016/17 £'000
INCOME				
Employer contributions	-15,238	-16,141	-16,449	-16,938
Employee contributions	-5,093	-5,018	-5,110	-5,259
Transfers in	-1,622	-1,543	-1,543	-1,543
	-21,953	**-22,702**	**-23,102**	**-23,740**
EXPENDITURE				
Pensions payable	21,736	23,500	24,300	25,200
Retirement and death benefits	5,092	3,700	3,400	3,700
Transfers out	2,806	2,122	2,122	2,122
Administration expenses	808	572	599	646
Investment management expenses	1,650	1,699	1,845	1,442
	32,092	**31,593**	**32,266**	**33,110**
NET INVESTMENT INCOME	**-11,976**	**-11,500**	**-11,500**	**-11,500**
NET CASH FLOW FOR THE YEAR	**-1,837**	**-2,609**	**-2,336**	**-2,130**

	Actual 2013/14 £'000	Forecast 2014/15 £'000	Forecast 2015/16 £'000	Forecast 2016/17 £'000
ADMINISTRATION EXPENSES				
Administrative services	228	187	191	195
Payroll, personnel and finance services	434	314	317	320
Actuarial services	73	30	30	70
Audit fee	19	21	21	21
Other expenses	54	20	40	40
TOTAL	**808**	**572**	**599**	**646**

Investment income is reinvested by fund managers to the extent that it is not required to cover cash flow requirements.

The fund officers monitor the cash flow on a daily and monthly basis, but there are always variations between the forecast cash flows and the final outturn. The variations for the last year are shown below:-

	Forecast 2013/14 £'000	Actual 2013/14 £'000	Variation £'000
INCOME			
Employer contributions	-15,460	-15,238	222
Employee contributions	-5,050	-5,093	-43
Transfers in	-2,800	-1,622	1,178
	-23,310	**-21,953**	**1,357**
EXPENDITURE			
Pensions payable	21,820	21,736	- 84
Retirement and death benefits	4,000	5,092	1,092
Transfers out	2,700	2,806	106
Administration expenses	771	808	37
Investment management expenses	1,220	1,650	430
	30,511	**32,092**	**1,581**
NET INVESTMENT INCOME	**-12,130**	**-11,976**	**154**
NET CASH FLOW FOR THE YEAR	**-4,929**	**-1,837**	**3,092**

	Forecast 2013/14 £'000	Actual 2013/14 £'000	Variation £'000
ADMINISTRATION EXPENSES			
Administrative services	230	228	-2
Payroll, personnel and finance services	434	434	0
Actuarial services	55	73	18
Audit fee	32	19	-13
Other expenses	20	54	34
TOTAL	**771**	**808**	**37**

The key variations during the year were the reductions in transfer values into the Fund and increased retirement and death benefits paid out, compared to previous years. Transfer values are very difficult to predict, whereas the increased non-recurring benefits payments reflect a continued drive to reduce staffing costs as part of the response to reductions in public sector expenditure. The increase in investment management expenses is due to the payment of a performance bonus to one of the investment managers, which will be covered many times over by the increase in investment value. There were smaller variations from reductions in contributions received, investment income and pensions payable. The overall variation was 10% of forecast gross expenditure.

Contributions due from all employers in the fund are monitored on a monthly basis. During 2013/14 total contributions of £20.3m were due. Of this total amount 99% by value and 92% of payment transactions were received by the due date. This can be analysed as follows:-

	Contributions due £'000	% received on time
London Borough of Bexley	14,660	100
Scheduled Bodies	4,330	90
Admitted Bodies	1,341	95
Total	20,331	92

The overdue contributions were:-

	£'000	%
Up to 1 week overdue	28	0.1
1 to 2 weeks overdue	14	0.1
2 to 4 weeks overdue	14	0.1
More than 4 weeks overdue	80	0.4

The majority of the delays arose from newly established academies making arrangements with their payroll providers to pay contributions in the correct timescales. The option to levy interest on overdue contributions was not exercised during the year.

Pension overpayments

During the year there were 57 cases of overpayments due to the death of a pensioner (compared to 82 in 2012/13). Further details are shown in the table below:-

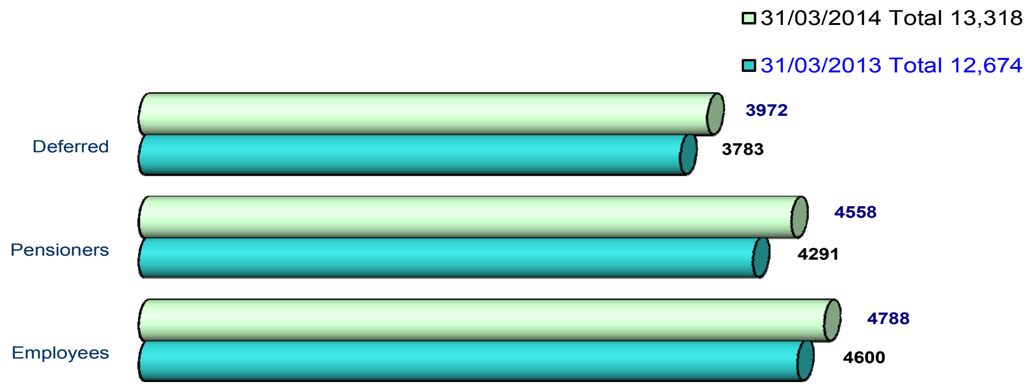
	2012/13		2013/14	
Case Type	Number of cases	Amounts	Number of cases	Amounts
Repayment was waived	45	£ 2,860	26	£ 1,114
Recovery was made	25	£ 8,880	28	£ 8,111
Not yet completed	12	£ 3,974	3	£ 524
Total	**82**	**£15,714**	**57**	**£ 9,749**

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

There was no National Fraud Investigation exercise this year and no overpayments arising from error (3 cases in 2012/13).

Administrative Management Performance

Scheme Membership



Bexley's Pension Fund has continued to grow over the past year with membership rising from 12,674 to 13,318.

Scheme Workload

This membership generates a considerable workload for the fund administrators (LPFA). The top ten case types during the year and the percentage completed on time are shown in the table below, together with the previous year's workload for comparison:-

Type of case	Cases 2012/13	Cases 2013/14	Target	% on time
Admissions	784	898	10 days	99.8
Transfers in	147	148	68 days	100.0
Transfers out	158	156	31 days	100.0
Estimates (employee)	203	259	15 days	99.7
Estimates (employer)	26	47	27 days	100.0
Retirements	305	337	43 days	100.0
Deferred benefits	539	493	47 days	100.0
Refunds	119	482*	33 days	88.7
Deaths	135	161	7 days	100.0
Correspondence	178	621*	8 days	95.6
Total	2,594	3,602		98.4

*Additional project work was undertaken in 2013/14 to try to contact holders of frozen refund payments. Performance indicators were relaxed for these categories during the project.

The LPFA send out satisfaction surveys (with prepaid envelopes) monthly to a sample of members who use each of the main case types listed above. In 2013/14 a total of 515 surveys were issued and a satisfaction level of 99.8% was achieved (602 surveys and a satisfaction level of 99.3% in 2012/13).

A complaints log is also maintained which indicates how matters have been resolved and whether any lessons can be learned from them. In 2012/13 there were three complaints all of which concerned a delay in service provision:-

- Delay in refund of contributions after opt out
- Delay in response and correcting an annual benefit statement
- Delay in providing an annual benefit statement

In 2013/14 there were no complaints.

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

Scheme Indicator Data

Bexley and the LPFA seek to operate in the most efficient manner possible. The DCLG publish the Government's SF3 statistics covering aspects of pension fund administration. In the latest available statistics, those for 2012/13, the administrative costs per member in Bexley were £57.38 compared to the average of £44.81 in outer London. The main reason for the variation is the smaller membership in Bexley as the total amount spent was at the level of the outer London average. Investment management costs were £95.89 per member compared to the average of £110.94 in outer London.

Fund Membership

The membership of the Fund has steadily increased over the last five years.

	31.3.10	**31.3.11**	**31.3.12**	**31.3.13**	**31.3.14**
Employees in the Fund	4,742	4,593	4,470	4,600	4,788
Deferred Pensioners	3,319	3,466	3,612	3,783	3,972
Pensioners in the Fund	3,877	4,025	4,207	4,291	4,558
Total	11,938	12,084	12,289	12,674	13,318

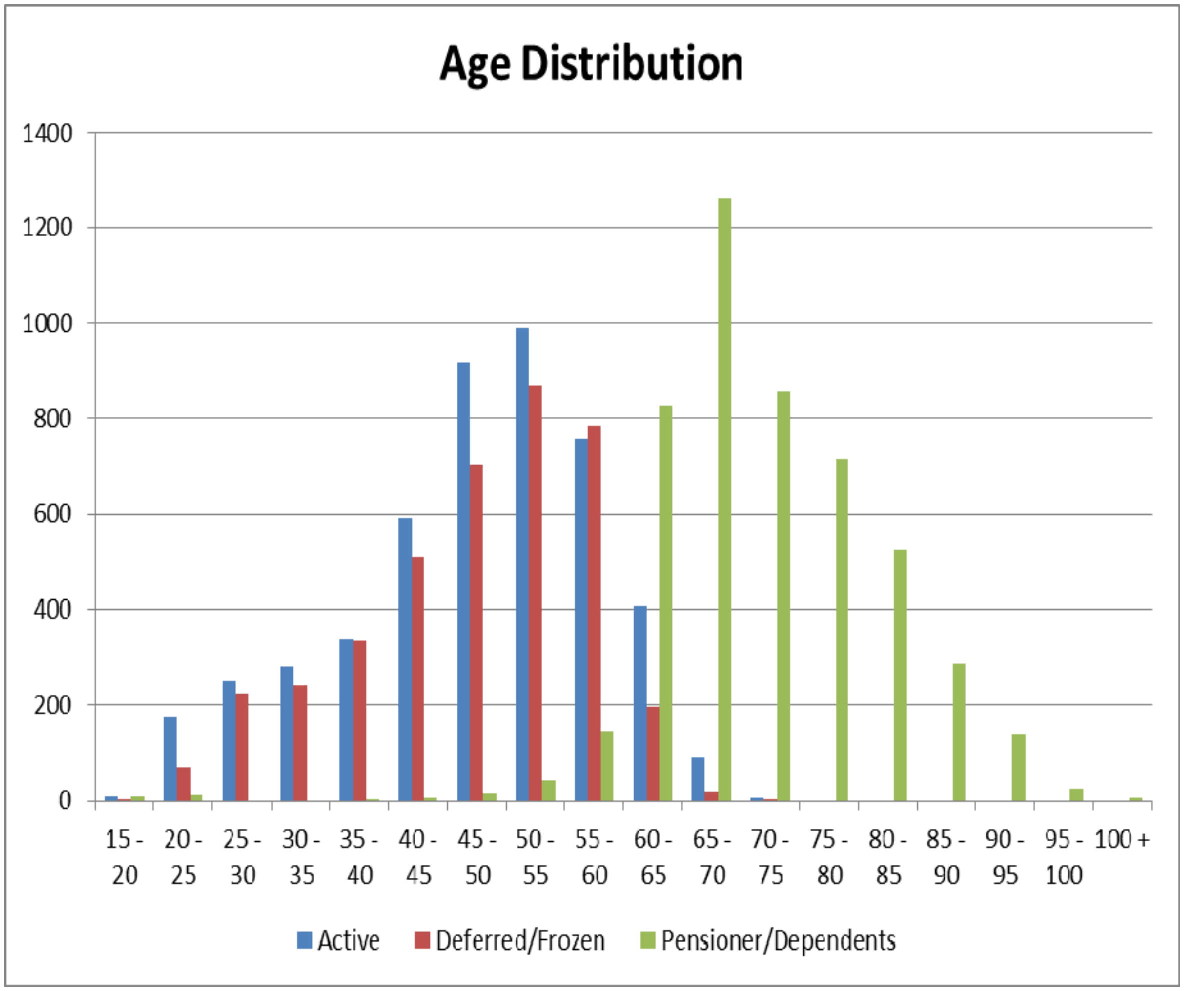
In addition there are a number of people who are no longer accruing service and to whom a refund of contributions may be due:-

Undecided Leavers	572	564	556	443	298

The number of pensioners receiving an element of enhanced retirement benefits at the end of the last two years was:-

Reason for enhancement	31 March 2013	31 March 2014
Efficiency	87	86
Employer's consent	35	35
Ill Health	494	495
Redundancy	425	431
Total	1,041	1,047

The membership at 31 March 2014 may also be analysed by age bandings, and these are shown graphically below:-



Contributions into the Scheme

The table in Appendix 1 provides an analysis of the contributions due in 2013/14 from each employer in the Fund. The employee contributions are split by employee contribution band.

SCHEME ADMINISTRATION

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

The Fund's website at www.yourpension.org.uk/bexley is maintained by the LPFA under their contract with the Council. This website provides full details of the LGPS itself, all the Fund's annual reports, statements and other publications, and information for employees, pensioners and employers. It also offers an online pensions calculator and online forms for members and employers to use.

The contract with the LPFA is carefully monitored to ensure that the services provided are to the expected standards. Monthly and quarterly service meetings are held at which reports on service transactions are reviewed and customer service surveys considered. The LPFA uses the local government pensions software, Altair, produced by Heywood Ltd. The LPFA allocate a total of 2.0 full time equivalent staff to the Bexley contract, but these come from a wide range of expertise that would not be available locally.

The Fund and the LPFA operate to a customer charter which is displayed on the website. If complaints cannot be settled by correspondence there is an Internal Disputes Resolution Procedure. The full procedure is on the website, but essentially it is a two stage complaint process. Written complaints are first considered by a person nominated by the organisation that took the decision. If this does not solve the problem a second stage review can be carried out by a person not involved in the first stage decision. Should this again not satisfy the complainant then the case can be taken to the Pensions Ombudsman. In 2013/14 no cases in Bexley were dealt with by the Internal Disputes Resolution Procedure.

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

Scheme details

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

Contributions

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

The employee contribution rates are tiered over full-time equivalent salary bands and range between 5.25% and 7.5% of gross pay. From 1st April 2014 tier and rate changes affect higher earners, see 'Scheme Changes' below.

Annual Pension

The current Scheme is based on final salary, which means benefits are normally based on the final year's pensionable pay and the number of years in the Scheme .

For each year in the Scheme you receive a pension of 1/60th of your final year's pensionable pay.

Final pensionable pay x 1/60 x Membership Period

Once the pension is in payment it will increase each April in line with the increase in the relevant Price Index (as at the preceding September).

From 1st April 2014 the pension benefit moves to a career average basis as detailed in 'Scheme Changes'.

Lump Sum

Annual pension can be exchanged for a one off tax-free cash payment. For each £1 of pension surrendered you will receive £12 lump sum, up to a limit of 25% of the capital value of your pension benefits.

Mrs A is 65 and has 20 years half-time membership in the Scheme.

Her final year's pensionable pay is £15,000.

Her annual pension is:

(20 years X ½) X 1/60 X £15,000 = **£2,500**

If she decided to give up £500 pension for a cash lump sum, then

Her reduced annual pension is:

£2,500 less £500 = **£2,000**

To give a **tax free lump sum** of:

£500 X 12 = **£6,000**

Ill-Health

The scheme operates a tiered ill-health retirement package if you have to leave work at any age due to permanent ill health. You could receive immediate benefits, which may be increased if you are unlikely to be capable of gainful employment within 3 years of leaving.

Retirement and Redundancy

If you are made redundant or retired on business efficiency grounds and you are aged 55 or over you could receive early payment of benefits.

From April 2014 you can choose to leave and draw your pension anytime from age 55 – but the longer you work the more your pension will be.

Your pension will be reduced if you choose to retire before your normal pension age and increased if you retire later.

Normal pension age for your new scheme pension won't be fixed at 65 as in the current scheme, it will be the same as your state pension age – with 65 as the earliest age. As your state pension age increases, so will your LGPS pension age.

The Scheme offers flexible retirement from age 55 if you reduce your hours, or move to a less senior position. Provided your employer agrees, you can draw some or all of your benefits – helping you ease into your retirement.

Family Cover

The Scheme provides Life cover from the moment you join, with a lump sum of 3 years pay paid if you die in service. To name a recipient you should complete an expression of wish form - please see website for more details.

The Scheme also covers your family, with a pension for your husband, wife, registered civil partner or nominated co-habiting partner and for eligible children if you die in service or die after leaving with a pension entitlement. Co-habiting partners must be nominated by the member and satisfy certain conditions to qualify for benefit. For more details or to obtain a nomination form contact the Bexley Pensions Team or visit the Bexley pensions website.

Scheme Changes

The Scheme has changed for service occurring after 1 April 2014. If you've retired or left before then, there is no change to your pension.

From 1st April 2014 for each year in the new scheme you build up a pension based on your pay in that year. Every year you get a pension that's equal to a 49th of your pay added into your pension account plus inflation increases, so your pension account keeps up with the cost of living. This is known as a Career Average Revalued Earnings (CARE) basis rather than the final salary basis used previously. However all benefits built up in the scheme prior to 1st April 2014 are protected. They will remain based on final salary and the normal pension age in the old scheme.

Pension contribution pay bands have changed in the new scheme. Whilst the average cost for employees remains at 6.5% of pay, from April 2014 the rates for the higher earners have increased. In addition, contribution rates are now based on your part time pay instead of the full time equivalent.

ACTUARIAL POSITION

The Fund actuary's statement on the level of funding at the last triennial valuation is included in the statement of accounts, which is included later in this report in Appendix 3. The summary from the actuary's triennial valuation report is reproduced below:-

"An actuarial valuation of the Bexley London Borough Pension Fund has been carried out as at 31 March 2013.

The key conclusions from the valuation are:

- The Fund showed a deficit of £81m at the valuation date based on the assumptions made for calculating its funding target. This measure compares the Fund's assets with the value of the past service benefits at 31 March 2013. It represents a funding level of 87% relative to the Fund's funding target.
- Based on the assumptions made for assessing the cost of future accrual, the Common Contribution Rate (i.e. the average employer contribution rate in respect of future service only) was 15.0% of Pensionable Pay.
- If the actuarial assumptions were to be based purely on the returns available on conventional and index-linked gilts (a so-called "least risk" basis) the deficiency would have increased to approximately £346m.
- If the deficit is recovered through additional employer contributions over a 14 year period then the employer contribution rate required to meet the deficit emerging from the valuation is 8.6% of Pensionable Pay per annum.
- The required overall average employer contribution rate is 21.5% of Pensionable Pay subject to any transitional phasing arrangements in accordance with the FSS. Contributions for each separate employer will be levied generally as a combination of a percentage of payroll in respect of future accrual of benefits and £s amounts in respect of deficit contributions under the recovery plan. These contributions will commence from 1 April 2014.
- The recommended employer contributions for the period 1 April 2014 to 31 March 2017 are set out in this report. Employee contributions are payable in addition to the employer contributions. These contributions are adequate to meet the funding objective based on the actuarial assumptions detailed in this report. No additional contributions are required from employers to meet scheme expenses since allowance for these are included in the recommended contributions.
- A partial allowance has been made in the employer contributions for certain employers in relation to the anticipated costs of non-ill health early retirements over the 3 years from 1 April 2014. Additional capital contributions will be paid on top of the rates shown in respect of non-ill health early retirements in excess of the allowances."

The actuary's full valuation report may be found on the Fund's website. The key reasons for the movements in assets and liabilities are discussed in section 3.2 of the actuary's report.

The Fund receives a quarterly estimate of its updated funding level from its investment advisor.

The Pensions Committee also considers an annual report on early retirement which includes a comparison of experience of early and ill-health retirements with those assumed in the valuation, together with full analysis of all retirements in the year. A separate longevity analysis is completed as a prelude to each triennial valuation.

Employer	Employee Contribution Rate							Total Employees £'000s	Total Employers £'000s
	5.5%	5.8%	5.9%	6.5%	6.8%	7.2%	7.5%		
London Borough of Bexley	45	411	565	1294	743	390	111	3,559	11,100
Barnehurst Infant School		2		1				3	10
Barnehurst Junior School		2		1				3	10
Belvedere Junior School		8	5	2				15	52
Beths Grammar School		5	17	23	12			57	169
Bexley College	2	5	37	36	15	9		104	274
Bexley Grammar School	1	4	17	25	6			53	186
Bexleyheath Academy		10	29	26	10			75	255
Blackfen School for Girls		5	18	29	7			59	188
Bursted Wood Primary School		3	1	2				6	21
Chislehurst and Sidcup Grammar School		6	14	4	6			30	106
Christ Church Primary	2	3	8					13	42
Cleeve Park School		11	21	17				49	161
East Wickham Primary Academy	1	13	11	7				32	103
Erith School		6	45	46	3	6		106	355
Harris Academy Falconwood	4	11	10	17				42	80
Hope Community School	1			1				2	5
Hurst Primary School	1	4	4	3				12	39
Hurstmere School	1	10	11	15	6			43	140

Pelham Primary School		9	2	3	3			17	54
Sherwood Park Primary School		3	1					4	15
St Augustine of Canterbury Primary School		3	3	4				10	32
St Catherine's Catholic School		10	11	15		4		40	131
St Columba's Catholic School for Boys		3	13	16	6			38	119
Townley Grammar School		7	14	30	4			55	177
Trinity Church of England School, Belvedere		11	10	23	5	6		55	169
Welling School		1	7	36	5	3		52	185
Woodland Academy Trust	3	16	27	18		8		72	207
Avante Partnership		8	11	8	3			30	190
Bexley Heritage Trust		2		11	3	5		21	36
Blenheim CDP				6				6	6
Business Academy Bexley	14	6	17	45	10	9		101	182
Capita Business Services Ltd				2				2	1
Caterlink								0	0
Danson Youth Trust		1						1	3
Inspire Community Trust		1	7	20	4	7		39	95
Kier Street Services Ltd			10	16				26	41
London & Quadrant Housing Trust				2		5		7	60
MCCH Society Ltd			1					1	79
Mytime Active			1					1	3
Orbit South Housing Association								0	64

Rose Bruford College			5	32	6	17		60	161
Serco Ltd			12	175				187	-46
Wilson James Ltd		3		2				5	-22
								5,093	15,238

GOVERNANCE COMPLIANCE

The Pension Fund's full Governance Compliance Statement is shown below.

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

Pensions Committee		Attendance
Councillor John Waters	Chairman	4/4
Councillor Colin Tandy	Vice Chairman	4/4
Councillor Cheryl Bacon		3/4
Councillor Nigel Betts		4/4
Councillor Alan Deadman		3/4
Councillor Don Massey		3/4

Observers		
Susan Clark	Employee Representative	4/4
Julia Peacock	Pensioners' Representative	4/4
Jacqui Sedgwick	Admitted Bodies' Representative	2/4

In addition to the main Committee meetings there was one meeting of the Pensions Investment Sub-Committee held to select the investment advisor. This was attended by Councillors John Waters, Cheryl Bacon, Alan Deadman, and Don Massey.

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

The Committee considered and granted one application for early release of pensions benefits on compassionate grounds during the year. This is one of the discretions allowed under the LGPS and delegated to the Committee.

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

Knowledge and Skills

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

Knowledge and Skills Policy Statement

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

The Committee has, therefore, agreed that:-

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

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

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

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

Activity in the Year

Over the course of 2013/14, Members of the Pensions Committee attended the following courses and seminars:-

- Aon Hewitt LGPS Seminar – April 2013
- Standard Life Trustee Investment Seminar – June 2013
- LGC Investment Summit – September 2013
- Standard Life Annual Investment Seminar – November 2013
- Newton Investment Conference – November 2013
- UBS First Steps Training – November 2013
- LGC Investment Seminar – February 2014

Briefing sessions for Members have been conducted on:-

- An Efficient Mandate (by Aon Hewitt)
- Emerging Markets (by Investec Asset Management)
- Governance Arrangements for LGPS Funds (by Aon Hewitt)

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

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

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

London Borough of Bexley Pension Fund

Governance Compliance Statement

Background

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

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

Delegation of Pension Fund Management and Administration

The Council has delegated its pension fund management and administration functions to the Pensions Committee.

Pensions Committee Meetings

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

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

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

Orders of Reference and Delegated Powers

The Orders of Reference for the Pensions Committee are:

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

The Delegated Powers of the Pensions Committee are as follows:

- To agree the investment strategy having regard to the advice of the Fund's managers and the independent adviser.
- To determine the Fund management arrangements and appointments of Fund Managers and Fund Advisers.

- To agree to the admission of bodies into the Council's Pension Scheme.
- To agree discretionary payments in respect of pension and retirement matters.
- To agree actuarial valuations

The Pension Fund operates under the Local Government Pension Scheme and publishes separately its Statement of Investment Principles, Funding Strategy Statement and Communications Policy Statement.

Committee Membership

The committee consists of six Members, with its membership allocated broadly in proportion to party political representation on the full Council. The Committee also has three observers representing

- Admitted and scheduled bodies,
- Pensioners, and
- Employees

although these observers do not have voting rights.

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

Training sessions are made available to Members and observers to assist them in making informed investment decisions and to keep them informed on other matters concerning the Local Government Pension Scheme. A training budget is specifically provided for members and observers on the Pensions Committee, and they are able to reclaim expenses incurred in undertaking training and attending seminars. A log is kept of all training undertaken.

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

Pensions Investment Sub-Committee

This Sub-Committee has been established to assist the Pensions Committee in its work, and has the following Orders of Reference:-

- To advise the Pensions Committee on medium-term asset allocation.
- To consider short-term asset allocation changes proposed by the investment advisors.
- The appointment of Fund Manager(s).

- The appointment of Investment Advisor(s).

and Delegated Powers:-

- To agree short-term asset allocation changes within ranges set by Pensions Committee.
- To appoint Fund Manager(s) for investments.
- To appoint Investment Advisor(s).

Advice and Monitoring

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

The investment managers present to the Committee at regular intervals on the implementation of the investment policy. In between Committee meetings they report to the Director of Finance and Resources on investment policy. The Pension Fund's performance is regularly assessed by an independent performance review organisation. The Fund's procedures are subject to audit and scrutiny by both the Council's internal audit team and by external auditors, Grant Thornton.

Compliance

The Pension Fund complies with all the best practice principles issued under regulation 55(1)(c) of the LGPS Regulations 2013 with the exception of:-

Principle B(a)(iii). Independent Professional Observers are not offered the opportunity to be represented on the Pensions Committee as it is felt that the existing membership of the Committee, including observers representing admitted bodies, pensioners and employees, cover the full spectrum of key stakeholders within the Pension Fund. The Committee takes professional advice on management and investment matters where necessary.

This statement updated in September 2014.

STATEMENT OF ACCOUNTS

Statement of Responsibilities for the Pension Fund Accounts

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

The Director of Finance and Resources is responsible for the preparation of the Pension Fund Accounts in accordance with proper practices as set out in the CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice).

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

(1) selected suitable accounting policies and applied them consistently,

(2) made judgements and estimates that were reasonable and prudent,

(3) complied with the Code of Practice.

Also, the Director of Finance and Resources has:-

(1) kept proper accounting records which were up to date,

(2) taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Statements of the Director of Finance and Resources

The required financial statements for the pension fund appear on pages 39 to 64 and have been prepared in accordance with the accounting policies set out on page 44.

The Pension Fund Accounts present a true and fair view of the financial position of the Pension Fund at the accounting date and its income and expenditure for the year ended 31 March 2014.

Michael Ellsmore

Director of Finance and Resources

24 September 2014

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF THE LONDON BOROUGH OF BEXLEY ON THE PENSION FUND FINANCIAL STATEMENTS

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Pension Fund Account, the Pension Fund Net Assets Statement and the related notes

This report is made solely to the members of the London Borough of Bexley in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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 Director of Finance and Resources and the auditor

As explained more fully in the Statement of Responsibilities for the Pension Fund Account, the Director of Finance and Resources 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 the London Borough of Bexley, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of only the Investment Policy and Performance, Management and Financial Performance, Scheme Administration, and the Actuarial Position.

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

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of the London Borough of Bexley for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

26th September 2014

Pension Fund Account

2012/13 £'000		Note	2013/14 £'000
	Dealings with members, employers and others directly involved in the scheme		
-20,348	Contributions	6	-20,331
-1,160	Transfers in from other pension funds	7	-1,622
-21,508	**Total contributions**		**-21,953**
24,286	Benefits	8	26,828
1,563	Payments to and on account of leavers	9	2,806
727	Administrative expenses borne by the scheme	10	808
26,576	**Total benefits and administration expenses**		**30,442**
5,068	**Sub-total: Net additions (-) / withdrawals from dealings with members**		**8,489**
	Returns on investments		
-12,070	Investment income	11	-12,529
452	Taxes on income	11	553
-68,780	Profit (-) and losses on disposal of investments and changes in value of investments	12	-34,538
1,216	Investment management expenses	15	1,650
-79,182	**Sub-total: Net returns on investments**		**-44,864**
-74,114	**Net increase (-) / decrease in the net assets available for benefits during the year**		**-36,375**

Pension Fund Net Assets Statement

31.3.2013 £'000		Note	31.3.2014 £'000
559,051	Investment Assets	12	614,367
0	Investment Liabilities	14	-1,040
0	Borrowings		0
0	Long Term Liabilities	16	-17,700
1,884	Current Assets	17	1,924
-1,060	Current Liabilities	18	-1,301
559,875	**Net assets of the scheme available to fund benefits at the period end**		**596,250**

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the fund. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme accounting year. The actuarial position of the scheme, which does take into account such obligations, is detailed in note 26 below.

Notes to the Financial Statements

1 Introduction to the Fund

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

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

(a) General
The fund is governed by the Superannuation Act 1972. It is administered in accordance with the detailed regulations of:
~ the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
~ the LGPS (Administration) Regulations 2008 (as amended)
~ the LGPS (Management and Investment of Funds) Regulations 2009

New regulations were introduced during 2013/14, but they cover service in the scheme after 1 April 2014. They were:
~ the LGPS Regulations 2013
~ the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014

It is a contributory defined benefit pension scheme, and operates to provide pension benefits for employees of the London Borough of Bexley and its scheduled and admitted bodies. Teachers are not included as they come within another national pension scheme.
The fund is overseen by the Pensions Committee of the London Borough of Bexley.

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

The Scheduled Bodies (bodies whose staff are automatically entitled to be members of the fund) are:-
London Borough of Bexley (Administering Authority)
Barnehurst Infant School
Barnehurst Junior School
Belvedere Junior School
Beths Grammar School
Bexley College
Bexley Grammar School
Bexleyheath Academy
Blackfen School for Girls
Bursted Wood Primary School
Chislehurst and Sidcup Grammar School
Christ Church Primary
Cleeve Park School
East Wickham Primary Academy
Erith School
Harris Academy Falconwood
Hope Community School
Hurst Primary School
Hurstmere School
Pelham Primary School

Sherwood Park Primary School
St Augustine of Canterbury Primary School
St Catherine's Catholic School
St Columba's Catholic Boys School
Townley Grammar School
Trinity Church of England School, Belvedere
Welling School
Woodland Academy Trust

The Admitted Bodies (bodies whose staff are entitled to be members of the fund because of an agreement between that body and the Fund) are:-

Avante Partnership
Bexley Heritage Trust
Blenheim CDP
Business Academy Bexley
Capita Business Services Ltd
Caterlink
Danson Youth Trust
Inspire Community Trust
Kier Street Services Ltd
London and Quadrant Housing Trust
MCCH Society Ltd
Mytime Active
Orbit South Housing Association
Rose Bruford College
Serco Ltd
Wilson James Ltd

Numbers for employers and employees in the fund are:

31 March 2013		**31 March 2014**
33	Number of employers with active members	44
	Number of employees in the fund	
3,280	London Borough of Bexley	3,189
1,320	Other employers	1,599
4,600	*Total*	*4,788*
	Number of pensioners in the fund	
3,860	London Borough of Bexley	4,074
431	Other employers	484
4,291	*Total*	*4,558*
	Number of deferred pensioners in the fund	
3,338	London Borough of Bexley	3,412
445	Other employers	560
3,783	*Total*	*3,972*

Over the last five years membership numbers have increased:

Membership Analysis 31 March 2010- 31 March 2014

	31.3.10	**31.3.11**	**31.3.12**	**31.3.13**	**31.3.14**
Employees in the Fund	4,742	4,593	4,470	4,600	4,788
Deferred Pensioners	3,319	3,466	3,612	3,783	3,972
Pensioners in the Fund	3,877	4,025	4,207	4,291	4,558

(c) Funding

In 2013/14, the Fund was financed by contributions from employers and employees and by income from investments. Employees make a contribution to the Fund at a percentage of their pensionable earnings and emoluments; this ranges from 5.25% to 7.5% depending on the level of their earnings. The employers' contributions are in accordance with the advice of a professionally qualified actuary and have been set so that the Fund will be able to meet the cost of current and estimated future retirement benefits. The most recent valuation is in respect of 31 March 2013 and shows a funding level of 87% (2010 was 87%). The deficit on the fund will generally be recovered over a period of 14 years. The Council's contribution in 2013/14 was 20.6% of payroll (20.6% in 2012/13). Other bodies employer's future service contributions in 2013/14 varied between 11.7% and 26.9% but they also pay a separate lump sum deficit funding contribution. Further details on the funding and actuarial positions are shown in notes 25 and 26.

Financial Analysis 2009/10 – 2013/14

	2009/10	**2010/11**	**2011/12**	**2012/13**	**2013/14**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Contributions to the Scheme	-24,570	-26,323	-22,222	-21,508	-21,953
Benefits Paid and Admin Expenses	24,949	24,585	28,932	26,576	30,442
Net Return on Investments	-121,735	-37,405	-5,660	-79,182	-44,864
Net Increase (-) / Decrease in Year	**-121,356**	**-39,143**	**1,050**	**-74,114**	**-36,375**
Value of Fund Brought Forward	326,312	447,668	486,811	485,761	559,875
Value of Fund Carried Forward	447,668	486,811	485,761	559,875	596,250

The Fund publishes a separate Annual Report for the Pension Fund, which includes the Statement of Investment Principles, and other documents, and these can be obtained from the Finance Department, Bexley Civic Offices, 2 Watling Street, Bexleyheath, Kent DA6 7AT or from the Pension Fund's website www.yourpension.org.uk/bexley

2 Basis of Preparation

These financial statements summarise the fund's transactions for the 2013/14 financial year and its position at the year end of 31 March 2014. They have been prepared in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting 2013/14, and with the guidelines set out in Section 2 of the Statement of Recommended Practice for Financial Reports of Pension Schemes 2007. The CIPFA Code is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

3 Accounting Policies

Accrual Basis

The accounts have been prepared on the accruals basis. This means that income and expenditure is recognised as it is earned or incurred, not when it is received or paid. The exception to this is transfer values which are accounted for on a cash basis.

Regular contribution income from both members and employers is accounted for at the rate certified by the fund actuary for the payroll period to which it relates. Pensions strain contributions for admitted and scheduled bodies are accounted for in the year in which the liability arises, and any amounts unpaid show as current financial assets.

Pensions, benefits, administrative and investment management expenses payable include all amounts due as at the end of the financial year. Any amounts unpaid show as current liabilities. Costs of the external pension fund administrator and other suppliers are charged direct to the fund, whereas internal staff, accommodation and other overhead costs are apportioned to the fund on a monthly basis. The fees of the external investment managers are mainly based on the market value of the funds they invest and will increase or decrease with the value of their investments. A performance related element has been negotiated with some of the managers - this amount will also vary from year to year and may need to be estimated at year end.

Interest income is also recognised as it accrues. Dividend income is accounted for on the date the shares are quoted ex-dividend, and distributions from pooled funds are recognised at the date of issue. Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund, and are calculated in accordance with LGPS regulations. The timing of these receipts and payments depends on factors such as confirmation of instructions from members and the administrative processes of the previous/new employer.

Basis of Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the fund.

Basis of Valuation of Investments

The values of investments shown in the net assets statement have been determined as follows:

Market-quoted investments

Where there is a readily available market price investments are valued at the last traded or bid price, depending on the convention of the stock exchange or other market on which they are quoted.

Unquoted investments

Unlisted securities or investments, which include pooled investments in property, bonds or private equity, are valued by the investment managers at a price which, in their reasonable opinion, is the most recent and reliable valuation available. The private equity fund investments are valued at fair value by the individual fund investment managers overlaid where necessary with the views of the fund of funds manager.

Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer price are published, or closing single price where appropriate. Investments with extended settlement periods reflect the latest available Net Asset Value. Where pooled investment vehicles are accumulation funds, the change in market value also includes income which is reinvested in the fund.

Foreign currency transactions

Foreign currency transactions are made using the WM/ Reuters exchange rate. Purchases and sales use the foreign exchange rate applicable on the day prior to the trade date. Stock holdings use the converted foreign exchange rate as at stock valuation date. Dividend receipts use the rate applicable on the day prior to the date the dividend is received.

Derivatives

The fund's managers use derivative financial instruments to manage exposure to specific risks arising from their investment activities, not for speculative purchases. The FTSE future is used to maintain exposure to the market rather than being held as cash holdings, and is valued on a daily basis. The future value of forward currency contracts is based on market forward exchange rates at the year end and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the fund's actuary in accordance with IAS19 and relevant actuarial standards. As permitted under IAS26, the fund has opted to disclose the actuarial present value of promised retirement benefits as a note to the net assets statement (see note 26).

Cash and cash equivalents
Cash is represented by the balance on the Pension Fund's bank account. Cash equivalents are the deposits in the Pension Fund's special interest bearing account, which is readily convertible to known amounts of cash with no risk of change in value.

Contingent liabilities
A contingent liability arises where an event has taken place that gives the Pension Fund a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Pension Fund. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. They are not recognised on the Net Assets Statement but disclosed in a note to the accounts.

Events after the Net Assets Statement date
The Pension Fund accounts were issued as part of the Statement of Accounts by the Director of Finance and Resources on 15 September 2014. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2014, the figures in the accounts and notes have been adjusted in all material respects to reflect the impact of this information. Note 20 details any such specific events.

Prepayment of Employer Contributions
In 2013/14 the London Borough of Bexley made payments in advance of £17.7m in respect of its employer's contributions to the Pension Fund for the financial years 2015/16 and 2016/17. These contributions have been treated as receipts in advance and shown as a liability within the Pension Fund.

The additional receipts have been invested as pension fund assets and are assumed by the actuary to earn similar returns to other Pension Fund assets. The risk of the extra amounts arriving in the Pension Fund at an inauspicious time for investment returns was mitigated by making the investments over a period of time between November 2013 and March 2014.

The treatment of these payments was set out clearly on the valuation certificate provided by the actuary.

Taxation
The fund is exempt from UK income tax on interest and from capital gains tax on the profit from the sale of investments. The Fund is also exempt from US withholding tax on dividends on investments and recovers withholding tax deducted in some other countries. VAT input tax is recoverable on all Fund activities through the London Borough of Bexley as the administrative authority for the Fund.

4 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 line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 26. This estimate is subject to significant variances based on changes to the underlying assumptions.

5 Major sources of estimation uncertainty

These accounts contain estimated figures that are based on assumptions made by the Council about the future or 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. The items in the accounts at 31 March 2014 for which there is a significant risk of material adjustment in the following financial year are:

Actuarial present value of promised retirement benefits

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The fund employs a professional actuary to provide expert advice about the assumptions to be used. The effects on the net pension liability of changes in individual assumptions can be measured. For example a 0.5% increase in the discount rate assumption would reduce the pension liability by £56m. A 0.25% reduction in assumed salary inflation would reduce liabilities by £5m and a one year increase in assumed life expectancy would increase the liability by around £15m.

Private equity

Private equity investments are valued by their individual fund managers. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. By the time these valuations are all received by the fund of funds manager and he has reviewed them and adjusted as necessary to fair value standards they are likely to be a quarter out of date. The total private equity investments in the accounts are valued at £45.8m. There is a risk that this investment may be under- or overstated in the accounts.

6 Contributions

2012/13		**2013/14**
£'000		**£'000**
	From Employers	
7,064	London Borough of Bexley – normal	6,990
1,821	Scheduled bodies – normal	2,230
1,084	Admitted bodies – normal	1,008
4,148	London Borough of Bexley – deficit funding	4,104
919	Scheduled bodies – deficit funding	1,054
292	Admitted bodies – deficit funding	-155
7	London Borough of Bexley – augmentation	7
0	Scheduled bodies – augmentation	0
0	Admitted bodies – augmentation	0
	From Members	
3,524	London Borough of Bexley – normal	3,467
863	Scheduled bodies – normal	1,039
510	Admitted bodies – normal	474
92	London Borough of Bexley – additional voluntary	92
7	Scheduled bodies – additional voluntary	7
17	Admitted bodies – additional voluntary	14
20,348	**Total contributions**	**20,331**

The additional voluntary contributions included above are those which are paid into the Council's pension fund to purchase additional benefits in the pension scheme.

Scheme members also make arrangements for separate investments into their personal Additional Voluntary Contribution (AVC) accounts with an AVC provider recommended by the Fund. The Fund is only involved in collecting and paying over these amounts on behalf of scheme members and the separately invested amounts are not included in these pension fund accounts in accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 no.3093). The AVC providers are Prudential and contributions are also collected for life assurance policies provided by Phoenix Life and Equitable Life.

The movement in investments during the year were:-

2012/13		2013/14
£'000		**£'000**
581	Value of funds at start of year	849
249	Employees contributions	270
7	Investment income	10
0	Transfers in	0
7	Change in market value	20
-64	Benefits paid and transfers out	-117
69	Bonus *(restatement)*	
849	**Value of funds at end of year**	**1,032**

7 Transfers in from other pension funds

All transfers in relate to individual transfers in from other schemes as there were no group transfers in these two years.

2012/13		2013/14
£'000		**£'000**
675	London Borough of Bexley	1,192
470	Scheduled bodies	356
15	Admitted bodies	74
1,160	**Total**	**1,622**

8 Benefits

2012/13		2013/14
£'000		**£'000**
20,645	Pensions	21,729
7	Augmented service	7
3,225	Commutation of pensions and lump sum retirement benefits	4,285
409	Lump sum death benefits	807
24,286	**Total**	**26,828**

These benefits can also be analysed by employing body as follows:-

22,081	London Borough of Bexley	24,128
747	Scheduled bodies	814
1,458	Admitted bodies	1,886
24,286	**Total**	**26,828**

9 Payments to and on account of leavers

2012/13 £'000		2013/14 £'000
25	Refunds of contributions	39
0	State scheme premiums	-1
1,538	Individual transfers out to other schemes	2,768
1,563	**Total**	**2,806**

These benefits can also be analysed by employing body as follows:-

1,489	London Borough of Bexley	2,621
68	Scheduled bodies	172
6	Admitted bodies	13
1,563	**Total**	**2,806**

At the year end there were liabilities of £0.69m where further transfers out had been agreed but not paid. There are also potential liabilities which cannot easily be quantified in respect of individuals transferring out of the fund where a final decision has yet to be taken.

10 Administrative expenses

2012/13 £'000		2013/14 £'000
228	Administrative services	228
434	Payroll, personnel and finance services	434
31	Actuarial services	73
21	Audit fee	21
0	Audit fee rebate	-2
13	Miscellaneous expenses	54
727	**Total**	**808**

11 Investment income

2012/13 £'000		2013/14 £'000
0	Income from fixed interest securities	0
9,352	Dividends from equities	10,164
0	Income from index-linked securities	0
2,663	Income from pooled investment vehicles	2,329
32	Interest on cash deposits	25
23	Other investment income	11
12,070		**12,529**
-452	Irrecoverable withholding tax (equities)	-553
11,618	**Total investment income**	**11,976**

12 Investment Assets

12a Changes in investments during the year

The Investment Management Agreement (IMA) with Aviva Investors, the Fund's property fund manager, was finalised in March 2013. They made changes to existing investments and new additions at the end of March 2013. Throughout 2013/14 they used further cash injections of £24.4m to expand the Fund's property portfolio. During 2013/14 new commitments were made with private equity managers Partners Group in order to maintain asset allocation in this sector as earlier investments were realised. Around £9.4m of the total £33.1m commitment was funded during the year.

As a result of these changes the fund's asset allocation changed as follows:-

31.3.2013		31.3.2014
10.3%	Bonds	9.3%
63.5%	Equities	60.8%
5.6%	Private Equity	6.5%
5.6%	Property	10.2%
13.9%	Diversified Growth	10.2%
1.1%	Cash	3.0%

The Fund's investment return for the year was a gain of 8.3%, with total assets increasing from £559.875m to £596.250m. This was better than the return on the Fund's specific benchmark of 7.0%. Stock markets were still volatile during the year but made steady progress by year end. Over a five year period the Fund's annual return was 13.8% pa compared to the average return of 13.7% pa that the benchmark would have achieved.

12b Reconciliation of movements in investments

	Value at 31.3.2013 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in Market value £'000	Value at 31.3.2014 £'000
Equities	340,959	84,152	-71,421	4,429	358,119
Pooled investment vehicles (non bond)	152,275	57,553	-36,446	9,162	182,544
Pooled investment vehicles (bond)	56,754	633	-479	-254	56,654
Derivatives	988	218,283	-217,244	-980	1,047
	550,976	**360,621**	**-325,590**	**12,357**	**598,364**
Cash/temporary investments	5,297			22,505	12,659
Outstanding investment transactions debtors	2,778			799	3,344
	559,051				**614,367**
Current Net Assets/Liabilities (-)	824			17,617	623
Net Assets/Liabilities (-)	0			-17,700	-17,700
Outstanding investment transactions creditors	0			-1,040	-1,040
Net assets	**559,875**			**34,538**	**596,250**

Equivalent figures for 2012/13 were:

	Value at 31.3.2012	Purchases at cost	Sales proceeds	Change in Market value	Value at 31.3.2013
	£'000	£'000	£'000	£'000	£'000
Equities	283,609	92,129	-77,295	42,516	340,959
Pooled investment vehicles (non bond)	139,864	12,863	-11,352	10,900	152,275
Pooled investment vehicles (bond)	51,141	739	-40	4,914	56,754
Derivatives	-273	205,418	-205,418	1,261	988
	474,341	**311,149**	**-294,105**	**59,591**	**550,976**
Cash/temporary investments	4,034			12,935	5,297
Outstanding investment transactions debtors	6,296			-4,062	2,778
	484,671				**559,051**
Current Net Assets/Liabilities (-)	1,464			-58	824
Outstanding investment transactions creditors	-374			374	0
Net assets	**485,761**			**68,780**	**559,875**

The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and in sale proceeds. These include costs charged directly to the fund such as fees, commissions, and stamp duty. The total direct transaction costs incurred in 2013/14 were £257,000 (£244,000 in 2012/13). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

12c Analysis of investments

31.3.2013		31.3.2014
£'000		£'000
	Equities	
106,007	UK quoted	119,968
234,952	Overseas quoted	238,151
340,959		**358,119**
	Pooled investment vehicles	
31,291	Managed funds – UK property unquoted	62,088
15,631	Managed funds – UK fixed interest unquoted	15,768
25,524	Managed funds – Overseas fixed interest unquoted	26,075
15,599	Managed funds – UK index linked unquoted	14,811
31,962	Managed funds – Overseas limited liability partnership unquoted	45,811
77,370	Unitised insurance policy - Overseas unquoted	62,417
3	Unit trusts – UK unquoted	3
11,649	Unit trusts – Overseas unquoted	12,225
209,029		**239,198**

988	Derivatives	1,047
5,297	Cash/temporary investments	12,659
	Other investment balances	
2,778	Debtors	3,344

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

The managed funds overseas unquoted limited liability partnerships are investments in funds of private equity funds.

The unit trusts overseas unquoted are investments in the Newton Emerging Markets Fund (formerly Newton South East Asia Fund). However, all the securities held within the Newton Fund are quoted. Investments exceeding 5% within each class of security are as follows:

Asset Class / Security Name	Manager	31.3.2014 £'000	31.3.2014 % within asset class
UK Equities			
GlaxoSmithKline PLC	Newton and UBS	9,860	8.2
BP PLC	UBS	9,392	7.8
Royal Dutch Shell PLC	UBS	9,027	7.5
Centrica PLC	Newton and UBS	6,256	5.2
Vodafone Group PLC	Newton and UBS	6,086	5.1
Pooled Investment Vehicles - Unit Trusts			
Newton Emerging Markets Exempt Fund (formerly Newton South East Asia Fund)	Newton	12,225	100.0
Pooled Investment Vehicles - Managed Funds			
BlackRock Bond Fund	BlackRock	30,579	18.6
Newton Global Dynamic Bond Fund	Newton	26,075	15.8
Partners Group Global Value 2011	Partners	16,587	10.1
Partners Group Global Value 2006	Partners	11,740	7.1
WELPUT Property Fund	Aviva	9,170	5.6
Pooled Investment Vehicles – Unitised Insurance Policy			
Standard Life Global Absolute Return Strategy	Standard Life	62,417	100.0

Equivalent figures as at 31st March 2013 were as follows:

Asset Class / Security Name	Manager	31.03.13 £'000	31.03.13 % within asset class
UK Equities			
GlaxoSmithKline PLC	Newton and UBS	11,028	10.4
BP PLC	UBS	8,567	8.1
Royal Dutch Shell PLC	UBS	7,275	6.9
Centrica PLC	Newton and UBS	5,534	5.2

Pooled Investment Vehicles - Unit Trusts			
Newton Emerging Markets Exempt Fund (formerly Newton South East Asia Fund)	Newton	11,649	100.0
Pooled Investment Vehicles - Managed Funds			
BlackRock Bond Fund	BlackRock	31,230	26.0
Newton Global Dynamic Bond Fund	Newton	25,524	21.3
Partners Group Global Value 2006	Partners	12,916	10.8
Partners Group Global Value 2011	Partners	10,503	8.8
WELPUT Property Fund	WELPUT	10,296	8.6
Partners Group Global Value 2008	Partners	8,543	7.1
Standard Life Shopping Centres Fund	Standard Life	7,029	5.9
Pooled Investment Vehicles – Unitised Insurance Policy			
Standard Life Global Absolute Return Strategy	Standard Life	77,730	100.0

12d Analysis of derivatives

A significant proportion of the fund's quoted equity portfolio is in overseas stock markets. In order to reduce the volatility associated with fluctuating currency rates, the fund's global equity manager (Newton) enters into forward foreign currency contracts. There were no foreign currency contracts open at 31 March 2014. The fund's UK equity manager (UBS) used a FTSE future contract in place of cash towards the year end pending reinvestment in stocks as opportunities arose. The only contract that was open at 31 March 2014 was a £1.039m forward purchase of FTSE 100 Index Future in March 2014 for June 2014 valued at £1.047m as at 31 March 2014.

12e Investments analysed by fund manager

31.3.2013			31.3.2014	
£'000	**%**		**£'000**	**%**
298,102	53.3	Newton Investment Management Ltd	308,994	50.4
87,571	15.7	UBS Global Asset Management Ltd	102,520	16.7
0	0	Aviva Investors	62,708	10.2
77,370	13.8	Standard Life (GARS)	62,417	10.2
31,962	5.7	Partners Group	45,811	7.5
31,779	5.7	BlackRock Bond Fund	30,877	5.0
12,590	2.3	Standard Life	0	
10,296	1.9	WELPUT	0	
4,686	0.8	Threadneedle	0	
3,972	0.7	BlackRock Property	0	
723	0.1	X-Leisure/Aviva custody account	0	
559,051			**613,327**	
824		Current Net Assets/Liabilities (-)	623	
0		Employer contributions prepayment	-17,700	
559,875		**Net assets**	**596,250**	

The figures above include the managers' cash allocation.

12f Investment Risk

By their nature most of the investments made by managers on behalf of the Pension Fund do carry a level of risk. The ultimate risk is that of a loss in the value of those investments. As benefits are determined by legislation, the deficit would be made good by increases in employer contributions following the next actuarial valuation.

The Funding Strategy Statement covers the detail of the investment strategy. The overall asset allocation is set with advice from the Fund's investment advisors Aon Hewitt after an asset liability study has been carried out. This study projects assets and liabilities forward using a series of economic assumptions. The possible outcomes that this study generates are used to assess the likelihood of success or failure of the chosen investment strategy. Each investment strategy modelled in this way can then be compared in terms of the risk taken to achieve the forecast return. So the overall asset allocation is set taking account of the risks involved. Managers are appointed to invest each asset class and they are set appropriate risk and investment return targets which are monitored by the Pensions Committee.

In general terms the Fund seeks to address investment risk by:-

Diversifying asset allocation - the Fund invests in a range of asset classes which assists in guarding against sharp falls in a particular asset class. Nevertheless a large proportion of the Fund is invested in equities, but this is itself diversified in terms of allocations across the world and across industries.

Diversifying manager selection - the Fund has increased the number of managers it has used over the last few years. It is unlikely that any one manager can succeed in all market conditions and so managers or funds with different styles or attributes are chosen to work together for the Fund.

Alternative investments - historically the fund has invested the majority of its assets in bonds and equities. In recent years allocations have been made in Diversified Growth Funds, property and private equity.

Whilst the risk is diversified through these means, it is also true that the Fund can afford to take on a degree of risk due to its long term nature. Its funding level is determined at three yearly intervals, and the employer contribution rates are set as far as possible to be constant over time.

13 Financial instruments

13a. Classification of financial instruments

The net assets of the Fund shown in the Net Assets Statement may be analysed into the following categories of financial instruments.

31.3.2013 £'000	Financial Assets	31.3.2014 £'000
9,959	Loans and receivables	17,927
550,976	Financial assets at fair value through profit or loss	598,364
560,935	**Total**	**616,291**

31.3.2013 £'000	Financial Liabilities	31.3.2014 £'000
-1,060	Financial liabilities at amortised cost	-20,041
0	Financial liabilities at fair value through profit or loss	0
-1,060	**Total**	**-20,041**

The financial assets are disclosed at fair value and this is also their carrying value. However, the loans and receivables and financial liabilities at amortised cost are not measured at fair value even though their carrying value is equivalent to fair value. Most assets and liabilities may be classified as current as they arise primarily from trading. One liability of £17.7m at 31 March 2014 relates to advance payments of employer contributions for 2015/16 and 2016/17 and is a longer term liability.

13b Net gains and losses on financial instruments

The gains and losses recognised in the Fund Account in relation to financial instruments may be analysed as follows:-

2013/14	Financial Assets: Loans and receivables	Financial Assets: Financial assets at fair value through profit or loss	Financial Liabilities: Financial liabilities at amortised cost	Financial Liabilities: Financial liabilities at fair value through profit or loss	Total
	£'000	£'000	£'000	£'000	£'000
Interest expense		-553			-553
Losses on derecognition		-4,384		-1,456	-5,840
Total expense in Fund Account	**0**	**-4,937**	**0**	**-1,456**	**-6,393**
Interest income		37			37
Dividend income		12,492			12,492
Gains on derecognition		30,161		859	31,020
Total income in Fund Account	**0**	**42,690**	**0**	**859**	**43,549**
Gains on revaluation	43,137	10,420		190	53,747
Losses on revaluation	-1,993	-22,841	-18,981	-574	-44,389
Surplus/deficit arising on financial assets in the Fund Account	**41,144**	**-12,421**	**-18,981**	**-384**	**9,358**
Net gain / loss(-) for the year	**41,144**	**25,332**	**-18,981**	**-981**	**46,514**

2012/13	Financial Assets: Loans and receivables	Financial Assets: Financial assets at fair value through profit or loss	Financial Liabilities: Financial liabilities at amortised cost	Financial Liabilities: Financial liabilities at fair value through profit or loss	Total
	£'000	£'000	£'000	£'000	£'000
Interest expense		-452			-452
Losses on derecognition		-4,768		-665	-5,433
Total expense in Fund Account	**0**	**-5,220**	**0**	**-665**	**-5,885**
Interest income		55			55
Dividend income		12,015			12,015
Gains on derecognition		14,663		127	14,790
Total income in Fund Account	**0**	**26,733**	**0**	**127**	**26,860**
Gains on revaluation	18,532	48,841	374	1,799	69,546
Losses on revaluation	-9,193	-463	-467		-10,123
Surplus/deficit arising on financial assets in the Fund Account	**9,339**	**48,378**	**-93**	**1,799**	**59,423**
Net gain / loss(-) for the year	**9,339**	**69,891**	**-93**	**1,261**	**80,398**

13c Nature and extent of risks arising from financial instruments

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

Credit risk is the risk that counterparties to the financial instruments will fail to pay the amounts due to the Pension Fund, thereby causing financial loss. This may arise if the value of a particular stock falls substantially or if a dividend is not paid out. Investment managers will usually assess this risk when making investments on behalf of the Pension Fund. The market price of investments generally also includes a credit assessment and risk of loss into the valuations. In essence, therefore, the Fund's entire investment portfolio is exposed to some form of credit risk, except the derivatives position where the risk equates to the net market value of a positive derivative position. There is a higher credit risk involved in the Fund's allocation to private equity (7.5% at 31 March 2014 and 5.7% at 31 March 2013) but this risk is accepted as a trade off for potentially higher returns.

The Fund's custodians are tasked with ensuring that dividends are paid when due. If 5% of equity dividends had not been collected in 2013/14 then a loss of income of £508,000 would have occurred (£468,000 in 2012/13). The fund sets an annual treasury management policy for its investment of cash flow balances and deposits are not made unless they meet the credit criteria set. The fund's cash holding under its treasury management arrangements at 31 March 2014 was £113,000. This was held with NatWest Bank plc which has a Fitch long term rating of A. In overall terms the Fund’s exposure to credit risk is the carrying amount of the financial assets at 31 March 2014.

Liquidity risk is the risk that the Pension Fund might not be able to meet its payment obligations as they fall due (such as pension payments to members). The 2013/14 accounts show that the benefits and administrative expenses paid out exceeded the contributions to the Fund. The majority of the Fund’s investments were sufficiently liquid as to be sold to provide the additional cash required. The Fund operates its own separate bank account and the liquidity position is monitored on a day to day basis. The fund is also permitted to borrow for up to 90 days if its cash flow is insufficient to meet short term commitments.

The fund defines liquid assets as those that can be easily converted to cash within three months. Illiquid assets are those assets that will take longer than three months to convert to cash. As at 31 March 2014 the value of illiquid assets was £109m, which represented 18% of total fund assets (31 March 2013: £64m which represented 11% of total fund assets).

Market risk is the risk that the fair value of a financial instrument will fluctuate because of movements in market prices. Market risk may be sub-divided into interest rate risk, price risk and currency risk, although these are to some extent inter-linked. Given that there has been significant volatility in market prices arising from these three types of risk in recent years, the values used for the sensitivity calculations are nominal ones designed to show the impact of further variations occurring.

- Interest rates may vary which will impact on the valuation of fixed interest holdings. The coupon and the duration of such investments will be spread to minimise this risk. At 31 March 2014 the Fund had £56.7m invested in three bond funds (bond investments were £56.8m at 31 March 2013). If interest rates on these investments varied by 1% the impact on the fund would be £567,000 (£568,000 at 31 March 2013).
- Prices of equity and other investments will vary as the prices on the stock exchange respond to factors specific to particular stocks or factors affecting stock markets as a whole. This is mitigated by having a diverse portfolio of investments across different managers, asset classes, countries and industries. If equities, which are the largest asset class in which the Fund invests, had been priced 10% lower at 31 March 2014, the Fund valuation would have been £35.8m lower (£34.1m lower at 31 March 2013). However, in this scenario it is quite likely that bond funds would have been priced 10% higher offsetting the lower valuation by £5.7m at 31 March 2014 (£5.7m at 31 March 2013).
- Currency risk is the risk that the value of financial instruments will vary with the foreign exchange rate of pounds sterling. This particularly affects the Fund’s holdings in overseas equities. This is mitigated by the spread of investments across different countries. The manager will also take this risk into account when making investments, and would hedge the risk where thought necessary. The Fund held £238.2m overseas equities at 31 March 2014 (£235.0m at 31 March 2013), so if the exchange rate of sterling against the local currencies in which the assets were invested had varied by 10%, the valuation would have varied by some £23.8m (£23.5m at 31 March 2013).

13d Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified 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 at this level comprise quoted equities, quoted fixed securities, quoted index-linked securities and quoted unit trusts.

Level 2

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

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The values of investments in private equity are based on valuations provided by the general partners to the private equity funds which are part of the fund of funds in which Bexley's fund invests. This process is explained in more detail for each Limited Partnership (fund of funds investment arrangement) as follows:-

Level 3 private equity investments may consist of Direct and Indirect equity and debt Investments. Level 3 Indirect Investments are generally valued at the Indirect Investments' net asset values last reported by the Indirect Investments' governing bodies. When the reporting date of such net asset values does not coincide with the Limited Partnership's reporting date, the net asset values are adjusted as a result of cash flows to/from an Indirect Investment between the most recently available net asset value reported, and the end of the reporting period of the Limited Partnership. The valuation may also be adjusted for further information gathered by the Private Equity Manager during its ongoing investment monitoring process. This monitoring process includes, but is not limited to, binding bid offers, non-public information on developments of portfolio companies held by Indirect Investments, syndicated transactions which involve such companies and the application of reporting standards by Indirect Investments which do not apply the principle of fair valuation.

The main inputs into the Limited Partnership's valuation models for Direct equity and debt Investments include: EBITDA multiples (based on budgeted/forward looking EBITDA or historical EBITDA of the issuer and EBITDA multiples of comparable listed companies for the equivalent period), discount rates, capitalization rates, price to book as well as price to earnings ratios and enterprise value to sales multiples. The Limited Partnership also considers the original transaction prices, recent transactions in the same or similar instruments and completed third-party transactions in comparable instruments and adjusts the model as deemed necessary. Further inputs consist of external valuation appraisals and broker quotes.

In order to assess level 3 valuations in accordance with the Limited Partnership Agreement, the Investment Advisor reviews the performance of the Direct and Indirect Investments held on a regular basis. The valuations are reviewed on an ongoing basis by the Private Equity Manager's investment committee who report to the General Partner. The investment committee considers the appropriateness of the valuation model inputs as well as the valuation result using various valuation methods and techniques generally recognized within the industry.

The Limited Partnership utilizes comparable trading multiples in arriving at the valuation for the Direct Investments. Comparable companies multiple techniques assume that the valuation of unquoted Direct Investments can be assessed by comparing performance measure multiples of similar quoted assets for which observable market prices are readily available. The Investment Advisor determines comparable public companies based on industry, size, development stage, strategy, etc. Subsequently the most appropriate performance measure for determining the valuation of the relevant Direct Investment is selected (these include but are not limited to EBITDA, price/earnings ratio for earnings or price/book ratio for book values). Trading multiples for each comparable company identified are calculated by dividing the market capitalization of the comparable company by the defined performance measure. The relevant trading multiples might be subject to adjustment for general qualitative differences such as liquidity, growth rate or quality of customer base between the valued Direct Investment and the comparable company set. The indicated fair value of the Direct Investment is determined by applying the relevant adjusted trading multiple to the identified performance measure of the valued company.

When applying the discounted cash flow method, the Investment Advisor discounts the expected cash flow amounts to a present value at a rate of expected return that represents the time value of money and reflects the relative risks of the Direct Investment. Direct Investments can be valued by using the 'cash flow to investor' method (a debt instrument valuation), or indirectly, by deriving the enterprise value using the 'free cash flow to company' method and subsequently subtracting the

Direct Investment's net debt in order to determine the equity value of the relevant Direct Investment. The Private Equity Manager determines the expected future cash flows based on agreed investment terms or expected growth rates. In addition and based on the current market environment an expected return of the respective Direct Investment is projected. The future cash flows are discounted to the present date in order to determine the current fair value.

The values of Level 3 Direct equity Investments valued by using an unobservable input factor are directly affected by a change in that factor. The change in valuation of level 3 Direct equity Investments may vary between different Direct Investments of the same category as a result of individual levels of debt financing within such an investment. Level 3 Direct debt Investments are generally valued using a waterfall approach including different seniority levels of debt. Thus the effect of a change in the unobservable input factor on the valuation of such investments is limited to the debt portion not covered by the enterprise value resulting from the valuation. No interrelationship between unobservable inputs used in the Limited Partnership's valuation of its level 3 investments has been identified.

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

Values at 31 March 2014

Financial Assets	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Loans and receivables				
Financial assets at fair value through profit or loss	359,166	193,384	45,814	598,364
Total financial assets				**598,364**
Financial Liabilities				
Financial liabilities at amortised cost				
Financial liabilities at fair value through profit or loss				
Total financial liabilities				
Net financial assets				**598,364**

Values at 31 March 2013 (Restated)

Financial Assets	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Loans and receivables				
Financial assets at fair value through profit or loss	341,947	177,064	31,965	550,976
Total financial assets				**550,976**
Financial Liabilities				
Financial liabilities at amortised cost				
Financial liabilities at fair value through profit or loss				
Total financial liabilities				
Net financial assets				**550,976**

14 Investment Liabilities

2012/13 £'000		2013/14 £'000
0	Creditors	1,040
0	**Total**	**1,040**

These amounts represent unsettled investment transactions as at year end.

15 Investment management expenses

2012/13 £'000		2013/14 £'000
1,095	Investment manager fees	1,504
-117	Fee rebate	-98
21	Custodian fees	28
200	Advisory fees	199
17	Performance measurement services	17
1,216	**Total**	**1,650**

The fund management fees for the funds of private equity funds and property funds are not included above as they are not normally separately identified by the managers. The unit values of these funds are net of management fees. The estimated value of these management fees is £1,620,000 in 2013/14 (£1,545,000 in 2012/13). One-off fee rebates for new commitments to fund of private equity funds are included above as they were identified separately by the manager.

The fund has negotiated a performance related fee element with its global equity manager, Newton. In 2013/14 this element of the fee amounted to £0.39m (2012/13 £0.25m).

16 Long Term Liabilities

2012/13 £'000		2013/14 £'000
0	Long Term Liabilities	17,700
0	**Total**	**17,700**

These amounts represent advance payments of employer's contributions by the London Borough of Bexley in respect of financial years 2015/16 and 2016/17.

17 Current assets

2012/13 £'000		2013/14 £'000
	Contributions due from employers	
1,180	- in respect of employer	1,206
391	- in respect of members	412
9	- in respect of previous employment	7
87	Sundry debtors	186
217	Cash at bank	113
1,884	**Total**	**1,924**

These contributions due and sundry debtors can also be analysed as follows:-

50	- in respect of central government bodies	35
1,271	- in respect of other local authorities	1,341
4	- in respect of NHS bodies	2
342	- in respect of other entities and individuals	433
1,667	**Total**	**1,811**

All investment debtors are in respect of other entities and individuals.

18 Current liabilities

2012/13 £'000		2013/14 £'000
-227	Unpaid benefits	-219
-235	Sundry creditors	-277
-598	Accrued expenses	-805
-1,060	**Total**	**-1,301**

These liabilities can also be analysed as follows:-

-234	- in respect of central government bodies	-283
-37	- in respect of other local authorities	-7
0	- in respect of public corporation and trading funds	0
-789	- in respect of other entities and individuals	-1,011
-1,060	**Total**	**-1,301**

19 Administration

The Local Government Pension Scheme in Bexley is administered by the London Pensions Fund Authority on behalf of the London Borough of Bexley. The London Borough of Bexley is the administering authority for the Pension Fund.

20 Subsequent Events

In June 2014 the fixed interest and index linked bond investments with BlackRock (totalling £30.9m) were transferred to their fixed income global opportunities (FIGO) fund. There were no other material subsequent events.

21 Contingent Liabilities

The Pension Fund has a commitment to contribute a further £45.7m to the fund of private equity funds (£29.5m as at 31 March 2013; a new £16.6m commitment was entered into in March 2014) (see also note 12). These contributions will be financed from sales of existing investments. The timing for paying over this commitment over the next few years is uncertain. The overall amount invested in private equity is not expected to change significantly as new drawdowns are likely to be offset by increased distributions.

There were no other material contingent liabilities or contractual commitments at 31 March 2014, or material non-adjusting events subsequent to this.

22 Contingent Assets

One admitted body in the fund holds an insurance bond to guard against the possibility of being unable to meet its pension obligations. This bond is drawn in favour of the fund and payment will be triggered in the event of employer default. It is not clear when or how much of this bond will ever be needed.

23 Related Party Transactions

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

Information in respect of material transactions with related parties is disclosed elsewhere within the Pension Fund accounts. Of particular note is the £433,540 recharge in 2013/14 from the London Borough of Bexley to the Pension Fund included in administration costs.

The Director of Finance and Resources allocates 5% of his time to the Pension Fund. He is the only officer that is regarded as holding a key management post in respect of the Pension Fund. In 2013/14 he received salary, fees and allowances totalling £124,715 (£120,575 in 2012/13 including £8,823 in emergency planning standby payment) and benefits in kind of £1,262 (£1,262 in 2012/13), giving total remuneration of £125,977 (£121,837 in 2012/13).

The Director of Finance and Resources contributes 7.5% of his gross salary to the LGPS. The Council also pays a flat rate percentage of employees' pay as employer's contribution. In 2013/14 this contribution was £26,777 (£26,159 in 2012/13) in respect of the Director of Finance and Resources.

No Councillors of the London Borough of Bexley are members of the Local Government Pension Scheme, and neither they, nor officers, can influence the level of benefits from or contributions to the scheme as its terms and conditions are set by statute.

During the year, no Council Members or Designated Officers have undertaken any declarable transactions with the Pension Fund. Each Member of the Pensions Committee is required to declare their interests at each meeting.

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

24 Stock Lending

No stock was released to a third party during the year.

25 Funding Arrangements

The fund's actuary carries out a funding valuation every three years to set employer contribution rates for the following triennial period. The last such valuation took place as at 31 March 2013, and has recently been completed. The valuation took account of the changes to the scheme which came into effect on 1 April 2014, the main elements of which are a move to a career averaged revalued earnings basis and a 1/49th accrual rate for benefits.

The key elements of the funding policy are to:

~ enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled and admitted bodies

~ manage employers' liabilities effectively

~ ensure that sufficient resources are available to meet all liabilities as they fall due, and

~ maximise the likelihood of reaching 100% funding on an ongoing basis over the next three valuation periods subject to an acceptable level of downside risk.

At the 2013 actuarial valuation the fund was assessed as 87% funded (87% at the March 2010 valuation). This represented a deficit of £81m (£69m in 2010) at that time. Contribution rates were set for the three year period ending 31 March 2017 for scheme employers and admitted bodies. The common contribution rate (the rate which all employers in the fund pay) was set at 15.0% (12.9% in 2010).

Individual employers' rates vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2013 actuarial valuation report on the fund's website.

26 Actuarial Present Value of Promised Retirement Benefits

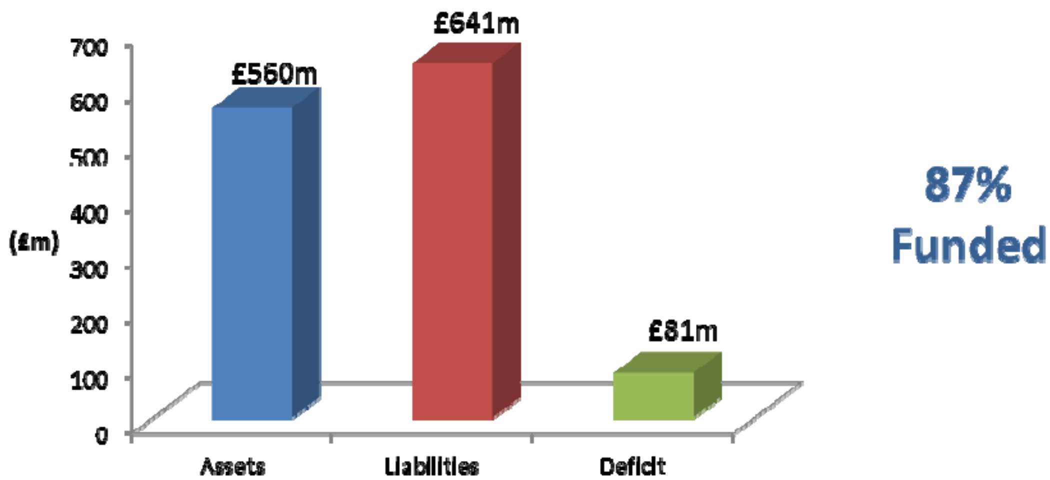
The actuary's statement for the year is shown below:-

LONDON BOROUGH OF BEXLEY PENSION FUND

Accounts for the year ended 31 March 2014 - Statement by the Consulting Actuary

An actuarial valuation of the London Borough of Bexley Pension Fund was carried out as at 31 March 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Fund's assets of £560 million represented 87% of the Fund's past service liabilities of £641 million (the "Funding Target") at the valuation date. The deficit at the valuation date was therefore £81 million.



The valuation also showed that a common rate of contribution of 15.0% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 92% with a resulting deficit of £47 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Fund, the updated deficit would be eliminated by a contribution addition of £3.8 million per annum increasing at 4.1% per annum (equivalent to approximately 5.0% of projected Pensionable Pay at the valuation date) for 14 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

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

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.95% per annum	5.6% per annum
Rate of pay increases (long term)	4.1% per annum*	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 6 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	3.9% per annum	3.9% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

* includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.5% p.a. versus 4.2% p.a.). The pay increase assumption at the year end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £749 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by *c*£46 million. Adding interest over the year increases the liabilities by *c*£31 million, and allowing for net benefits accrued/paid over the period decreases the liabilities by *c*£5 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£26 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £703 million.

Ian Kirk
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2014

FUNDING STRATEGY

The current version of the Funding Strategy Statement (FFS) is shown below:-

Amendments were made to the FSS incorporating the assumptions agreed by the scheduled and admitted bodies for the actuary to use in the triennial valuation. These amendments were agreed by the Pensions Committee in March 2014. The March 2013 version of the FSS was in use for the earlier part of the financial year.

London Borough of Bexley Pension Fund

Funding Strategy Statement (FSS)

This Statement has been prepared by London Borough of Bexley (the Administering Authority) to set out the funding strategy for the London Borough of Bexley Pension Fund (the Scheme), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 and the guidance paper issued in March 2004 (updated in October 2012) by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

Contents

1. Introduction

The Local Government Pension Scheme Regulations 2013 (“the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare this Funding Strategy Statement.

The key requirements which the Administering Authority has met in preparing this document can be summarised as follows:

- It has consulted with all relevant interested parties involved with the Scheme prior to publishing the funding strategy;
- It has had regard to :-
    - the guidance issued by CIPFA for this purpose; and
    - the Statement of Investment Principles (SIP) for the Scheme published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);

The FSS will be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the SIP.

Benefits payable under the Scheme are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended). A new Local Government Pension Scheme (LGPS) will be governed by the Local Government Pension Scheme Regulations 2013 from 1 April 2014. In the new Scheme members will earn benefits on a Career Averaged Revalued Earnings (“CARE”) basis from April 2014. There will also be a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contributions. The actuary has taken the new Scheme into account in determining employer contribution rates in the latest actuarial valuation. The required levels of employee contributions are specified in the appropriate regulations.

Employer contributions are determined in accordance with the Regulations (principally Regulation 62) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the Scheme should be set so as to “secure its solvency”, whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. Purpose of the FSS in policy terms

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

The purpose of this Funding Strategy Statement 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 requirement to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

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

3. Aims and purpose of the Pension Fund

The aims of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled and admitted bodies, subject to the administering authority not taking undue risk
- maintain fund solvency in light of the risk profile of the Fund and the risk appetite of the administering authority and employers alike
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the likelihood of reaching 100% funding on an ongoing basis over the next three valuation periods subject to an acceptable level of downside risk.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses,

as defined in the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), in the Regulations, and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

4. Responsibilities of the key parties

The **Administering Authority** should:

- operate the Pension Fund
- collect employer and employee contributions, investment income and other amounts due to the Pension Fund as stipulated in the Regulations
- pay from the Pension Fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties
- monitor all aspects of the Scheme's performance and funding and amend FSS/SIP accordingly, and
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and scheme employer.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the appropriate regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to active membership, actual or proposed, which may affect future funding.

The **Fund actuary** should:

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

The roles of the Borough's **Pensions Committee**, the Fund's **Investment Managers**, **Performance Measurement Company**, and **Investment Consultant** are noted in the SIP.

5. Solvency issues and target funding levels

To meet the requirements of the Regulations the Administering Authority's long-term funding objective for the Fund is to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing past service basis including allowance for projected final pay. In the long term, the employer rate would ultimately revert to the future service rate.

The actuary is required by the Regulations to assess the solvency of the Fund by carrying out an actuarial valuation every three years. The actuary agrees the financial and demographic assumptions to be used in each valuation with the Administering Authority.

Actuarial Valuation 2013

The key assumptions making up the funding strategy and as adopted for the 2013 actuarial valuation were:

- Asset Outperformance Assumption (AOA) is a measure of how much extra return equity (and other) investments are expected to achieve above a minimum risk portfolio of gilt investments. The valuation assumed an AOA of 1.75% for past service liabilities. For future service accrual the discount rate is assumed to be CPI inflation plus 3%.
- Salary Increases were assumed to exceed price increases by 1.50%. This includes an allowance for salary increments. The price increases are measured by the Consumer Price Index (CPI) following the use of this index for future pension increases. However, an alternative assumption for short term pay growth was assumed for relevant employers at the discretion of the Administering Authority.
- A combined Inflation Risk Premium (IRP) and assumed RPI-CPI gap of 1.0% was applied to compensate for the overstatement of likely inflation implied by the market pricing of inflation-linked gilts over CPI.
- Average normal health retirement age was increased by 1 year to reflect recent LGPS experience.
- The proportion of benefits paid to dependents was increased following the outcome of further investigations of the Fund's experience against national averages, and the likely impact of extension of benefits to unmarried partners.
- Life expectancy was increased further after adopting new mortality assumptions derived from updated data tables.

Underlying these assumptions are the following two tenets:

- that the Scheme and the major employers are expected to continue for the foreseeable future; and

- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

The current actuarial valuation of the Scheme is effective as at 31 March 2013. The actual results of the valuation indicate that overall the assets of the Scheme represented 87% of projected accrued liabilities at the valuation date.

The Administering Authority, following consultation with the participating employers, generally adopted the following objectives to achieve the funding target for the 2013 valuation:

- The deficit recovery period should be 14 years for those bodies with tax-backed revenues.
- Major changes in employer contributions could be phased in over a period of three years (one valuation period) at the Administering Authority's discretion.
- The deficit contributions from admitted and scheduled employers should be expressed as annual financial amounts to ensure that the deficit reduction is maintained if the salary base reduces.

In determining the deficit recovery period the Administering Authority had regard to:

- the responses made to the consultation with employers on the FSS principles,
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose,
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective, and
- the remaining contract period applicable to relevant admitted bodies.

For those admitted bodies with closed schemes the deficit recovery period has been set to reflect the future working lifetime of the current membership. For those employers in deficit, and where a rate reduction has emerged using the 14 year deficit recovery period, this period is adjusted to restrict the reduction in rate. These are considered more prudent courses of action for the Scheme as a whole.

Shorter recovery periods may be adopted by employers if they so wish, or applied in other circumstances at the discretion of the administering authority such as where the remaining contract period is lower.

Further detail on the actuarial valuation 2013, including the principal method and assumptions to be used in the calculation of the funding target and in the contributions payable under the recovery plan are set out in Appendix 1.

Funding Principles

Currently contribution rates for individual employers are set separately, so that they take into account the differences in characteristics of the staff employed and the recruitment and retirement policies of the bodies concerned. Investments by the Fund are deemed to apply equally to all employing bodies as all have similar long term funding objectives. These assumptions have been considered with each employing body in preparing this FSS and have been confirmed.

The Pensions Committee agreed in July 2010 that the policy of 50% direct funding of early retirement pensions (as well as 100% of all other early retirement costs) should be amended to 100% for admitted and scheduled bodies.

More recently private contractors have been admitted to the Scheme on a shared risk basis. This applies where a service has been transferred to the contractor and Council staff are transferred to them under the Transfer of Undertaking Protection of Employment (TUPE) regulations. In these cases pension risks have been shared between the contractor and the Pension Fund as follows:-

Contractor risks

- Granting early retirement and other discretions
- The cost of pay awards in excess of actuarial assumptions
- Ill health retirements for tier 2 and tier 3 cases

Pension Fund risks

- Investment performance
- General demographic trends

The contractors are required to pay the full cost of any events occurring in the risks they take on (as assessed by the actuary) as soon as they happen so that no liability for these falls on the Pension Fund. Risks arising from private sector contractors are regularly reviewed, and are taken account of in the actuarial valuation.

The contribution rates for academies have generally been assessed on a similar basis to admitted bodies. The overall contribution rate for new academies is set equivalent to that for the Council except for any cases where this would not result in the deficit being recovered in the current 14 year period.

Admission agreements may be terminated in accordance with the terms of the agreements. The administering authority considers any of the following items may trigger termination:-

- the last active member ceasing to participate in the Fund

- the insolvency, winding up or liquidation of the admitted body
- any breach of its obligations that the admitted body has failed to remedy to the satisfaction of the Fund
- any failure by the admitted body to pay any sums due within the period required by the Fund
- the failure by the admitted body to renew or adjust the level of any indemnity or bond, or to provide a satisfactory guarantor, as required by the Fund.

In these circumstances the administering authority will instruct the actuary to carry out a termination valuation to calculate the surplus or deficit arising. In order to protect the interests of the other employers in the Fund, this valuation will be carried out using least risk assumptions. The amount outstanding would be due immediately, subject to any other arrangements at the discretion of the administering authority.

The LGPS as a whole, as well as Bexley's Fund, is seeing fewer new active members as the impact of public sector funding cuts is felt. At the same time the number of actual or deferred pensioners is increasing. This results in the Fund becoming more mature. It also means that pension payments may no longer be fully met by contributions into the Fund and cash flow has to be carefully monitored. The impact of this will also be taken into account when setting employer contribution rates and deficit recovery periods.

6. Link to investment policy set out in the Statement of Investment Principles (SIP)

The results of the 2013 valuation showed the liabilities to be 87% covered by the current assets, with the funding deficit of 13% being covered by future deficit contributions.

In assessing the value of the Scheme's liabilities in the valuation, allowance was made for asset out-performance as described in Section 5, taking into account the investment strategy adopted by the Scheme, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

Investment of the Scheme's assets in line with the least risk portfolio would minimise fluctuations in the Scheme's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Scheme had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the investments. On this basis of assessment, the assessed value of the Scheme's liabilities at the 2013 valuation would have been significantly higher, by approximately 41% and the declared funding level would be correspondingly reduced to approximately 62%.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

In February 2011 the long term asset allocation was set by the Pensions Committee :-

	Benchmark %
UK Equities	15
Global Equities	45
Total Equities	**60**
Gilt Fund	2.5
Corporate Bond Fund	2.5
Dynamic Bond Fund	5
Total Bonds	**10**
Property	10
Private Equity	10
Diversified Growth Fund	10
Total Alternatives	**30**
Cash	0
Total	**100**

This asset allocation was set following consideration of the results of an asset liability study, which took the 2010 actuarial valuation into account. The actual impact of this allocation was taken into account in the actuarial valuation as at 31 March 2013. The funding strategy adopted for the valuation was based on an assumed asset out-performance of 1.75% in respect of past service liabilities and CPI inflation + 3% for future service liabilities. The Administering Authority believes that this was a reasonable and prudent allowance for asset out-performance, based on the investment strategy adopted as set out above and in the SIP.

In March 2014 a new long term asset allocation was set by the Pensions Committee :-

	Benchmark %
UK Equities	15
Global Equities	45
Total Equities	**60**
Global Bond Fund	5
Dynamic Bond Fund	5
Total Bonds	**10**
Property	10
Private Equity	7
Infrastructure	3
Diversified Growth Fund	10
Total Alternatives	**30**
Cash	0
Total	**100**

This asset allocation was set following consideration of the results of an asset liability study, which in turn took the 2013 actuarial valuation into account

7. Identification of risks and counter-measures

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

The Administering Authority has been advised by the actuary that the greatest risk to the Scheme's funding is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall 1.75% per annum assumed in the long term.

The funded nature of the LGPS is itself a risk management tool. The investments made create a reserve from which future liabilities can be met.

The **KEY RISKS** that the scheme is subject to are:-

Financial

- Investment markets fail to perform in line with expectations, either in terms of capital value or in income generation. There is a systemic risk from interlinked or simultaneous financial market volatility and macroeconomic risk.
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Risk of counterparty failure
- The failure to spread investment risk ("concentration risk") across asset classes, securities and managers.
- Each type of investment also has its own associated risks:-
    - equities are exposed to industry, country, size, and individual stock risk
    - fixed income encounters yield curve, credit, duration and market risks
    - alternative assets may incur liquidity, property or manager skill risk
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on Council Tax bills, service delivery and admitted/scheduled bodies

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- The level of take-up of the 50:50 option at a higher or lower level than built into the actuarial assumptions

Regulatory

- Changes to Regulations or major structural change such as LGPS 2014, changes to the benefits package, or new entrants to scheme (part-time employees or auto enrolment)
- Changes to national pension requirements, HM Revenue and Customs rules, or requirements of the Pensions Regulator

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements). This may manifest itself in the maturity of the scheme
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- Administering authority dealing with a changing mix or number of employers. This may arise from outsourcing services or Government initiatives (such as the establishment of academies)
- Changes in Pensions Committee membership.

COUNTER-MEASURES that the Administering Authority has taken in response to each of these risks are:-

Financial

- Consultation with the actuary and investment consultant
- Set asset allocations, active risk targets and investment control ranges
- Reviewed manager performance with advice from its performance measurement company
- Regularly compares actuarial assumptions to actual experience

Demographic

- Mortality assumptions have been amended in line with recent experience and projections
- Reports annually on early retirement policy and requires employers to meet the majority of costs directly

Regulatory

- Reporting changes to the Pensions Committee for consideration/action as necessary

Governance

- Annual reports are made including membership numbers
- Specific budget provision has been made for training of the members of the Pensions Committee and attendance at seminars is encouraged
- Training is provided ahead of each Pensions Committee meeting, and annual reports are made on the knowledge and skills training carried out
- Additional meetings of the Pensions Committee are held as necessary
- A Pensions Investment Sub-Committee has been set up to assist the Pensions Committee to carry out its work.

8. Monitoring and Review

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

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

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

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the Scheme membership, fund maturity profile, or LGPS benefits
- if there have been changes to the number, type, or individual circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- if there have been any significant special contributions paid into the Scheme.

This statement was approved in September 2014

ACTUARIAL VALUATION AS AT 31 MARCH 2013

Method and assumptions used in calculating the funding target

Method

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

Financial assumptions

Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") 1.75% per annum.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Scheme relative to the yields available on long dated gilt stocks as at the valuation date.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market, and
- due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index.

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

Salary increases

- The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition, an alternative assumption for short term pay growth is assumed for relevant employers at the discretion of the Administering Authority.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the RPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Demographic assumptions

Mortality

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used then have a loading reflecting specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity ‘improvement’ year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum.

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

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Scheme experience carried out by the Actuary, the incidence of retirement in normal health and in ill health and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, allowing for take-up of the 50:50 option will be made up to a maximum of 10% of current and future members for certain employers (who have sufficient size of current contributing members). Other assumptions are as per the last valuation.

Expenses

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

Discretionary Benefits

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

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.0% per annum, with a long term average assumption for consumer price inflation of 2.6% per annum. These two assumptions give rise to an overall discount rate of 5.6% p.a. (i.e. 3.0% plus 2.6%).

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the "Common Rate" of contributions. In market conditions at the effective date of the 2013 valuation this approach gives rise to a slightly more optimistic stance (i.e. allows for a higher AOA) in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the "normal cost") for the 2013 actuarial valuation

Long-term gilt yields	
Fixed interest	3.2% p.a.
Index linked	-0.4% p.a.
Past service Funding Target financial assumptions	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.
Future service accrual financial assumptions	
Investment return	5.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.

Demographic assumptions

The post retirement life expectancies adopted for this valuation are as follows:

	Male Life Expectancy		Female Life Expectancy	
Membership Category	Current Assumption	Proposed Assumption	Current Assumption	Proposed Assumption
Pensioners	22.0	22.9	24.6	25.3
Actives	23.4	25.1	26.1	28.2
Deferreds	23.4	23.5	26.1	27.0

Other demographic assumptions are noted below:

Withdrawal	As for 2010 valuation
Other demographics	Based on LG scheme specific experience.
50:50 Option	Up to 10% take-up for certain employers

Assumptions used in calculating contributions payable under the recovery plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target,

INVESTMENT PRINCIPLES

The current version of the Statement of Investment Principles is shown below:-

London Borough of Bexley Pension Fund

Statement of Investment Principles

Background

Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires administering authorities to prepare and review from time to time a written statement recording the investment principles, policies and beliefs of the Pension Fund. This statement has been produced to indicate compliance or non-compliance where this exists with the Investment Governance Principles and satisfies the requirements of the regulations.

Bexley's Pension Fund is a defined benefit scheme operating as part of the Local Government Pension Scheme (LGPS) which was established by statute to provide retirement and death benefits for all eligible employees and their dependants. It is financed by contributions from employees, employers and income from investments. Employees' rates are set by statute and the employers' contribution rates are determined by the actuarial valuation of the Fund.

Contents

This is the thirteenth edition of the London Borough of Bexley's Statement of Investment Principles and is dated September 2014. Whilst the statement is intended to be a timeless document it does require minor adjustments from time to time. The statement has been updated and approved by the Pensions Committee to reflect their recent decisions.

Effective Decision Making

1.1 Delegation of Investment Management

The Council has delegated the investment management of the Scheme to the Pensions Committee. It decides on the investment policy most suitable to meet the liabilities of the Scheme, and the ultimate responsibility for the investment strategy lies with it. The implementation of this strategy is delegated to investment managers operating within agreed constraints.

1.2 Orders of Reference and Delegated Powers

The Orders of Reference for the Pensions Committee are as follows:

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

The Delegated Powers of the Pensions Committee are as follows:

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

1.3 Committee Membership

The committee consists of six Members, with its membership allocated broadly in proportion to party political representation on the full Council. Members of the Pensions Committee recognise that they have a duty to safeguard above all else the financial interests of the Fund's beneficiaries.

In this context, beneficiaries are considered to be the Fund Members (pensioners, employees and employers) together with local Council Tax payers. The Committee also has three observers representing:

- Admitted and scheduled bodies,
- Pensioners, and
- Employees

The Governance Compliance Statement provides further details in this area.

1.4 Pensions Investment Sub-Committee

This Sub-Committee has been established to assist the Pensions Committee in its work, and has the following Orders of Reference:-

- To advise the Pensions Committee on medium-term asset allocation.
- To consider short-term asset allocation changes proposed by the investment advisors.
- The appointment of Fund Manager(s).
- The appointment of Investment Advisor(s).

and Delegated Powers:-

- To agree short-term asset allocation changes within ranges set by Pensions Committee.
- To appoint Fund Manager(s) for investments.
- To appoint Investment Advisor(s).

1.5 Skills

The Pensions Committee's structure and the skills of its Members should be regularly reviewed to ensure that their roles, set out in this document, are carried out effectively.

A training plan has been devised to ensure these skills are refreshed and remain up to date. Training sessions are made available to Members to assist them in making informed investment decisions.

A knowledge and skills policy statement has been approved in accordance with the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills. Details of training provided each year are included in the Fund's annual report.

1.6 Allowances

Bexley's Members' allowances scheme provides for a basic allowance for each Member, with an additional responsibility allowance for the Chairman of the Pensions Committee. Costs of travel, subsistence and attendance at any appropriate training courses will also be met.

1.7 Advice and Support

The Pensions Committee is advised by the Director of Finance and Resources, the Head of Legal Services, the Fund's investment advisors, and the Fund's investment managers.

The internal advice to the Fund is provided by the Director of Finance and Resources in his role as the Section 151 officer. He is responsible for ensuring that the in-house team is providing adequate support to the Committee.

All reports to the Pensions Committee are reviewed by the Council's monitoring officer prior to presentation. The Council's constitution applies to the Pensions Committee and includes a process for the declaration of conflicts of interest before each meeting.

External advice is provided by the Fund's actuary and its investment advisors. The investment analysis and advice provided by the investment advisors concerns all investment related aspects of the pension fund including portfolio construction, manager monitoring and appointment as well as interpretation of performance measurement information. Contracts for actuarial services and investment advice are open to separate competition, applying the contract procedure rules of the Council. It is permissible for one company to provide both services where separate terms of reference exist. These contracts are reviewed at appropriate intervals. At that time fees are assessed on their value for money.

1.8 Business Plan

The business of the Pensions Committee is included within the Council's formal timetabling and agenda setting processes. An annual business plan is submitted to the Pensions Committee at the start of each municipal year and this also reviews achievements over the previous year. Items are also included and reported to the Committee that look beyond the current municipal year.

Committee papers are circulated to members in advance of the meeting to allow them to be read and understood.

Clear Objectives

2.1 Investment Objective

The main objective of the Fund is to maximise the likelihood of reaching 100% funding on an ongoing basis over the next three valuation periods subject to an acceptable level of downside risk. Further details of the investment strategy can be found in the Funding Strategy Statement.

In setting the overall investment objective the Council has considered the Fund's assets and liabilities and has received proper advice in the setting of a fund specific benchmark. The wording of this objective has been designed to provide a target against which progress is measurable and which is tied in to the scheme's funding level whilst acknowledging the level of risk taken.

The performance of each investment manager and the Fund as a whole will be measured against the fund specific benchmark with the aim to achieve overall outperformance of +1% pa over a rolling 3 year period, whilst maintaining an acceptable pattern of risk as defined below.

The Fund endeavours to maintain low and stable employer's contribution rates. Given the constraints on local authority spending, volatility in the employer's contribution rate is undesirable.

2.2 Funding Strategy Statement (FSS)

The FSS sets out all the factors that have been considered in arriving at the investment objective and how the investment strategy has been set in order to meet that objective. The FSS is reviewed at least every three years to tie in with the triennial actuarial valuation.

2.3 Awareness of Objectives

Investment managers and investment advisors are supplied with copies of the SIP and are required to take account of its contents in their dealings with the Pension Fund.

Risk and Liabilities

3.1 Strategy

When determining the asset allocation of the Fund the Committee will consider the extent to which the asset profile matches the Fund's liabilities within an acceptable level of risk. The Pensions Committee considers asset-liability mismatch risk as the decision that has most influence on the likelihood of achieving their investment objective.

The value of the Fund's ongoing liabilities is sensitive to various demographic (principally longevity) and financial factors. The financial factors relevant to the fund's investment policy are:

- The rate of return on assets.
- Salary escalation for active members.
- Price inflation for pensioners.
- Long-term interest rates.

The asset allocation decision will also have regard to the overall investment objective to maximise the funding level within an acceptable level of downside risk. The asset liability study will show projected investment returns for various allocations and these returns will be considered against their associated risks.

The Committee will have regard to the diversification and suitability of investments in reaching its asset allocation decisions. The asset allocation is shown in Appendix 1.

The Pensions Committee receives an annual report reviewing the appropriateness of the investment strategy.

3.2 Asset classes

The Fund managers are permitted to invest in all assets specified in the Regulations. The Pensions Committee consider a full range of investment opportunities including:

- quoted and unquoted private equity
- government and non-government bonds
- property
- alternative investments

The Director of Finance and Resources will ensure that this is reflected in the Investment Management Agreements made with the various investment managers.

3.3 Risk

The Pensions Committee regards 'risk' as the likelihood that it fails to achieve the objectives set out above and has taken several measures to minimise this risk so far as is possible. In arriving at the investment strategy, the Pensions Committee have considered the following key risks:

- Asset-liability mismatch risk (asset allocation risk)
- Need to pay benefits when due (cash-flow risk)
- Actions by the investment managers (investment risk)
- Failure of some investments (concentration risk)
- Currency risk
- Counterparty risk
- Custody risk

In terms of magnitude, the Pensions Committee considers asset-liability mismatch risk to be one of the most important to control. Therefore following each actuarial valuation, the Committee conducts an asset/liability review which focuses on the impact of asset allocation on expected future funding levels.

The Pensions Committee considers the results using advanced modelling techniques and with the assistance of expert advisers and are able to measure as well as quantify them in terms of their definitions of risk.

The process of risk management continues through to implementation. Active management risk is diversified through the use of different investment managers and pooled funds. Each investment manager appointed by the Pensions Committee is bound by the terms and conditions of an Investment Management Agreement where restrictions and targets are clearly documented, including a measure of risk.

The pooled fund investments and direct investments are governed by the terms and conditions of the fund and/or policy documents. Frequent monitoring of portfolio performance and exposure characteristics also aids in the ongoing risk management for the Fund.

The annual report and accounts of the Pension Fund include a section on how the Fund seeks to address investment risk, and also an explanation of the nature and extent of risks associated with the financial instruments held by the Fund.

3.4 Relative Risk and Statutory Requirements

The Pension Fund monitors the level of risk in order to minimise the relative risk against the fund specific benchmark. In pursuing the investment strategy the requirements of the Scheme will be met.

3.5 Stock Lending

The investment managers are permitted to undertake stock lending of up to 10% of the Fund's assets subject to the agreement of the Director of Finance and Resources.

3.6 Monitoring

The investment managers report to the Committee at regular intervals on their implementation of the investment policy. In between Committee meetings the investment managers report to the Director of Finance and Resources on investment policy. The Pension Fund's performance is regularly assessed by an independent performance review organisation.

3.7 Audit

Internal and external audit carry out annual and specific reviews of the Pension Fund as part of their regular work. This helps to ensure that effective internal control operates within the Council. Reassurance is sought from external assessments of the control procedures used by the investment managers employed by the Fund.

Performance Assessment

4.1 Appropriate Benchmarks

The Fund adopts a fund specific benchmark that is set by reference to the liability profile and funding position of the Fund. This benchmark will be regularly reviewed to respond to actuarial movements. The Committee will also consider whether an active or passive approach to investment management is appropriate.

4.2 Performance Measurement Method

The Fund uses WM Performance Services to measure performance on a quarterly and annual basis. The Council's in-house team performs monthly monitoring.

WM provide a detailed breakdown of return to distinguish between performance due to asset allocation and that due to stock selection. This covers all relevant time periods and each asset class.

4.3 Performance against the Benchmark

The return of the Fund will be measured against the weighted index return of the benchmark. Suitable benchmark indices shall be agreed with the Fund's performance-monitoring advisors. Overall performance will be measured annually over a rolling 3 year period against the benchmark.

The Fund may be compared to the WM Local Authority Average but not measured against it as the main indicator of performance.

4.4 Performance Reporting

The Fund's investment performance is assessed four times a year by the Pensions Committee. At that time the Fund's performance and any necessary reviews will be reported, external advice is provided and recommendations made. Formal assessment of performance will also include the assessments carried out by internal and external audit.

4.5 Risk Control

The risk parameters of the Fund will be monitored regularly by the managers and reported at least quarterly.

4.6 Advisors

The performance of the investment advisors is kept under review by officers and members, and taken into account when tendering their services.. There is, however, no formal performance assessment framework.

4.7 Decision Review

No formal reviews of decisions made by Members of the Pensions Committee or officer advice are undertaken. However, the ultimate test of decision making on investments is the fund’s investment performance. This is monitored quarterly against benchmark, and a more detailed look back on the effectiveness of managerial and asset allocation changes is provided by the annual review and presentation by WM Performance Services.

Responsible Ownership

5.1 Corporate Governance Policy

This policy sets out the Pension Fund's principles on activism and the guidelines that the Pension Fund's investment managers should operate within when making investment decisions.

5.1.1 General Principles

The London Borough of Bexley agrees with the principles set out by the Cadbury and Greenbury Committees following their examination of corporate governance issues, the Combined Code recommended by the Hampel Committee and the recommendations made by the US Department of Labor Interpretative Bulletin on Activism. Investment managers are expected to adopt the Financial Reporting Council's UK Stewardship Code which covers the responsibilities of shareholders and agents.

The Pensions Committee has also considered the UK Stewardship Code and has placed its Statement of compliance with the Code on its website.

5.1.2 Voting and Active Engagement

The Council expects the Fund Managers to exercise their voting rights and actively engage with the companies in which they invest in accordance with the principles set out in this statement. The managers will be expected to report on the outcome of any such actions.

5.1.3 Company Policies

The Council expects the companies in which it invests to comply with the following policies:

Board Structures

The board should be appropriately structured for the business, with a balance of executive and non-executive directors.

At least one third of the board should be non-executive directors, number three as a minimum, and the majority should be independent and identified as such in the annual report.

The roles of the chairman and chief executive should normally be separate.

Directors over normal retirement age should face re-election each year. Other directors should face re-election at least every three years. In order to achieve this one year contract periods should be the norm, with two years the maximum.

Remuneration

A remuneration committee, consisting entirely of independent non-executive directors, should control policy on the remuneration of management.

Incentive schemes should be simple and preferably be based around direct share ownership rather than options. Any options should be at market value. Meaningful performance targets should be chosen and should be relative to a peer group, sector or market index. No reward should be given for performance below median.

Audit

An audit committee should exist, with the majority of its members being independent non-executive directors. The board should maintain effective internal controls which are regularly reviewed.

Pre-emption Rights

These are basic rights of shareholders. Any proposal to withdraw more than 5% of such rights should be resisted.

Dividend Policy

A balance between dividend distribution and capital investment needs to be struck so as to maintain the value of the business. Dividends should generally be related to the level of cash flows/earnings.

5.1.4 Policy on Socially Responsible Investment

The Council's overriding duty to the members of its pension fund and Council Tax payers is to maximise financial returns within a prudent pattern of risk. Subject to complying with that duty, the Council expects its investment managers to engage actively with the companies in which they invest with a view to encouraging those companies to adopt practices and procedures in respect of social, economic, governance and environmental matters which

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

Transparency and Reporting

6.1 Pension Fund Publications

The London Borough of Bexley is keen to ensure that its Pension Fund operates in as an open manner as possible. To that end it publishes a full Annual Report which includes its major policy statements:-

- the Statement of Investment Principles,
- the Funding Strategy Statement,
- the Governance Compliance Statement, and
- the Communications Policy Statement.

6.2 Website

All the above publications are made available on the Fund's website www.yourpension.org.uk/Bexley together with further information for active members and pensioners. Agendas and reports to the Pensions Committee are also published on the Council's website www.bexley.gov.uk .

6.3 Amendments

Amendments to this document and the other policy statements will be proposed to the Pensions Committee for approval.

6.4 Liaison with Stakeholders

All publications invite feedback from members of the fund and other stakeholders. Where appropriate direct communication is made or face to face discussions are held with admitted and scheduled bodies on significant matters affecting the Fund - such as the development of the Funding Strategy Statement.

6.5 Clear Coherent Mandates

The Pension Fund Managers have explicit mandates that cover their objective, asset allocation, benchmarks, risk parameters and measurement timescales included in their contract. The managers are also governed by the LGPS Regulations, in particular in the type of financial instruments they may use.

6.6 Fee Structures

The main investment manager, Newton has a separate performance fee arrangement. They are paid a basic pro-rata fee, to which an element may be added depending upon performance.

UBS Global Asset Management are paid a fixed fee for their UK equity portfolio. The private equity manager Partners Group, operate a pro-rata fee arrangement with a performance related element. Their fees are included in the net asset values of the fund of funds investments which they manage.

Bond managers Blackrock, diversified growth managers Standard Life and property manager Aviva Investors are paid a pro-rata fee.

The investment advisors have a fixed fee structure. The fee covers advice to, and attendance at, the Committee as well as various reviews and elected Member training.

The actuary is paid a fixed fee for the triennial valuation and other specific duties, plus additional fees based on an hourly rate, as the volume of advice required is not known in advance.

6.7 Hidden Costs

The Fund managers are encouraged to make clear and justify any hidden costs namely transaction costs and soft commissions. Managers should only enter into soft commission agreements with brokers when provided with research material. These agreements should be limited in number and a clear list of the brokers involved should be reported.

Appendix 1 - Asset Allocation

	Benchmark %
UK Equities	15
Global Equities	45
Total Equities	**60**
Global Bond Fund	5
Dynamic Bond Fund	5
Total Bonds	**10**
Property	10
Private Equity	7
Infrastructure	3
Diversified Growth Fund	10
Total Alternatives	**30**
Cash	0
Total	**100**

Note: This long term asset allocation was set in March 2014.

COMMUNICATIONS POLICY

The Fund's Communication Policy Statement is shown below.

The Fund's principal method of communicating with and providing information to members and employers is the website at www.yourpension.org.uk/bexley.

In addition employers are emailed a monthly newsletter updating them on new developments and administrative requirements for the scheme. Members are able to obtain their information from the website and provide information online. Pensioners receive a personalised letter each April notifying them of their pension for the year ahead and their P60 form for the previous year.

Scheme membership is promoted by automatically enrolling new employees into the scheme as part of their employment contract.

London Borough of Bexley Pension Fund

Communications Policy Statement

Background

The Local Government Pension Scheme (LGPS) Regulations require administering authorities to prepare, publish and maintain a policy statement setting out its communication strategy for communicating with scheme members, scheme members' representatives, prospective scheme members and their employing authorities.

An effective communications strategy is vital for any organisation which strives to provide high quality and consistent service to its customers. In public service organisations particularly these processes need to be clear and open to scrutiny.

The principles and methods (the policy) to achieve effective communications are shown on the following pages.

Principles

- To provide clear and consistent information reducing the potential for confusion and uncertainty.
- To provide timely and accurate communications and a proactive information service that is factual and precise.
- To undertake customer satisfaction surveys and to act upon feedback and comment.
- To use the most appropriate communication medium for the customer audience.
- To address, where possible, the requirements of a diverse customer base with regard to information access.

Method

The administering authority will deliver its communications policy, in partnership with the London Pensions Fund Authority (LPFA - the Council's pension scheme administrators), by the following methods:

Scheme Members and Representatives

- Access to the website www.yourpension.org.uk/bexley which contains scheme details, news items, annual reports and guides to the scheme with links to other relevant organisations and the option of viewing personal details via a secure logon.
- A comprehensive range of scheme literature is available from the LPFA or accessible from the website.
- Members, including pensioners and deferred members, will be able to access the Annual Report on the website each year. This provides an overview of any changes to the scheme and a report of the Fund's performance.
- Current and deferred scheme members will receive a Benefit Statement in September each year detailing the current and prospective value of their pension benefits.
- Pensioners will be given access to their personal details and electronic payslips via the Internet enabled "MyView" system.
- An individual annual pension statement will be sent to all pensioners in April each year. This will notify them of the paydays for the next twelve months and detail their gross pension payable including any relevant pensions increase and an estimated net value.
- P60 statement of earnings will available via the internet enabled MyView system, and a paper copy will be sent to pensioners by the end of May each year - if they opt for this method.

Prospective Members

- A short scheme guide is available via the website www.yourpension.org.uk/bexley for prospective employees.
- The website also contains information relating to joining the LGPS and the right to opt-out.

Scheme Employers

- An Employer Forum will be held each year where employers will be informed on changes to the scheme and current topics of interest.
- Regular contact will be maintained to ensure prompt communication of changes to the scheme and topical issues as they arise will be featured as news items accessible via the website www.yourpension.org.uk/bexley.
- An 'employers pack' detailing the interactions between the administering authority and employers will be provided and maintained.
- Access to a secure portal for Employers via the website for transmission of data to the LPFA as and when required.

This statement updated September 2011

GLOSSARY OF PENSION TERMS

Accounting Period
The period of time covered by the accounts, normally twelve months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

Accounting Policies
The basis on which an organisation's financial statements are based to ensure that those statements "present fairly" the financial position and transactions of that organisation.

Accruals
Sums included in the final accounts to recognise revenue and expenditure earned or incurred in the accounting period, but for which actual payment had not been received or made as at the end of the period.

Active Management
A style of investment management which seeks to provide outperformance of a relevant benchmark through either asset allocation, market timing or stock selection (or a combination of these). This contrasts with passive management that seeks to replicate the performance of a selected benchmark.

Actuarial Gains and Losses
These may arise on pension scheme assets and liabilities. A gain represents a positive difference between the actuarial assumptions and actual experience (eg. liabilities during the period were lower than expected). A loss represents a negative difference between the actuarial assumptions and actual experience (eg. liabilities during the period were higher than estimated).

Actuarial Valuation
A review of the Pension Fund by a qualified Actuary, which takes place every three years to ensure that employers' contributions are sufficient to maintain the solvency of the Fund in the long-term.

Actuary
An independent qualified consultant who carries out the Actuarial Valuation and advises on new investment strategies or changes to the benefit structure.

Administering Authority
A local authority required to maintain a pension fund under LGPS regulations.

Admitted Bodies
An organisation which, under the LGPS regulations, is able to apply to the Administering Authority to join the Scheme (e.g. a contractor providing services to the Council). Upon acceptance, an Admission Agreement is prepared admitting the organisation and allowing its employees to join.

Asset
An item owned by the Pension Fund which has a value, such as investments or cash.

Asset Allocation / Asset Mix
The apportionment of a fund's assets between asset classes and/or markets. Asset allocation may be either strategic i.e. long-term, or tactical i.e. short-term, aiming to take advantage of relative market movements.

Auditor
An independent qualified accountant who is required to verify and agree the Pension Fund Accounts and issue an opinion on their accuracy.

Balance Sheet
A statement of the recorded assets, liabilities and other balances at the end of the accounting period.
Benchmark
A “notional” fund or model portfolio which is developed to provide a standard against which a manager’s performance is measured e.g. for a global equity fund the benchmark against which it will be measured could be made up 50%/50% by UK equities / overseas equities. A target return is generally expressed as some margin over the benchmark.
Bond
A certificate of debt, paying a fixed rate of interest, issued by companies, governments or government agencies.
Budget
The statement of the Pension Fund’s policy expressed in financial terms usually for the current or forthcoming year. Also known as Forecast.
Cash Equivalents
These are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash Equivalents are held for the purpose of meeting short term cash commitments rather than for investment purposes.
Chartered Institute Of Public Finance And Accountancy (CIPFA)
CIPFA is the professional accountancy institute that sets the standards for the public sector. CIPFA publishes the Accounting Codes of Practice for local government.
Code Of Practice On Local Authority Accounting (The Code)
The Code of Practice on Local Authority Accounting in the United Kingdom 2013-14: Based on International Financial Reporting Standards (the Code) aims to achieve consistent financial reporting between all English local
authorities. It is based in generally accepted accounting standards and practices.
Collateral
An asset (cash or securities) posted from one counterparty to another, and held as a guarantee against the value of a specified portfolio of trades or other transactions. Commonly referred to as margin, the collateral acts as a credit-risk mitigant. A collateral call is the demand by a derivatives counterparty for an investor to transfer cash or securities to collateralise movements in the value of a derivatives contract.
Contingent Liabilities
Potential costs that the Pension Fund may incur in the future because of something that happened in the past.
Creditors
Amounts owed by the Pension Fund for goods and services provided for which payment has not been made at the end of
the financial year.
Currency Forward
An agreement between two counterparties to buy/sell a specified quantity of the underlying currency at a specified future date. Contracts are settled in cash on the expiration date.
Custody/Custodian
Safekeeping of securities by a financial institution. The custodian keeps a register of holdings and will collect income and distribute monies according to client instructions.

Debtors
Sums of money due to the Pension Fund but not received at the end of the financial year.
Deficit
Arises when expenditure exceeds income or when expenditure exceeds available budget.
Equities
Ownership positions (shares) in companies that can be traded on public markets. They often produce income that is paid in the form of dividends. In the event of a company going bankrupt, equity holders' claims are subordinate to the claims of bond holders and preferred stock holders.
Events After The Balance Sheet Date
Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.
Exceptional Items
Material items which derive from events or transactions that fall within the ordinary activities of the Pension Fund and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.
Expected Return On Pension Assets
This is the average rate of return, including both income and changes in fair value but net of scheme expenses, which is expected over the remaining life of the related obligation on the actual assets held by the scheme.
Extraordinary Items
Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Pension Fund and which are not expected to recur. They do not include exceptional items, nor do they include prior period items merely because they relate to a prior period.
Fair Value
The price at which an asset could be bought or sold in a transaction with another organisation.
Final Pay
This is the figure used to calculate most of a member's pension benefits and is normally their pay in the last year before they retire, or one of the previous two years' pay if that amount is higher. For a part-time employee, the figure used is normally the pay they would have received had they worked whole time.
Financial Asset
A right to future economic benefits.
Financial Instrument
Any contract that gives rise to a financial asset in one organisation and a financial liability in another.
Financial Liability
An obligation to transfer economic benefits.
Fixed Interest Securities
Investments in stocks mainly issued by governments, which guarantee a fixed rate of interest.
FTSE
A company that specialises in index calculation. Although not part of a stock exchange, co-owners include the London Stock Exchange and the Financial Times. They are best known for the FTSE 100, an index of the top 100 UK companies (ranked by size).

Fund Manager
A firm of professionals appointed by the Pensions Committee to carry out day to day investment decisions for the Fund within the terms of their Investment Management Agreement.
Gilts
Bonds issued by the British government. They are the equivalent of U.S. Treasury securities
Hedging
A strategy which aims to eliminate a risk in an investment transaction (both upside and downside potential). Often used in the context of overseas investments to eliminate the impact of currency movements.
IFRS
International Financial Reporting Standards. All local authorities are required to operate under IFRS.
Index
A benchmark for the performance of a group of shares or bonds.
Index Linked Securities
U.K. Government issue stocks on which the interest, and eventual repayment of the loan, is based on movements in the Retail Price Index.
Initial Margin
The upfront collateral requirement, set aside as a guarantee to an underlying futures contract, generally a percentage of the notional amount of the contract.
Investment Advisor
A professionally qualified individual or company whose main livelihood is derived from providing objective, impartial investment advice to companies, pension funds or individuals.
LASAAC
The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) assists CIPFA in setting the standards for the public sector. CIPFA publishes the Accounting Codes of Practice for local government.
LGPS
Local Government Pension Scheme
Liability
An obligation to transfer economic benefits. Current liabilities are usually payable within one year.
Mandate
A set of instructions given to the fund manager by the client as to how a fund is to be managed (e.g. targets for performance against a benchmark may be set or the manager may be prohibited from investing in certain stocks or sectors).
Market Price
This is the price at which another organisation is prepared to buy or sell an asset.
Market Value
The “on paper” value of a security at a specific point in time. It is calculated by multiplying the number of shares held by market price of that share in sterling terms.
Outperformance / underperformance
The difference in returns gained by a particular fund against the “average” fund or an index over a specified time period i.e. a target for a fund may be outperformance of a given benchmark over a 3 year period.
Outturn
The actual amount spent in the financial year.

Pension Fund
A fund which makes pension payments on retirement of its participants**.**
Performance
A measure, usually expressed in percentage terms, of how well a fund has done over a particular time period – either in absolute terms or as measured against the "average" fund of a particular benchmark.
Portfolio
Term used to describe all investments held.
Private Equity
Investments in new or existing companies and enterprises which are not publicly traded on a recognised stock exchange.
Provision
An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.
Regulations
The Scheme is governed by Regulations approved by Parliament. Necessary amendments are made to these Regulations by means of Statutory Instruments.
Reserves
A reserve is an amount set aside for a specific purpose in one financial year and carried forward to meet expenditure in future years.
Revenue Expenditure And Income
Revenue Expenditure includes day to day expenses, mainly salaries and wages, pensions and general running expenses. Revenue income includes charges made for services.
Risk
Generally taken to mean the variability of returns. Investments with greater risk must usually promise higher returns than more "stable" investments before investors will buy them.
Scheduled Bodies
These are organisations as listed in the Local Government Pension Scheme Regulations, the employees of which may join the Scheme as of right.
Securities
Investment in company shares, fixed interest or index-linked stocks.
Statement of Investment Principles
Requirement, arising from the Pensions Act 1995, that all occupational pension plan trustees must prepare and maintain a written Statement of Investment Principles outlining policy on various investment matters (e.g. risk, balance between real and monetary assets, realisability of assets etc).
Surplus
Arises when income exceeds expenditure or when expenditure is less than available budget.
Transfer Values
Capital value transferred to or from a scheme in respect of a contributor's previous periods of pensionable employment.
Unit Trusts
A method which allows investors money to be pooled and used by fund managers to buy a variety of securities.
Value Added Tax (VAT)
A tax on consumer expenditure, which is collected on business transactions at each stage in the supply, but which is ultimately borne by the final customer.

Variation
The difference between budgeted expenditure and actual outturn, also referred to as an over or under spend.
Variation Margin
A cash collateral requirement that moves up and down with the value of a futures contract.

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