London Borough of Bexley Pension Fund

Annual Report 2016/17

LONDON BOROUGH OF
BEXLEY

Welcome to the 2016/17 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 Jane Eggleton at Treasury Section, Civic Offices, 2 Watling Street, Bexleyheath DA6 7AT or pensions@bexley.gov.uk or 020 3045 5147.

INVESTMENT POLICY AND PERFORMANCE

Scheme Investment Allocations

The table below shows the asset allocation target set for the fund in March 2015.

	Benchmark March 2015 %
UK Equities	15
Global Equities	45
Total Equities	**60**
Global Bonds (incl Corporates)	-
UK Government Bonds	-
Dynamic Bond Fund	5
Global Bond Fund	5
Total Bonds	**10**
Property	10
Private Equity	7
Infrastructure	3
Diversified Growth Fund	10
Total Alternatives	**30**
Cash	0
Total	**100**

The table below shows the actual asset allocation as at 31 March 2017:-

	Allocation at 31.3.16	Allocation at 31.3.17	Target %
UK Equities	13.8	14.8	15
Global Equities	44.4	47.8	45
Total Equities	58.2	62.6	60
Index Linked Bond Fund	0	0	-
Corporate Bond Fund	0	0	-
Dynamic Bond Fund	3.9	3.5	5
Global Bond Fund	4.3	3.8	5

Total Bonds	**8.2**	**7.3**	**10**
Property	12.2	10.5	10
Private Equity	9.4	9.8	7
Infrastructure	0.5	1.5	3
Diversified Growth Fund	9.4	7.1	10
Total Alternatives	**31.5**	**28.9**	**30**
Cash	2.1	1.2	0
Total	**100.0**	**100.0**	**100**

The fund net investment assets as at 31 March 2017 may be summarised as follows:-

	UK £m	**Global £m**	**Total £m**
Equities	119.3	370.8	490.2
Bonds		58.4	58.4
Alternatives	84.6	90.8	175.4
Cash and cash equivalents*	9.8	0.3	10.1
Other		71.1	71.1
Total	**213.7**	**591.5**	**805.2**

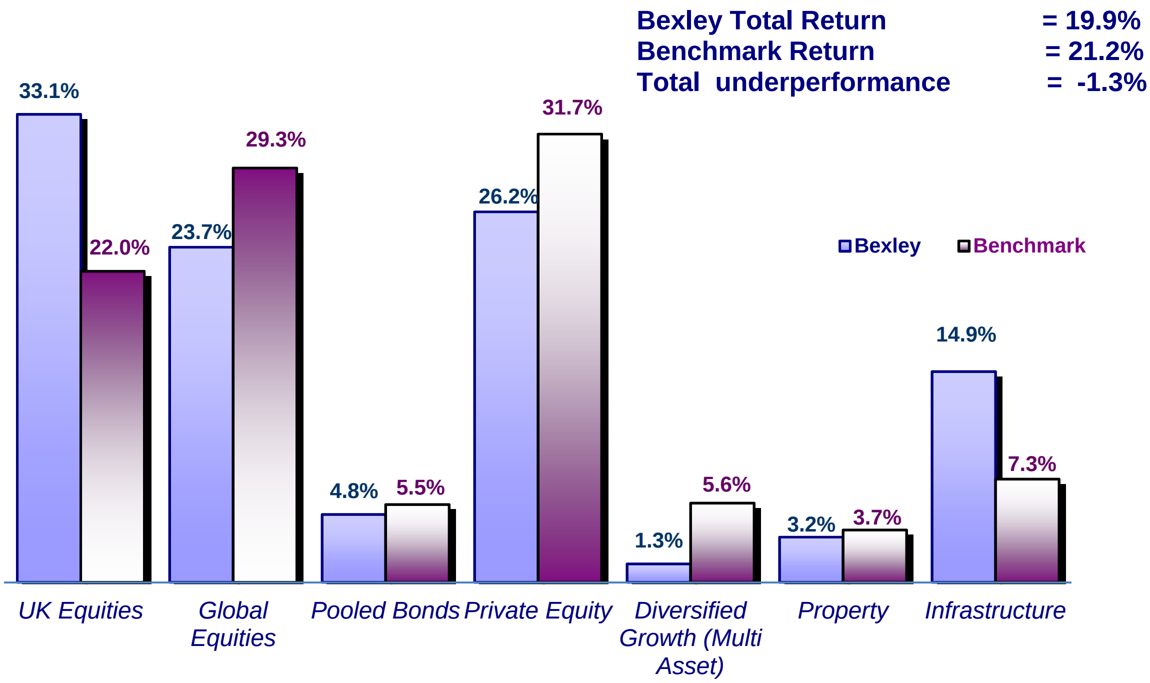
* Includes unsettled investment transactions

The fund investment income accrued during 2016/17 may be summarised as follows:-

Updated	**UK £000s**	**Global £000s**	**Total £000s**
Equities	4,881	6,346	11,227
Bonds			
Alternatives	2,441	*3,766	6,207
Cash and cash equivalents	1		1
Other			
Total	**7,323**	**10,112**	**17,435**

* Private equity income includes historical income previously reported as profit.

Scheme Investment Returns



This graph shows that, in the past year UK Equities and the UBS Infrastructure Fund have outperformed their benchmarks for Bexley's Fund. It should be noted that the impact of the infrastructure return is minimal since it only represents 1.5% of the fund. Newton's Global Equity fund and Partners Private Equity fund did underperform against their benchmarks however their absolute returns were over 23% and 26% respectively therefore they have helped significantly increase the value of the overall fund. The Standard Life Diversified Growth fund did perform badly and their on-going performance is being closely monitored by the Committee, advisors and officers. The overall fund returned 19.9% which was below the benchmark return of 21.2%. It is always disappointing to see the fund underperform but the absolute return was still very positive news for the Fund. All investments should be seen in a long term context and should not be judged entirely on the returns of one year.

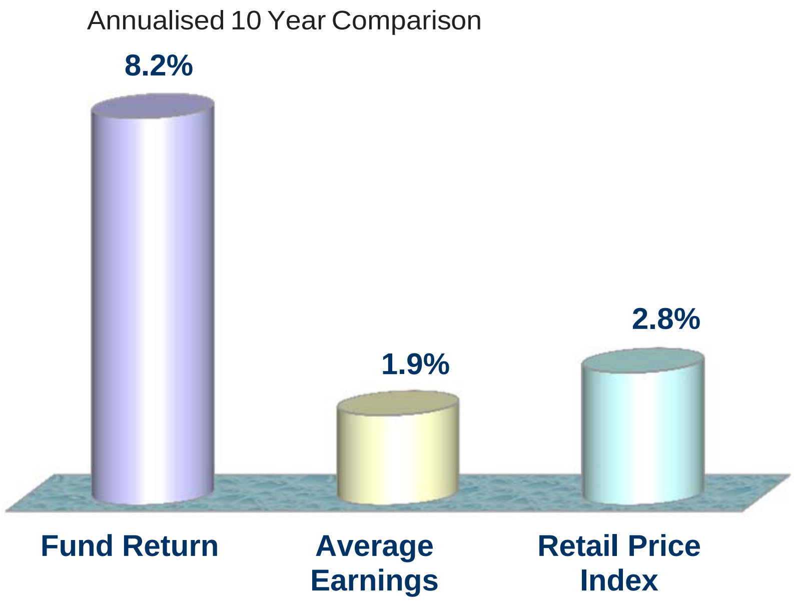
Sector Returns

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 19.9% against the benchmark return of 21.2%. This year Bexley's Pension Fund return ranked it in the 61st percentile in the universe of Local Authority funds.

A long term look at investment returns

This past year Bexley's return of 19.9% was below the benchmark by 1.3%.

Over the last 10 years the fund return is equivalent to an annual return of 8.2%. This compares favourably with both the average earnings index and the retail price index.



The pension fund has out-performed the target over 10 and 5 years and matched the target over the 3 year period.

	Annualised Return (%)		
	10yrs	5 yrs	3 yrs
Fund Return	8.2	12.0	11.6
Benchmark	8.0	11.0	11.6
Outperformance	0.2	1.0	0.0

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

Manager/mandate		Return %	Relative Return %
Newton			
Global Equities &	1 Year	23.7	-5.6
Dynamic Bond Fund	3 Years	14.6	+0.2
	5 Years	14.1	+1.3
UBS			
UK Equities	1 Year	33.1	+11.2
	3 Years	8.9	+1.2
	5 Years	13.2	+3.5
BlackRock			
Bond Funds	1 Year	4.8	-0.7
Partners			
Private Equity	1 Year	26.2	-5.5
	3 Years	17.4	+1.6
	5 Years	14.5	-0.8
Aviva Investors			
Property	1 Year	5.0	+1.2
	3 Years	10.7	+0.5
Standard Life			
Diversified Growth Fund	1 Year	0.6	-5.4
	3 Years	1.8	-3.9
	5 Years	3.0	-2.8

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: 3 Month USD LIBOR hedged into GBP + 5%

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

Aviva Investors Property: IPD UK All Balanced Funds Index

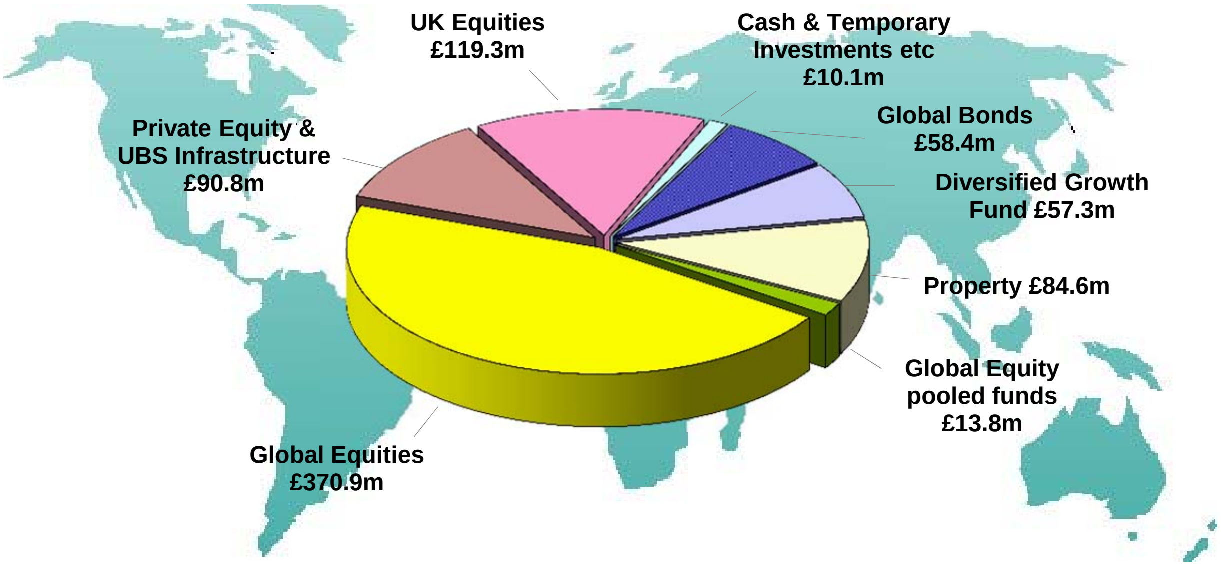
Standard Life Diversified Growth: 6 month LIBOR + 5%

UBS Infrastructure CPI + 5%

Since early July 2016 the custody of the Fund's segregated assets have been held in a global custodian relationship with Northern Trust. 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 £805.2m were made at 31 March 2017.

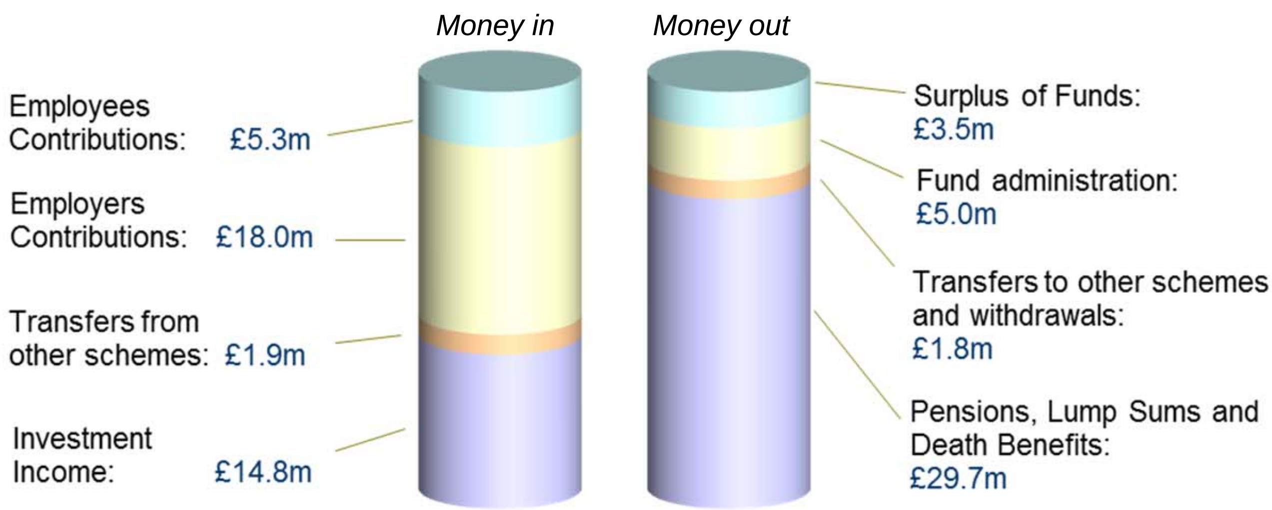


The ten largest equity investments

Company	Market Value (£m)	Percentage of Fund (%)
Microsoft	19.4	2.4
Apple	15.2	1.9
Alphabet	13.8	1.7
Citigroup	10.1	1.3
British American Tobacco	9.5	1.2
Altria Group	9.4	1.2
BP	9.3	1.2
Relx	9.1	1.1
Royal Dutch Shell	8.9	1.1
Unilever	8.5	1.1
United Technologies Corp	8.1	1.0

How the Fund was used in 2016/17

During the year the fund received £40.0m* in income, the main sources of which were the income from assets and contributions from both employees and employers.



*The investment income shown excludes £2.6m historical private equity income as this was not a physical cash receipt during 16/17. This historical income is reported in the statement of accounts to correct a previous misclassification.

From this income, £29.7m was needed to cover the payment of pensions, lump sums and death benefits.

Commentary from our Investment Advisors - Market Background

General Background

Global equities rebounded strongly following a tumultuous start to 2016, with the MSCI AC World Index returning 17.0% over 12 months in local currency terms. The UK economy proved to be resilient after the surprise Brexit vote in the EU referendum and economic conditions improved across many regions whilst Donald Trump's win in the US presidential election further boosted optimism in the US economy towards the end of the year. A pick-up in inflation across many regions from summer 2016 spurred a rotation from bond markets into equity markets, although bond markets rallied once more in Q1 2017.

As widely expected after Trump's win, the US Federal Reserve (Fed) raised the target federal funds rate by 25bps to 0.50-0.75% in December. A further 25bps hike to 0.75-1.00% was announced in March 2017. In contrast, monetary policy eased in other major countries as the Bank of England (BoE), the European Central Bank (ECB) and the Bank of Japan (BoJ) all pursued greater monetary easing, utilising a combination of lower policy rates and extended quantitative easing (QE).

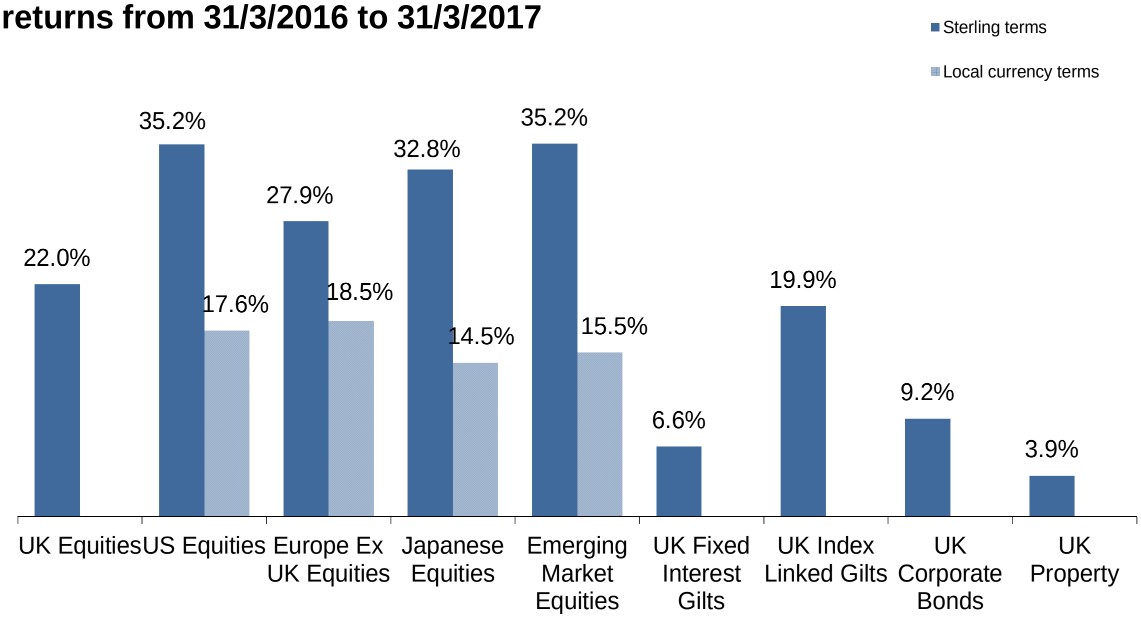
UK gilt yields fell dramatically up until the summer of 2016, with an acceleration following the Brexit result and subsequent monetary easing undertaken by the BoE. From August, however, there was a turnaround in gilt yields as inflation expectations increased. This upward yield move reversed somewhat in 2017 as the reflation trade lost momentum with UK yields trending lower with other markets.

Sterling depreciated sharply on the back of the EU referendum result and renewed monetary easing. Consequently, the MSCI All Country World index returned a huge 32.2% in sterling terms. The US dollar, on the other hand, appreciated on a trade-weighted basis.
UK investment grade corporate bond spreads narrowed by 34bps to end the first quarter of 2017 at 128bps following better than expected economic data and the BoE's extension to corporate bonds in its asset purchasing programme.

UK property returns remained positive over the period despite concerns over the impact of Brexit on the commercial real estate market. Capital values have recovered but remain below pre-Brexit levels. The IPD Monthly Index returned 3.9% over the 12 month period to March 2017.

UK equities posted a return of 22.0% over the 12 months to March 2017 – the most by any region in local currency terms. This was despite the volatility caused by the Brexit vote and the uncertainty of its future impact on the UK economy. Many companies listed on the UK stock exchange earn overseas revenues and the outperformance of these stocks provided a major lift to large cap stocks.

Index returns from 31/3/2016 to 31/3/2017



Source: Datastream/IPD

A few words from our Investment Managers

NEWTON

Investment Review

Investors faced a variety of challenges over a period in which politics exerted a significant influence on financial markets.

The start of April 2016 saw a continuation of global equity markets' recovery from February's lows. However, volatility returned during May and June. This was in part owing to markets' preoccupation with the UK's 23 June referendum on European Union (EU) membership. In addition, a run of weaker macroeconomic data from the US led the Federal Reserve to lower expectations for future US interest-rate rises. In the final days before the UK's referendum, investors became convinced that a 'remain' vote would be delivered. As a result, the decision to leave was unexpected and not priced into financial assets, causing significant volatility in the days after the result. The immediate market response was a collapse in sterling amid a broad sell-off in risk assets and a corresponding flight to safe havens. However, having initially fallen dramatically following the referendum result, global equity indices soon reversed this trend, buoyed both by opportunistic 'buying of the dip' and, in some quarters, mounting expectations that this event could precipitate fresh rounds of monetary intervention.

The positive momentum continued through most of the third quarter, with equity indices delivering strong positive returns as policymakers stepped in once again. In the UK, the Bank of England delivered a 0.25% cut in interest rates, accompanied by a £60bn increase in quantitative easing. The outlook for US monetary policy remained the principal preoccupation for global investors. After much debate and an anticipatory back-up in government bond yields, the patchy nature of US economic releases ultimately ensured that US interest rates remained unchanged, an outcome that was naturally well received by financial markets.

Politics once again came to dominate proceedings over the fourth quarter, as Donald Trump claimed victory in November's US presidential election. In stark contrast to the manifold predictions that such an outcome would prompt a major 'risk-off' event across financial markets, the relatively measured nature of Trump's victory speech induced a rally in equities. However, perhaps the most significant impact was witnessed in the currency and fixed-interest markets, where the US dollar surged and government bonds sold off aggressively (with yields heading sharply higher). This was the result of investor expectations that a Trump presidency could prove reflationary, with fiscal stimulus driving a pickup in growth.

UBS Global Asset Management

UK Investment Activity:

Turbulence returned to UK markets as the dissatisfaction with establishment politics became evident in the highly anticipated UK referendum on European Union (EU) membership on the 23rd June 2016. Leading up to the vote equity markets rallied on increasing expectations for a 'Remain' vote. However, the majority vote to leave the EU and the knock-on resignation of British Prime Minister, David Cameron, prompted a significant fall in the value of sterling (GBP) while currencies such as the US dollar (USD) and Japanese yen (JPY) rallied. Within fixed income, government bond yields fell to record lows, reflecting their safe-haven status, with German bund yields traded in negative territory at the 10 year point of the curve for the first time. The BoE's subsequent revival of quantitative easing was the latest driver of the great bond rally and by August global benchmarks were at all-time lows.

In a bid to mitigate the risks posed by the UK's vote to leave the EU, the Bank of England implemented a broad package of monetary stimulus measures in August. This encompassed a highly expected interest rate cut of 25bps, with the opportunity for further rate cuts later this year. The Bank also unexpectedly resumed its quantitative easing programme and expanded asset purchases to include corporate bonds in an effort to counter the impact of 'Brexit'. Mark Carney, the Bank's governor, noted that there was a "clear case for stimulus and stimulus now", as the Bank reduced growth forecasts for 2017 in particular. However, as the year went on it became clear that the UK economy had escaped the worst of the forecast immediate impact of a Leave vote.

March 2017 marked the starting gun on at least two years of uncertainty as the United Kingdom formally began the process of withdrawing from the European Union, initiating the divorce that will shape the country's relationship with its largest trading partner. Theresa May looked to set the tone for forthcoming negotiations around the UK's withdrawal and new relationship with the EU by stating that the separation has begun in a spirit of "constructive, respectful and sincere co-operation". Adding to the pressure, First Minister Nicola Sturgeon announced an intention to hold a second independence referendum in Scotland. Despite a background of uncertainty, UK economic indicators remain broadly healthy, with rebounds in the residential housing market and the rate of unemployment remaining steady at 4.9%.

Responsible Investment

The Pension Fund's policies on responsible investment are set out in section 11 of the Fund's Investment Strategy Statement (ISS), 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 ISS.

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 2016/17 UBS voted at 55 UK meetings for the Bexley Fund. They voted for 1,065 (98%) resolutions in total and against 26 (2%). Newton voted at annual meetings of 64 companies worldwide in which stock was held for Bexley's portfolio. At these meetings there were 911 proposals that could be voted on, and Newton voted for 734 (80%) proposals, against/withheld 162 (18%), and did not vote on 15 (2%) 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 2017 to reflect the principles and assumptions used in the 2016 actuarial valuation and the results produced. The changes were made in consultation with scheduled and admitted bodies. The Statement is shown later in this document in Appendix 4.

Contribution rates agreed following the 2013 valuation were implemented for 2016/17, the last year of the triennial period.

Discussions were held with admitted bodies where their contract periods were coming to an end or where the number of admitted employees was reducing so that a funding plan could be established prior to termination. Extensions to the admission agreements are agreed where appropriate.

Pensions Board Annual Report 2016/17

1. Introduction

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

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

(b) to ensure the effective and efficient governance and administration of the Scheme.

During 2016/17 the Pensions Board held two meetings. The Business Plan for the Board was agreed at its meeting of 19 July 2016 and has considered matters in line with this plan.

2. Matters considered by the Pensions Board during 2016/17

(a) Appraisal of Pensions Committee reports

The Board has considered the reports and decisions of the Pensions Committee at each meeting as part of its governance role. This has also assisted the Board to gain greater knowledge of the full range of items considered and will inform decisions about areas to review in 2017/18.

(b) Knowledge and Understanding Framework

As part of their continual development members of the Board engaged Mercer to undertake an analysis of training that will help the Board to effectively meet the requirements of their two core functions. This analysis will continue to be used to further develop Board members' skills.

- The aims of the Board training programme include: enable individuals have sufficient knowledge and understanding such that all decisions, actions and other activities are carried out in an informed and appropriate way, and so that advice and guidance can be challenged and tested appropriately;
- ensure that the strategic and operational direction of the Board is a considered one, of an appropriate high standard in accordance with best practice and guidance;
- ensure the Local Pension Board members apply best practice in their roles;
- enable the demonstration of good and robust governance "in action", and clear identification of pension fund risks, understanding how to effectively monitor and mitigate those risks;
- comply with the various Codes of Practice and best practice/minimum standards; and
- demonstrate high level of governance and standards, comparing positively with peer group Funds in the Scheme Advisory Board KPI programme.

(c) Fund Communications

During the year the Board received a report detailing a review of the Fund's communication policy. This policy is published on the Fund's website www.yourpension.org.uk/Bexley/Investments/Policies

The principles of the policy are:

- 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

The review of the policy determined that the communications policy covers all the areas required in accordance with the regulations. No changes have been made to either the principles or method of communication since the last review. However a review of the information available on the website resulted in updates made for any areas where information was outdated.

(d) Risk Register

Pension Fund risks are currently managed as part of the Council's overall risk management process. In addition a separate risk register for the Pension Fund is regularly monitored by the Board. One of the key controls of the risk register is the triennial actuarial valuation. Board members attended the special Pensions Committee meeting dealing with the initial results of the valuation in October 16. The final results were presented to the Pensions Committee at its meeting on 8 March 2017 alongside the revised Funding Strategy Statement (FSS), which Board members again attended. The purpose of the FSS is to set out a clear and transparent funding strategy that identifies how each Fund employer's pension liabilities are to be met going forward by ensuring the Pension Fund has sufficient assets to meet its pension liabilities in the long term. Following the findings of the actuarial review our investment advisors Aon Hewitt undertook an asset liability study to update the Fund's asset allocation. The revised allocation sought to balance the risk and return of the Fund's assets against the future liabilities identified by the triennial review. Aon Hewitt's study was presented to the Pensions Committee at a special meeting on 22 February 2017 to which Board members attended.

(e) Review of Terms of Reference

At the Board's meeting of 13th January 2017 the Board accept an updated Terms of Reference. The Terms of Reference are required to be reviewed at least every two years. The Board has been in operation for over two years and the benefit of experience highlighted areas where changes to the Terms of Reference were appropriate.

In August 2016 Bexley College transferred out of the Fund, as a result Martin Peat resigned from the Board as an employer representative. A replacement has proved difficult to find and this led to some concerns regarding this issue in the intervening period as all three remaining Members need to be present for the meeting to be quorate. It was therefore proposed that substitute members should be appointed going forward who will undertake the same training as the Board members and have full voting rights when they attend the meeting as a substitute member.

It was considered that any costs to the Pension Fund of providing training to substitute members would be offset by the ability to call on knowledgeable substitute members when necessary to ensure that the Board is able to make decisions as required.

MANAGEMENT AND FINANCIAL PERFORMANCE

Management Structure

Administering Authority	London Borough of Bexley	
Fund Officers	Alison Griffin	Director of Finance and Corporate Services
	Stephen Wild	Head of Pensions and Treasury (oneSource)
	Terry Pearce	Pensions Manager
	Jane Eggleton	Pensions Accountant
	Richard Smyth	Pensions Consultant
Investment Advisers	Colin Cartwright	Aon Hewitt Limited
Fund Managers	Newton Investment Management UBS Global Asset Management BlackRock Partners Group Standard Life Investments Aviva Investors	
Custodians	Northern Trust (Global custodians from 1st July 2016	
Performance Measurement	Northern Trust	
Actuaries	Mercer Ltd	
Administrators	London Pensions Partnership (LPP – formerly LPFA)	
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 (ceased 1st August 2016)
Bexley Grammar School
Bexleyheath Academy
Blackfen School for Girls
Brampton Primary Academy
Burnt Oak Junior School
Bursted Wood Primary School
Chatsworth Infant School
Chislehurst and Sidcup Grammar School
Christ Church Primary
Cleeve Park School
Days Lane Primary School
East Wickham Primary Academy
Eastcote Primary Academy
Erith School
Harris Academy Falconwood
Hillsgrove Primary School
Holy Trinity Lamorbey Church of England Primary School
Hope Community School
Hurst Primary School
Hurstmere School
Ignis Academy Trust
Lessness Heath Primary
Mayplace Primary School
New Generation Schools Trust
Normandy Primary School
Old Bexley Church of England Primary School
Pelham Primary School
Royal Park Primary Academy
Sherwood Park Primary School
St Augustine of Canterbury Primary School
St Catherine's Catholic School
St Columba's Catholic Boys School
St Paulinus Church of England Primary School
Townley Grammar School
Trinity Church of England School, Belvedere
Upland Primary School
Welling School
Woodland Academy Trust

Admitted Bodies

Amey
Avante Partnership
Bexley Heritage Trust
Blenheim CDP
Business Academy Bexley
Capita Business Services Ltd
Caterlink
Cucina Restaurants Ltd
Danson Youth Trust
Inspire Community Trust
ISS Facility Services Landscaping Ltd
London Hire
London & Quadrant Housing Trust
MCCH Society Ltd (no actives)
Mytime Active
Orbit South Housing Association (no actives)
Pre-School Learning Alliance
Rose Bruford College
Serco Ltd
Wilson James Ltd

This may be summarised in the following table:-

	Active	Ceased	Total
London Borough of Bexley	1	-	1
Scheduled Body	42	2	44
Admitted Body	18	10	28
Total	61	12	73

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 and set out the nature and extent of risks arising from financial instruments (note 18).
- The Investment Strategy Statement covers risk and liabilities in section 9.
- 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 82% 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:-

<table>
<tr><td><u>Triggers</u>
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</td><td><u>Consequences</u>
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</td></tr>
<tr><td colspan="2" align="center"><u>Control Measures</u>
Policies on early retirement</td></tr>
<tr><td colspan="2" align="center">Actuarial valuation
Asset/liability study
Review of asset allocation</td></tr>
</table>

Pension Fund risks are currently managed as part of the Council's overall risk management process as described above. However, best practice and guidance from the Pensions Regulator suggest that separate documentation identifying these risks from a pension fund point of view would be of benefit. A separate risk register was developed for the Pension Fund during 2015/16 to be monitored by the Pensions Board. This risk register matrix is published on the pensions website

http://www.yourpension.org.uk/Bexley/In-The-Scheme/A-Z-Index.aspx

The Pension Fund's accounts and processes are subject to scrutiny by the Council's internal auditors and the Fund's independent external auditors. 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 2016/17 £'000	Forecast 2017/18 £'000	Forecast 2018/19 £'000	Forecast 2019/20 £'000
INCOME				
Employer contributions	-17,990	-17,999	-18,179	-18,361
Employee contributions	-5,296	-5,316	-5,369	-5,422
Transfers in	-1,925	-1,944	-1,964	-1,983
	-25,211	**-25,259**	**-25,512**	**-25,767**
EXPENDITURE				
Pensions payable	24,782	25,030	25,280	25,533
Retirement and death benefits	4,908	4,912	5,007	5,057
Transfers out	1,817	17,195	1,667	1,683
Direct Management expenses	5,046	5,096	4,937	5,040
	36,553	**52,094**	**36,891**	**37,313**
NET INVESTMENT INCOME	**-17,435**	**-14,983**	**-15,133**	**-15,285**
NET CASH FLOW FOR THE YEAR	**-6,093**	**11,851**	**-3,754**	**-3,739**

On 8 June 2017 the Fund paid £15.7m to the LPFA in respect of the bulk transfer of Bexley College. This scheduled body transfer was approved by the Secretary of State for Communities and Local Government effective from 1 August 2016. The 2017/18 forecast for transfers out reflects this one-off event.

	Actual 2016/17 £'000	Forecast 2017/18 £'000	Forecast 2018/19 £'000	Forecast 2019/20 £'000
MANAGEMENT EXPENSES				
Direct Investment management expenses	4,226	4,188	4,188	4,188
Administrative services	187	187	187	187
Payroll, personnel and finance services	304	304	304	304
Actuarial services	142	39	39	142
Audit fee	21	21	21	21
Other expenses	166	173	198	198
TOTAL	**5,046**	**4,912**	**4,937**	**5,040**

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 2016/17 £'000	Actual 2016/17 £'000	Variation £'000
INCOME			
Employer contributions	-16,938	-17,990	-1,052
Employee contributions	-5,259	-5,296	-37
Transfers in	-1,543	-1,925	-382
	-23,740	-25,211	-1,471
EXPENDITURE			
Pensions payable	25,200	24,782	-418
Retirement and death benefits	3,700	4,908	1,208
Transfers out	2,122	1,817	-305
Direct Management expenses	2,088	5,046	2,958
	33,110	36,553	3,443
NET INVESTMENT INCOME	-11,500	-17,435	-5,935
NET CASH FLOW FOR THE YEAR	-2,130	-6,093	-3,963

	Forecast 2016/17 £'000	Actual 2016/17 £'000	Variation £'000
ADMINISTRATION EXPENSES			
Direct Investment management expenses	1,442	4,226	2,784
Administrative services	195	187	-8
Payroll, personnel and finance services	320	304	-16
Actuarial services	70	142	72
Audit fee	21	21	0
Other expenses	40	166	126
TOTAL	2,088	5,046	2,958

The key variations during the year were the increase in employer contributions and retirement and death benefits. The main reason for the variation in contributions was due to the accounting settle up of the three year Bexley prefunding cycle. The largest variation is in direct investment management expenses the main reason for this variation is inclusion of private equity fees in the 2016/17 accounts.

Contributions due from all employers in the fund are monitored on a monthly basis. During 2016/17 total contributions of £23.3m were due. Of this total amount 99% by value and 97% of payment transactions were received by the due date. This can be analysed as follows:-

	Contributions due £’000	% of payment transactions received on time
London Borough of Bexley	13,956	100
Scheduled Bodies	7,155	98
Admitted Bodies	2,175	92
Total	23,286	97

The overdue contributions were:-

	£’000	%
Up to 1 week overdue	185.1	0.8
1 to 2 weeks overdue	14.2	0.1
2 to 4 weeks overdue	16.5	0.1
More than 4 weeks overdue	9.2	0.0

The majority of the delays were short administrative processing delays. The longer delays arose mainly from the academies’ late deficit payments. The option to levy interest on overdue contributions was not exercised during the year.

Pension overpayments

During the year there were 79 cases of overpayments due to the death of a pensioner (compared to 84 in 2015/16). Further details are shown in the table below:-

	2014/15		2015/16		2016/17	
Case Type	No. of cases	Amounts	No. of cases	Amounts	No. of cases	Amounts
Repayment was waived	44	£3,512	67	£4,206	59	£3,908
Recovery was made	26	£16,481	13	£6,813	14	£7,545
Not yet completed	0	-	4	£1,862	6	£4,309
Total	**70**	**£19,993**	**84**	**£12,881**	**79**	**£15,762**

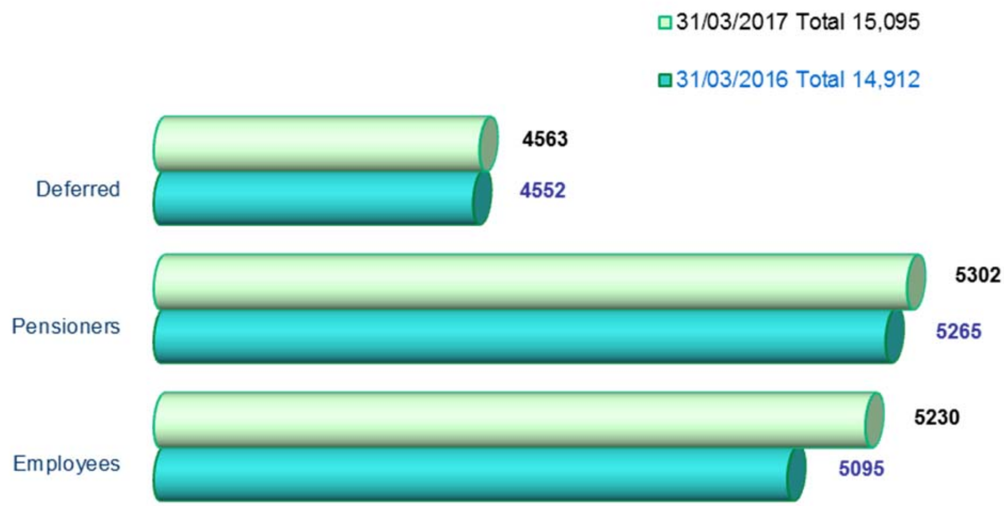
Note: overpayments are waived when there is no further money due to the estate or next of kin and the overpayment is less than £250. In addition there were 8 cases not completed at 31 March 2017, so an overpayment cannot yet be confirmed.

There was a National Fraud Investigation in 2016/17 (none in 2015/16) which identified 3 deaths which had not been notified. Details are being sought to determine the amount of any overpayment.

There were no overpayments arising from error (two in 2015/16).

Administrative Management Performance

Scheme Membership



Bexley's Pension Fund has increased over the past year with membership rising from 14,912 to 15,095.

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:-

	Cases 2015/16	Cases 2016/17	% on time
Total Top 10 Case Types	3,303	5,245	99

The LPFA send out satisfaction surveys (with prepaid envelopes) monthly to a sample of members who use each of the main case types. In 2016/17 a total of 545 surveys were issued and a satisfaction level of 99% was achieved (515 surveys and a satisfaction level of 100% in 2015/16).

A complaints log is also maintained which indicates how matters have been resolved and whether any lessons can be learned from them. In 2016/17 there were two complaints which were dealt with through the internal disputes resolution procedure. They were concerned with:-

- Recovery of overpayment
- Correction of widows entitlement

In 2015/16 there were three 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 2015/16, the administrative costs per member in Bexley were £66.05 compared to the average of £52.73 in the London Boroughs. The main reason for the variation is the smaller membership in Bexley as the total amount spent was below the level of the London average. Investment management costs were £334.85 (restated figure) per member compared to the average of £249.45 in London. This is in part due to a large Newton performance related fee in the year.

Fund Membership

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

	31.3.13	31.3.14	31.3.15	31.3.16	31.3.17
Employees in the Fund	4,600	4,788	4,531	5,095	5,230
Deferred Pensioners	3,783	3,972	4,079	4,552	4,563
Pensioners in the Fund	4,291	4,558	4,518	5,265	5,302
Total	12,674	13,318	13,128	14,912	15,095

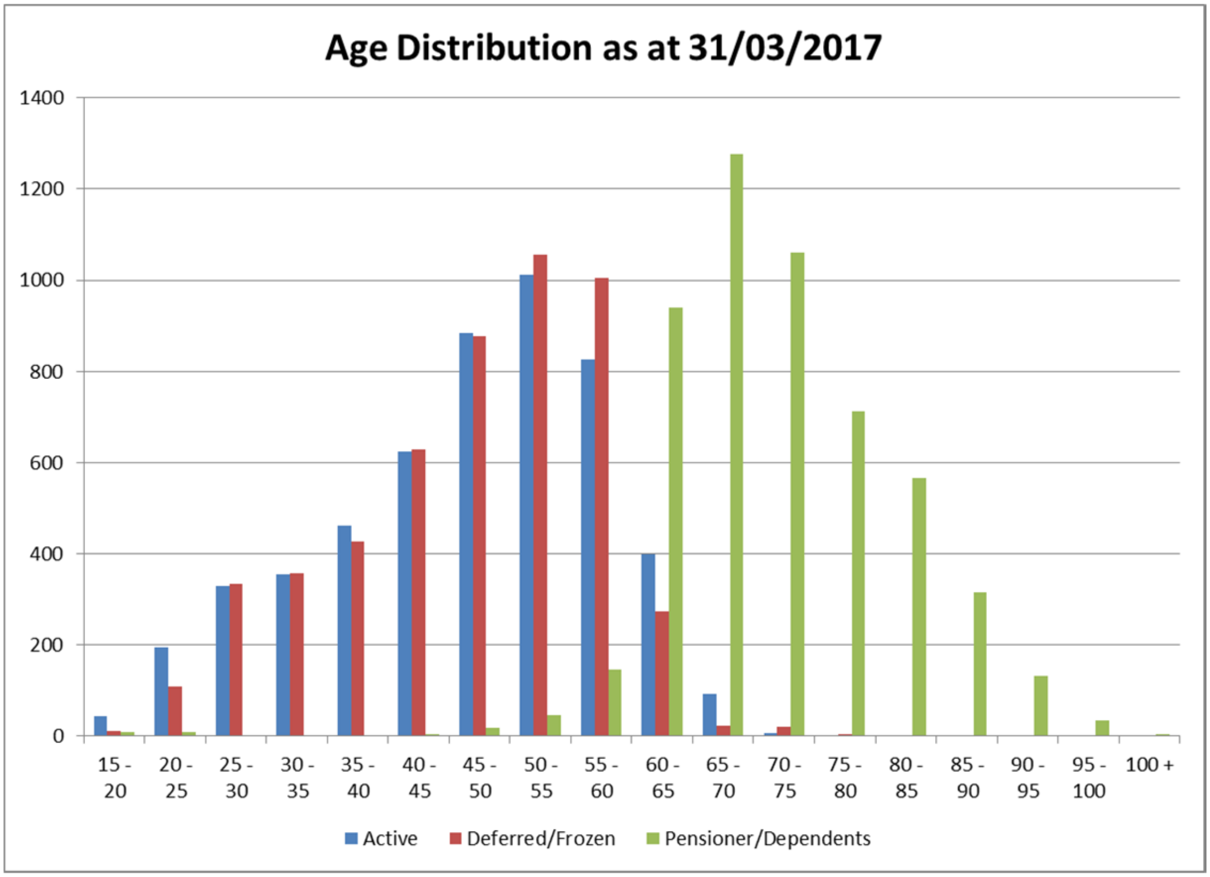
In addition there are a number of people who are no longer accruing service and to whom a refund of contributions may be due:-

Undecided Leavers	443	298	315	437	565

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

	31 March 2015	31 March 2016	31 March 2017
Redundancy	20	39	53
Efficiency	0	8	0
Ill Health	8	11	6
Compassionate	0	1	0
Total	28	59	59

The membership at 31 March 2017 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 2016/17 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 Partnership (LPP, formerly known as the 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 were made by the London Borough of Bexley's payroll section, but were migrated to the LPP during the summer of 2014. 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 LPP 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 LPP 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 LPP uses the local government pensions software, Altair, produced by Heywood Ltd. The LPP allocate a total of 2.5 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 LPP 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 2016/17 two 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 2013.

Contributions

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

The employee contribution rates are tiered over full-time equivalent salary bands and range between 5.5% and 12.5% of gross pay.

Annual Pension

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

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

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

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

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

For membership built up from 1 April 2008 to 31 March 2015, you receive a pension of 1/60th of your final pay. There is no automatic lump sum for membership built up after March 2008, but you do have the option to exchange some of your pension for a tax-free lump sum.

Lump Sum

You can take a tax-free lump sum of up to 25% of the capital value of your LGPS benefits by giving up some of your annual pension. For every £1 of annual pension that you give up you will receive a £12 lump sum. In the same way, giving up £100 of your annual pension would give you £1,200 lump sum, and so on.

Ill Health

If you have to leave work due to illness you may be able to receive immediate payment of your benefits. There are three levels of benefit based on how likely you are to be capable of gainful employment after you leave.

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

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

Retirement and Redundancy

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

Normal pension age for your new scheme pension is not fixed at 65 as in the old scheme, it is 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.

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

Family Cover

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

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

An ongoing pension is provided for your spouse, registered civil partner or, subject to certain qualifying conditions, your eligible cohabiting partner. This pension is payable immediately after your death for the rest of their life and will increase every year in line with the cost of living.

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 2016.

The key conclusions from the valuation are:

- The Fund showed a deficit of £45m 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 2016. It represents a funding level of 94% relative to the Fund's funding target.
- Based on the assumptions made for assessing the cost of future accrual, the Primary Contribution Rate (i.e. the average employer contribution rate in respect of future service only) was 16.4% of Pensionable Pay.
- If the actuarial assumptions were to be based purely on the returns available on conventional and index-linked gilts (a so-called "least risk" basis) the deficiency would have increased to approximately £1,062m.
- The deficit is recovered through additional employer contributions over an average of a 13 year period. The deficits are set at absolute sums rather than percentages of pensionable pay to protect the Fund from any shrinking of active membership.
- The required overall average employer contribution rate is 23.0% of Pensionable Pay subject to any transitional phasing arrangements in accordance with the FSS. Contributions for each separate employer will be levied generally as a combination of a percentage of payroll in respect of future accrual of benefits and £s amounts in respect of deficit contributions under the recovery plan. These contributions will commence from 1 April 2017.
- The recommended employer contributions for the period 1 April 2017 to 31 March 2020 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 2017. 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 of the actuary's report.

The Fund receives a quarterly estimate of its updated funding level from the actuary.

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.

Contributions due to the Scheme in 2016/17 (£'000) Appendix 1

Employer	Total Employees £'000s	Total Employers £'000s
London Borough of Bexley	3,317	10,639
Barnehurst Infant School	12	44
Barnehurst Junior School	36	101
Belvedere Junior School	23	84
Beths Grammar School	55	222
Bexley College	33	169
Bexley Grammar School	56	255
Bexleyheath Academy	77	296
Blackfen School for Girls	60	270
Brampton Primary Academy	22	92
Burnt Oak Junior School	11	51
Bursted Wood Primary School	23	89
Chatsworth Infant School	5	18
Chislehurst and Sidcup Grammar School	31	131
Christ Church Primary	21	71
Cleeve Park School	51	197
Days Lane Primary School	24	88
East Wickham Primary Academy	41	152
Eastcote Primary Academy	12	50
Erith School	128	508
Harris Academy Falconwood	48	106
Hillsgrove Primary School	21	105
Holy Trinity Lamorbey Church of England Primary School	16	77
Hope Community School	7	13
Hurst Primary School	25	105
Hurstmere School	46	188
Ignis Academy trust	14	53
Lessness Heath Primary	19	81
Mayplace Primary School	25	90
New Generation Schools Trust	2	4
Normandy Primary School	29	121

Old Bexley Church of England Primary School	31	125
Pelham Primary School	27	90
Royal Park School	15	54
Sherwood Park Primary School	19	87
St Augustine of Canterbury Primary School	11	44
St Catherine's Catholic School	46	179
St Columba’s Catholic School for Boys	41	150
St Paulinus Church of England Primary School	9	47
Townley Grammar School	64	269
Trinity Church of England School, Belvedere	76	253
Welling School	59	243
Woodland Academy Trust	93	269
Upland Primary School	11	39
Amey	21	159
Avante Partnership	17	129
Bexley Heritage Trust	23	45
Blenheim CDP	2	5
Business Academy Bexley	85	280
Capita Business Services Ltd	2	4
Caterlink	0	2
Cucina Restaurants Ltd	2	6
Danson Youth Trust	2	10
Inspire Community Trust	40	100
ISS Facility Services Landscaping Ltd	22	75
Kier Street Services Ltd	0	0
London & Quadrant Housing Trust	9	65
London Hire	3	10
MCCH Society Ltd	0	77
Mytime Active	1	1
Orbit South Housing Association	0	63
Rose Bruford College	94	262
PSLA	3	12
Serco Ltd	177	352
Wilson James Ltd	1	14
Total	**5,296**	**17,990**

Appendix 2

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 (including the Annual meeting to which the observers are not invited) during the year.

Pensions Committee		Attendance
Councillor Louie French	Chairman	6/6
Councillor John Waters	Vice Chairman	6/6
Councillor Brian Bishop		5/6
Councillor Steven Hall		5/6
Councillor John Husband		6/6
Councillor Abena Oppong-Asare		6/6
Councillor Colin Tandy		5/6

Observers		
Susan Clark	Employee Representative	5/6
Julia Peacock	Pensioners' Representative	6/6
Vacant	Admitted Bodies' Representative	n/a

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 did not consider any applications 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 Corporate Services to be responsible for ensuring that policies and strategies are implemented.

Activity in the Year

Over the course of 2016/17, Members of the Pensions Committee attended the following courses and seminars:-

- CIPFA Pension Board Autumn Seminar
- UBS 2nd Steps Seminar

Briefing sessions for Members have been conducted on:-

- Currency Risk
- London Collective Investment Vehicle
- Investing for Income
- Environmental, Social and Corporate Governance

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

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

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

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.
- To agree the operational and administration arrangements for the Pensions Board for Bexley

The Pension Fund operates under the Local Government Pension Scheme and publishes separately its Investment Strategy Statement, 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).

Pensions Board for Bexley

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

The Board has the following Orders of Reference:-

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

and Delegated Powers:-

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

Advice and Monitoring

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

The investment managers present to the Committee at regular intervals on the implementation of the investment policy. In between Committee meetings they report to the Director of Finance and Corporate Services on investment policy. The Pension

Fund’s performance is regularly assessed by 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.

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 Corporate Services 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 Corporate Services 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 Corporate Services has:-

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

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

(3) complied with the Code of Practice.

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

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

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

The Statements of the Director of Finance and Corporate Services

The required financial statements for the Pension Fund appear on pages 43 to 65 and have been prepared in accordance with the accounting policies set out on page 46.

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 2017.

Leigh Whitehouse
Director of Finance and Corporate Services
27 September 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF BEXLEY ON THE CONSISTENCY OF THE PENSION FUND FINANCIAL STATEMENTS INCLUDED IN THE PENSION FUND ANNUAL REPORT

Independent auditor's report to the members of London Borough of Bexley on the consistency of the pension fund financial statements included in the pension fund annual report

Opinion

The pension fund financial statements of London Borough of Bexley (the "Authority") for the year ended 31 March 2017 which comprise the fund account, the net assets statement and the related notes of Bexley Pension Fund are derived from the audited pension fund financial statements for the year ended 31 March 2017 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Pension fund annual report - Pension fund financial statements

The pension fund annual report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 28 September 2017.

Director of Finance and Corporate Services' responsibilities for the pension fund financial statements in the pension fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Director of Finance and Corporate Services of the Authority is responsible for the preparation of the pension fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the pension fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the pension fund annual report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Darren Wells

Darren Wells
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

2nd Floor
St Johns House
Haslett Avenue West
Crawley
RH10 1HS

28 September 2017

Pension Fund Account

2015/16 £'000		Note	2016/17 £'000
	Dealings with members, employers and others directly involved in the scheme		
(22,393)	Contributions	7	(23,286)
(721)	Transfers in from other pension funds	8	(1,925)
(23,114)	**Total contributions**		**(25,211)**
31,352	Benefits	9	29,690
797	Payments to and on account of leavers	10	1,817
32,149	**Total benefits**		**31,507**
9,035	**Sub-total: Net (additions) / withdrawals from dealings with members**		**6,296**
5,280	**Management expenses**	11	**5,046**
	Returns on investments		
(13,202)	Investment income	12	(17,936)
264	Taxes on income	13	501
(9,667)	(Profit) and losses on disposal of investments and changes in value of investments	14a	(118,111)
(22,605)	**Net returns on investments**		**(135,546)**
(8,290)	**Net (increase) / decrease in the net assets available for benefits during the year**		**(124,204)**
671,951	**Opening net assets of the scheme**		**680,241**
680,241	**Closing net assets of the scheme**		**804,445**

Pension Fund Net Assets Statement

31.3.2016 £'000		Note	31.3.2017 £'000
673,756	Investment Assets	14	796,031
16,065	Cash Deposits	14	11,490
689,821			**807,521**
(1,376)	Investment Liabilities	14	(2,340)
1,920	Current Assets	21	3,220
(10,124)	Current Liabilities	22	(3,956)
680,241	**Net assets of the scheme available to fund benefits at the period end**		**804,445**

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 20 below.

Notes to the Financial Statements

1 Introduction to the Fund

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

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

(a) General

The Fund is governed by the Public Service Pensions Act 2013. It is administered in accordance with the detailed regulations of:
~ the LGPS Regulations 2013 (as amended)
~ the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
~ the LGPS (Management and Investment of Funds) Regulations 2009

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.

Organisations participating in the Pension Fund include:

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

Numbers for employers and employees in the Fund are:

31 March 2016		31 March 2017
59	Number of employers with active members	62
	Number of employees in the Fund	
2,881	London Borough of Bexley	2,853
2,214	Other employers	2,377
5,095	*Total*	*5,230*
	Number of pensioners in the Fund	
4,652	London Borough of Bexley	4,729
613	Other employers	573
5,265	*Total*	*5,302*
	Number of deferred pensioners in the Fund	
3,659	London Borough of Bexley	3,692
893	Other employers	871
4,552	*Total*	*4,563*

(c) Funding

In 2016/17, the Fund was financed by contributions from employers and employees and by income from investments. Employees make a contribution to the Fund at a percentage of their pensionable earnings and emoluments; this ranges from 5.5% to 12.5% depending on the level of their earnings. The employers' contributions are in accordance with the advice of a professionally qualified actuary and have been set so that the Fund will be able to meet the cost of current and estimated future retirement benefits. The most recent valuation is in respect of 31 March 2017 and shows a funding level of 94% (2013 was 87%). The deficit on the Fund will generally be recovered over a period of 14 years. The Council's contribution in 2016/17 was calculated as 20.6% of payroll (20.6% in 2015/16) although the amount due was discounted for early payment. Other bodies' employer's future service contributions in 2016/17 varied between 10.5% 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 18 and 19.

(d) Benefits

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

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

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

The Fund publishes a separate Annual Report for the Fund, which includes the Investment Strategy Statement, 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 Fund's website www.yourpension.org.uk/bexley

2 Basis of Preparation

These financial statements summarise the Fund's transactions for the 2016/17 financial year and its position at the year end of 31 March 2017. They have been prepared in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting 2016/17. The CIPFA Code is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

3 Accounting Policies

(a) Contribution income

Regular contribution income from both members and employers is accounted for at the rate certified by the Fund's 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.

(b) Transfers to and from other schemes

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

(c) Investment income

(i) Interest income

Interest income is also recognised as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

(ii) Dividend income

Dividend income is accounted for on the date the shares are quoted ex-dividend. Any amounts not received by the end of the financial year are disclosed in the net asset statement as a current financial asset.

(iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amounts not received by the end of the financial year are disclosed in the net asset statement as a current financial asset

(iv) Property-related income

The Fund does not have any direct property holdings.

(v) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

(d) Benefits payable

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

(e) 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.

(f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the council discloses its Fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

Administrative expenses

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

Oversight and governance costs

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

Investment management expenses

All investment management expenses are accounted for an accruals basis. The fees of the external investment managers are mainly based on the market value of the funds they invest and will increase or decrease with the value of their investments. 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.

(g) 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.

Net assets statement

(h) Financial assets

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

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

(i) 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.

(ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

(iii) 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.

(iv) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnerships.

(v) 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.

(i) 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.

(j) Derivatives

The Fund's managers use derivative financial instruments to manage exposure to specific risks arising from their investment activities, not for speculative purchases. FTSE futures may be used to maintain exposure to the market rather than being held as cash holdings, and are 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.

(k) Cash and cash equivalents

Cash is represented by the balance on the Fund’s bank account together with amounts held by the fund’s external managers. Cash equivalents are the deposits in the Fund’s special interest bearing account, which is readily convertible to known amounts of cash with no risk of change in value.

(l) Financial liabilities

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

(m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund's actuary in accordance with IAS 19 and relevant actuarial standards. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits as a note to the net assets statement (see note 19).

(n) Additional voluntary contributions

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 provider is Prudential and contributions are also collected for life assurance policies provided by Phoenix Life and Equitable Life.

(o) Contingent liabilities

A contingent liability arises where an event has taken place that gives the 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 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.

(p) 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 Fund for the financial years 2015/16 and 2016/17. This cycle of prepayment ended in 2016/17 and a new cycle of prepayment commenced in February 2017 with payments in advance of £3.0m in respect of its employer’s contributions to the Fund for the financial year 2017/18. These contributions have been treated as receipts in advance and shown as a liability within the Fund.

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

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

4 Critical judgements in applying accounting policies

Unquoted private equity and infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure investments are valued by the investment managers. The value of unquoted private equities at 31 March 2017 was £79.0m and unquoted infrastructure at 31 March 2017 was £11.8m.

Prepayment of Employer Contributions

The accounting policies section above describes the actions that the London Borough of Bexley took in 2013/14 to make payments in advance to the Fund in respect of employer’s pension contributions. In assessing the presentation of this in the current year’s accounts both the Council and the Fund have acknowledged that the Fund could, if it proved necessary, repay any outstanding amounts paid in advance by the Council back to it.

Pension Fund liability

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

5 Major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, because amounts cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the accounts at 31 March 2017 for which there is a significant risk of material adjustment in the following financial year are:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Fund assets. The Fund employs a professional actuary to provide expert advice about the assumptions to be used.	The effects on the net pension liability of changes in individual assumptions can be measured. For example • a 0.5% increase in the discount rate assumption would reduce the pension liability by £82m. • A 0.25% reduction in assumed salary inflation would reduce liabilities by £6m, and • a one year increase in assumed life expectancy would increase the liability by around £26m.
Private Equity	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £79.0m. There is a risk that this investment may be under- or overstated in the accounts.

6 Events after the reporting date

The Fund accounts were issued as part of the Statement of Accounts by the Director of Finance and Corporate Services on 27 September 2017. 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 2017, the figures in the accounts and notes have been adjusted in all material respects to reflect the impact of this information.

In May 2017 the Fund's Newton Global Equity mandate was transferred to the London Collective Investment Vehicle (London CIV). Ownership of the assets remains with the Fund. This transfer is the first stage of the Fund's commitment to asset pooling with the London CIV.

On 8 June 2017 the Fund paid £15.7m to the LPFA in respect of the bulk transfer of Bexley College. This scheduled body transfer was approved by the Secretary of State for Communities and Local Government effective from 1 August 2016.

7 Contributions Receivable

2015/16 £'000		**2016/17 £'000**
	Contributions from Employers	
7,015	London Borough of Bexley – normal	**7,536**
4,044	Scheduled bodies – normal	4,099
1,383	Admitted bodies – normal	1,431
2,883	London Borough of Bexley – deficit funding	3,096
1,224	Scheduled bodies – deficit funding	1,581
218	Admitted bodies – deficit funding	240
7	London Borough of Bexley – augmentation	7

	Contributions from Members	
3,534	London Borough of Bexley – normal	3,203
1,465	Scheduled bodies – normal	1,468
517	Admitted bodies – normal	504
96	London Borough of Bexley – additional voluntary	114
7	Scheduled bodies – additional voluntary	7
22,393	**Total contributions**	**23,286**

The funding objective is to achieve and maintain a solvency funding level of 100% of liabilities. Where a shortfall exists at the date of the actuarial valuation a deficit recovery plan is put in place which requires additional contributions to correct the shortfall.

The additional voluntary contributions included above are those which are paid into the Fund to purchase additional benefits in the pension scheme.

8 Transfers in from other pension funds

2015/16 £'000		**2016/17 £'000**
646	London Borough of Bexley	1,785
75	Scheduled bodies	139
0	Admitted bodies	1
721	**Total**	**1,925**

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

9 Benefits Payable

By category

2015/16 £'000		**2016/17 £'000**
24,199	Pensions	24,775
7	Augmented service	7
6,478	Commutation of pensions and lump sum retirement benefits	4,414
668	Lump sum death benefits	494
31,352	**Total**	**26,690**

By authority

2015/16 £'000		**2016/17 £'000**
27,944	London Borough of Bexley	26,229
1,565	Scheduled bodies	1,292
1,843	Admitted bodies	2,169
31,352	**Total**	**29,690**

10 Payments to and on account of leavers

By category

2015/16 £'000		**2016/17 £'000**
36	Refunds of contributions	85
1	State scheme premiums	0

760	Individual transfers out to other schemes	1,395
0	Bulk transfers out to other schemes	337
797	**Total**	**1,817**

By authority

542	London Borough of Bexley	1,638
208	Scheduled bodies	101
47	Admitted bodies	78
797	**Total**	**1,817**

The London Borough of Bexley's transfers out for 2016/17 include a bulk transfer in respect of Slade Green Primary School for £337k on 7th March 2017.

11 Management expenses

2015/16 (Restated) £'000		**2016/17 £'000**
381	Administrative costs	367
4,573	Investment Management costs	4,226
326	Oversight and Governance costs	453
5,280	**Total**	**5,046**

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

The Fund management fees above do not include estimates for the diversified growth fund, bond and property funds. 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 £1,330,000 in 2016/17 (£1,344,000 in 2015/16 restated).

Included above are £272,000 in respect of transaction costs (2015/16 £195,000). In addition to these costs, indirect costs are incurred through the bid–offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see note 14a).

The Fund has negotiated a performance related fee element with its global equity manager, Newton. In 2016/17 no performance related fee was payable (£1.1m in 2015/16).

12 Investment income

2015/16 £'000		**2016/17 £'000**
10,201	Dividends from equities	11,728
2,459	Pooled investment vehicles	2,317
532	Pooled investment vehicles – Level 3	3,890
8	Interest on cash deposits	1
2	Other investment income	0
13,202	**Total**	**17,936**

The 2016//17 Pooled investment vehicles level 3 figures include historical Private Equity adjustments for income previously included in sales and change in market value. This change had no overall impact on the net assets.

13 Taxes on Income

2015/16		2016/17
£'000		**£'000**
264	Withholding tax - equities	501
264	**Total**	**501**

14 Investments

31.3.2016		31.3.2017
£'000		**£'000**
	Investment assets	
385,980	Equities	490,154
286,273	Pooled investment vehicles	304,977
16,065	Cash/temporary investments	11,490
1,503	Investment income due	900
0	Amounts receivable for sales	0
689,821	**Total investment assets**	**807,521**
	Investment liabilities	
(1,376)	Amounts payable for purchases	(2,340)
688,445	**Net investment assets**	**805,181**

(a) Reconciliation of movements in investments

	Value at 31.3.2016	Purchases at cost	Sales proceeds	Transfers	Change in Market value	Value at 31.3.2017
	£'000	£'000	£'000	£'000	£'000	£'000
Equities	385,980	114,039	(105,108)		95,243	490,154
Pooled investment vehicles (non bond)	157,914	11,299	(16,869)		3,403	155,747
Pooled investment vehicles (non bond) - level 3	72,319	15,144	(13,591)		16,926	90,798
Pooled investment vehicles (bond)	56,040	0	0		2,392	58,432
Derivatives	0	0			0	0
	672,253	**140,482**	**(135,568)**	**0**	**117,964**	**795,131**
Cash/temporary investments	16,065				865	11,490
Outstanding investment transactions debtors	1,503				0	900
	689,821					**807,521**
Current Net Assets/(Liabilities)	(8,204)				246	(736)
Net Assets/(Liabilities)	0					0
Outstanding investment transactions creditors	(1,376)				(964)	(2,340)
Net assets	**680,241**				118,111	**804,445**

The Pooled investment vehicles (non bond) -level 3 figures include historical Private Equity adjustments for income and profit previously included in sales and change in market value. This change had no overall impact on the net assets.

(Restated)	Value at 31.3.2015 £'000	Purchases at cost £'000	Sales proceeds £'000	Transfers £'000	Change in Market value £'000	Value at 31.3.2016 £'000
Equities	403,920	66,004	(77,966)		(5,978)	385,980
Pooled investment vehicles (non bond)	151,789	16,426	(11,866)		1,565	157,914
Pooled investment vehicles (non bond) -level 3	53,658	12,167	(8,275)		14,769	72,319
Pooled investment vehicles (bond)	58,929	0	(2,200)		(689)	56,040
Derivatives	0	0			0	0
	668,296	**95,624**	**(99,476)**	**0**	**9,667**	**672,253**
Cash/temporary investments	21,002				(1,922)	16,065
Outstanding investment transactions debtors	1,624				(3)	1,503
	690,922					**689,821**
Current Net Assets/(Liabilities)	(10,046)				(5,624)	(8,204)
Net Assets/(Liabilities)	(7,803)				7,803	0
Outstanding investment transactions creditors	(1,122)				(254)	(1,376)
Net assets	**671,951**				**9,667**	**680,241**

Prior year transaction figures have been restated due to the removal of underlying estimated fees previously included in purchases, sales and change in market value in the 2015/16 Statement of Accounts. These changes had no overall impact on the net assets.

(b) Analysis of investments

31.3.2016 £'000		31.3.2017 £'000
	Equities	
125,847	UK quoted	159,918
150	UK unquoted	150
259,983	Overseas quoted	330,086
385,980		**490,154**
	Pooled investment vehicles	
82,653	Managed funds – UK property unquoted	84,624
56,040	Managed funds – Overseas fixed interest unquoted	58,432
72,316	Managed funds – Overseas limited liability partnership unquoted	90,795
63,995	Unitised insurance policy - Overseas unquoted	57,319
3	Unit trusts – UK unquoted	3
11,266	Unit trusts – Overseas unquoted	13,804
286,273		**304,977**
16,065	Cash/temporary investments	11,490
1,503	Investment income due	900
0	Amounts receivable for sales	0
17,568		**12,390**
689,821	**Total investment assets**	**807,521**

	Investment liabilities	
(1,376)	Amounts payable for purchases	(2,340)
688,445	**Net investment assets**	**805,181**

(c) Investments analysed by fund manager

31.3.2016			31.3.2017	
£'000	**%**		**£'000**	**%**
344,845	50.1	Newton Investment Management Ltd	417,018	51.8
95,072	13.8	UBS Global Asset Management Ltd	124,444	15.5
82,922	12.1	Aviva Investors	84,938	10.5
68,834	10.0	Partners Group	79,040	9.8
63,995	9.3	Standard Life (GARS)	57,319	7.1
29,145	4.2	BlackRock Bond Fund	30,517	3.8
3,482	0.5	UBS infrastructure Fund	11,755	1.5
150	0	London Common Investment Vehicle	150	0
688,445			**805,181**	

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

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

The unit trusts overseas unquoted are investments in the Newton Emerging Markets Fund. However, all the securities held within the Newton fund are quoted.

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

Asset Class / Security Name	Manager	31.03.17 £'000	31.03.17 % of inv assets
Standard Life GARS	Standard Life	57,319	7.1%

Asset Class / Security Name	Manager	31.03.16 £'000	31.03.16 % of inv assets
Standard Life GARS	Standard Life	63,995	9.3%

(d) Stock Lending

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

(e) Property holdings

The Fund's investment in property portfolio comprises entirely of investments in pooled property funds. The Fund does not directly own any property.

15 Analysis of Derivatives

No derivatives were used in 2015/16 and 2016/17.

16 Fair Value – Basis of Valuation

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final	Not required	Not required
Unquoted bonds funds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Pooled investments – overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Unquoted private equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability. Control premium	Valuations could be affected by material events occuring between the the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Unquoted Overseas Infrastructure Managed Fund	Level 3	The fair value of the investments has been determined using valuation techniques appropriate to each investment. These techniques include discounted cashflow analysis and comparable transaction multiples in accordance with the International Private Equity and Venture Capital Valuation Guidelines ("IPEVCVG") December 2015.	Significant unobservable inputs and observable inflation.	Valuations could be affected by material events occuring between the the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with investment managers and independent advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017.

	Assessed valuation range (+/-)	Value at 31 March 2017	Value on increase	Value on decrease
		£000	£000	£000
Unquoted overseas equity	10%	3	3	3
Private Equity	10%	79,040	86,944	71,136
Infrastructure Fund	18%	11,755	13,871	9,639
Total		**90,798**	**100,818**	**80,778**

(a) Fair Value Hierarchy

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

Level 1

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

Level 2

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

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. 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 the 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 following table provides an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using Observable inputs	With significant unobservable inputs	
Values at 31 March 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss	490,153	214,180	90,798	795.131
Net investment assets	**490,153**	**214,180**	**90,798**	**795,131**

	Quoted market price	Using Observable inputs	With significant unobservable inputs	
Values at 31 March 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss	385,979	213,955	72,319	672,253
Net investment assets	**385,979**	**213,955**	**72,319**	**672,253**

(b) Transfers Between Levels 1 and 2

There were no transfers between level 2 and level 1.

(c) Reconciliation of Fair Value Measurements Within Level 3

2016/17	Market value 1 April 2016	Purchases during the year and derivative movements	Sales during the year and derivative receipts	Unrealised gains/ (losses)	Realised gains/ (losses)	Market Value 31 March 2017
	£000	£000	£000	£000	£000	£000
Equities – unquoted overseas	3					3
Overseas unit trusts	3,482	7,653		420	200	11,755
Private equity	68,834	6,679	(13,654)*	4,271	12,910*	79,040
	72,319	**14,332**	**(13,654)**	**4,691**	**13,110**	**90,798**

* figures include historical Private Equity adjustments for profit previously included in sales and change in market value. This change had no overall impact on the net assets.

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

17 Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and Net Assets Statement heading. No financial assets were reclassified during the accounting period.

(a) Classification of financial instruments

Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised costt
31 March 2016				**31 March 2017**		
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
			Financial Assets			
385,980			Equities	490,154		
157,914			Pooled investment vehicles (non bond)	155,747		
72,319			Pooled investment vehicles (non bond) – level 3	90,798		
56,040			Pooled investment vehicles (bond)	58,432		
0			Derivatives	0		
	17,302		Cash		12,217	
1,503			Other investment balances	900		
	683		Debtors		2,493	
			Financial Liabilities			
(1,376)			Other investment balances	(2,340)		
		(10,124)	Creditors			(3,956)
672,380	**17,985**	**(10,124)**	**Total**	**793,691**	**14,710**	**(3,956)**

(b) Net gains and losses on financial instruments

2015/16 (Restated) £'000		2016/17 £'000
	Financial Assets	
9,667	Fair value through profit or loss	**118,111**

18 Nature and Extent of Risks Arising from Financial Instruments

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

(a) Market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate because of movements in market prices. 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.
- 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.
- 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.

Risk	Asset Type	Market Value 31Mar17	Market Value 31Mar16	% movement	£ movement 31Mar17	£ movement 31Mar16
Interest rate	Bonds	£58.4m	£56.0m	+1%	£0.6m	£0.6m
Currency	O/S Equities	£330.1m	£260.0m	10%	£33.0m	£26.0m
Price	Equities*	£490.2m	£386.0m	10% gain	£49.0m	£38.6m
Price	Bonds*	£58.4m	£56.0m	10% loss	(£5.8m)	(£5.6m)

***** If equities had been priced 10% lower it is quite likely that bond funds would have been priced 10% higher offsetting the lower valuation.

(b) Credit risk

Credit risk is the risk that counterparties to the financial instruments will fail to pay the amounts due to the Fund, thereby causing financial loss. This may arise if the value of a particular stock falls substantially or if a dividend is not paid out. Investment managers will usually assess this risk when making investments on behalf of the Fund. The market price of investments generally also includes a credit assessment and risk of loss into the valuations. In essence, therefore, the Fund's entire investment portfolio is exposed to some form of credit risk, 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 (9.8% at 31 March 2017 and 10.0% at 31 March 2016) 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 2016/17 then a loss of income of £586,000 would have occurred (£506,000 in 2015/16). 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 2017 was £815,000. This was held with NatWest Bank plc who meet the Council's credit rating criteria. In overall terms the Fund's exposure to credit risk is the carrying amount of the financial assets at 31 March 2017.

(c) Liquidity risk

Liquidity risk is the risk that the Fund might not be able to meet its payment obligations as they fall due (such as pension payments to members). The 2016/17 accounts show that the benefits and administrative expenses paid out exceeded the contributions to the Fund. The balance was met from investment income. However, the majority of the Fund's investments were sufficiently liquid as to be sold to provide additional cash if required. The Fund operates its own separate bank account and the liquidity position is monitored on a day to day basis. The Fund is also permitted to borrow for up to 90 days if its cash flow is insufficient to meet short term commitments.

The Fund defines liquid assets as those that can be easily converted to cash within three months. Illiquid assets are those assets that will take longer than three months to convert to cash. As at 31 March 2017 the value of illiquid assets was £176m, which represented 22% of total fund assets (31 March 2016: £155m which represented 23% of total fund assets).

19 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 2016. 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 2016 actuarial valuation the Fund was assessed as 94% funded (87% at the March 2013 valuation). This represented a deficit of £45m (£81m in 2013) at that time. Contribution rates were set for the three year period ending 31 March 2020 for scheme employers and admitted bodies. The primary contribution rate (the rate which all employers in the Fund pay) was set at 16.4% (15.0% in 2013).

Individual employers' rates vary from the primary contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2016 actuarial valuation report on the Fund's website.

20 Actuarial Present Value of Promised Retirement Benefits

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

LONDON BOROUGH OF BEXLEY PENSION FUND

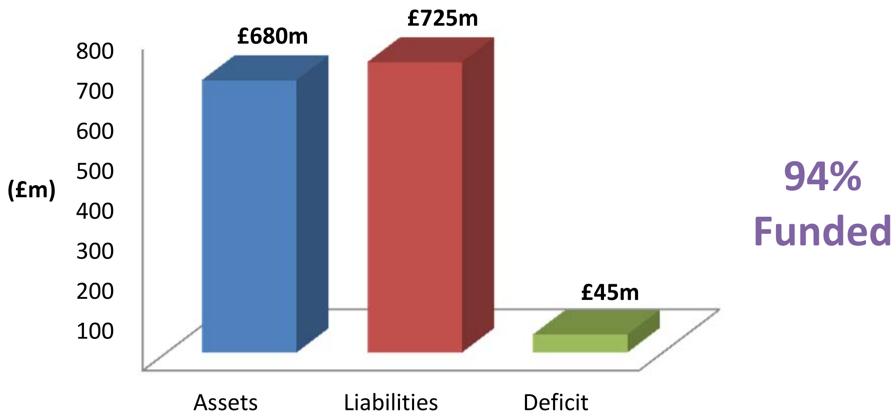
Accounts for the year ended 31 March 2017 - Statement by the Consulting Actuary

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

An actuarial valuation of the London Borough Of Bexley Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £680 million represented 94% of the Fund's past service liabilities of £725 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £45 million.

Fund Assets and Liabilities 2016



The valuation also showed that a Primary contribution rate of 16.4% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus). The Secondary rate of the employer's contribution is an adjustment to the Primary rate to arrive at the overall rate the employers are required to pay.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period adopted is approximately 13 years, and the total initial recovery payment (the "Secondary rate" for 2017/18) is approximately £3.6 million per annum.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

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 Primary rate of contribution were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.4% per annum	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

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 2017 (the 31 March 2016 assumptions are included for comparison):

	31 March 2016	31 March 2017
Rate of return on investments (discount rate)	3.60% per annum	2.50% per annum
Rate of pay increases*	3.50% per annum	3.80% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.3% per annum

* includes a corresponding allowance to that made in the latest formal 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 2017.

During the year, corporate bond yields fell, resulting in a lower discount rate being used for IAS 26 purposes at the year end than at the beginning of the year (2.50% p.a. versus 3.60% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to significantly increase the liabilities over the year. The pay increase assumption at the year end has also changed to allow for short-term public sector pay restraint which serves to reduce the liabilities.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £814 million. Interest over the year increased the liabilities by c£29 million, and allowing for net benefits accrued/paid over the period decreased them by c£6 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of £214 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2017 is therefore £1,051 million.

Ian Kirk
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2017

21 Current Assets

2015/16 £'000		2016/17 £'000
	Debtors	
464	• Contributions due – employees	1,334
140	• Contributions due – employers	419
6	• Contributions due – i.r.o previous employment	19
73	• Sundry debtors	721
1,237	Cash balances	727
1,920	**Total**	**3,220**

Analysis of debtors

2015/16 £'000		2016/17 £'000
30	Central government bodies	78
41	Other local authorities	1,273
1	NHS bodies	1
611	Other entities and individuals	1,141
683	**Total**	**2,493**

22 Current Liabilities

(a) Current Liabilities

2015/16 £'000		2016/17 £'000
378	Sundry creditors	350
428	Benefits payable	135
1,515	Accrued expenses	500
7,803	Employer contributions prepayments	2,971
10,124	**Total**	**3,956**

Analysis of creditors

2015/16 £'000		2016/17 £'000
298	Central government bodies	314
7,803	Other local authorities	2,971
2,023	Other entities and individuals	671
10,124	**Total**	**3,956**

23 Additional Voluntary Contributions

2015/16 £'000		2016/17 £'000
995	Value of funds at start of year	842
185	Employees contributions	158
13	Investment income	15
0	Change in market value	51
(351)	Benefits paid and transfers out	(140)
0	Bonus restatement	2
842	**Value of funds at end of year**	**928**

24 Agency Services

The Fund does not pay any discretionary awards to agency services.

25 Related Party Transactions

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

Information in respect of material transactions with related parties is disclosed elsewhere within the Fund accounts. Of particular note is the £303,935 recharge in 2016/17 from the London Borough of Bexley to the Fund included in administration and oversight and governance costs.

The Director of Finance and Corporate Services allocates 5% of her time to the Fund and is the only officer that is regarded as holding a key management post in respect of the Fund. In 2016/17 she received salary, fees and allowances totalling £6,608 in respect of her allocation to the Fund (£6,393 in 2015/16 restated in respect of the Fund allocation).

The Director of Finance and Corporate Services contributes 11.4% of her gross salary to the LGPS. The Council also pays a flat rate percentage of employees' pay as employer's contribution. In 2016/17 this contribution was £913 in respect of the Director of Finance and Corporate Services' allocation to the Fund (£877 in 2015/16 restated in respect of the Fund allocation).

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 Fund. Each Member of the Pensions Committee is required to declare their interests at each meeting.

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

26 Contingent Liabilities and Contractual Commitments

The Fund has a commitment to contribute a further £18.5m to the fund of private equity funds (£25.1m as at 31 March 2016), and a further £10.3m into the infrastructure fund. These contributions will be financed from sales of existing investments. The timing for paying over these commitments over the next few years is uncertain. The overall amount invested in private equity is not expected to change significantly as new drawdowns are likely to be offset by increased distributions.

There were no other material contingent liabilities or contractual commitments at 31 March 2017, or material non-adjusting events subsequent to this.

27 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.

FUNDING STRATEGY STATEMENT

LONDON BOROUGH OF BEXLEY PENSION FUND

MARCH 2017

London Borough of Bexley

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

EXECUTIVE SUMMARY

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

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

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

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

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

THE FUND'S OBJECTIVE

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

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

The funding strategy set out in this document has been developed alongside the Fund's investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected.

SOLVENCY AND LONG TERM COST EFFICIENCY

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

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

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

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

As the solvency level of the Fund is 94% at the valuation date (i.e. the assets of the Fund are less than the liabilities), a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

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

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit contributions at least at the expected monetary levels from the preceding valuation (including any indexation in these monetary payments over the recovery period). Full details are set out in this FSS.

The target recovery period for the Fund as a whole is 14 years at this valuation which is the same as the corresponding recovery period from the previous valuation. Individual employer recovery periods will be considered depending on their own circumstances.

Where there is an increase in contributions required at this valuation, at the sole discretion of the Administering Authority, the employer will be able to step-up their contributions over a period of up to 3 years.

ACTUARIAL ASSUMPTIONS

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

The discount rate in excess of CPI inflation (the "real discount rate") has been derived based on the expected return on the Fund's assets based on the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities and solvency level is 2.2% per annum and for determining the future service ("Primary") contribution rates is 2.75% per annum.

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

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant.

EMPLOYER ASSET SHARES

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

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

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

FUND POLICIES

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

1. Covenant assessment and monitoring

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

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

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

2. Admitting employers to the Fund

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

Fund Employers

Designated bodies - those that are permitted to join if they pass a resolution

Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.

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

3. Termination policy for employers exiting the Fund

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

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

CONTENTS

APPENDICES

1
INTRODUCTION

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

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

BENEFITS

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

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

EMPLOYER CONTRIBUTIONS

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

PRIMARY RATE

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

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

SECONDARY RATE

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

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

2
PURPOSE OF FSS IN POLICY TERMS

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

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

The purpose of this Funding Strategy Statement is therefore:

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

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

3
AIMS AND PURPOSE OF THE FUND

THE AIMS OF THE FUND ARE TO:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

4
RESPONSIBILITIES OF THE KEY PARTIES

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

KEY PARTIES TO THE FSS

The **Administering Authority** should:

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

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)

- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

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

5
SOLVENCY FUNDING TARGET

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

SOLVENCY AND LONG TERM EFFICIENCY

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

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

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

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

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

Underlying these assumptions are the following two tenets:

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

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

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 at the latest.

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

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

- The Fund does not believe it appropriate for deficit contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain unless there is compelling reason to do so.

- Subject to consideration of affordability, as a general rule the deficit recovery period will remain the same for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in Appendix B).
- Individual employer contributions will be expressed and certified as two separate elements:
    - the Primary rate: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
    - the Secondary rate: a schedule of lump sum monetary amounts over 2017/20 in respect of an employer’s surplus or deficit

  For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2020 based on the results of the 2019 actuarial valuation.
- Where increases (or decreases) in employer contributions are required from 1 April 2017, following completion of the 2016 actuarial valuation, at the sole discretion of the Administering Authority the increase (or decrease) from the rates of contribution

payable in the year 2017/18 may be implemented in steps, over a maximum period of 3 years.

- For certain employers, subject to the agreement of the administering authority, the option to prepay Primary rate contributions may be made available. This option would be on the proviso that a "top-up" payment would be made by the employer prior to the end of the prepayment period in order to ensure that no underpayment emerges versus the minimum required by the valuation certificate.
- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer. The termination policy is set out in Appendix C.
- In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

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

6
LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

The results of the 2016 valuation show the liabilities to be 94% covered by the current assets, with the funding deficit of 6% being covered by future deficit contributions.

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

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

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

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in a real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 64%.

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

The current strategy is:

	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%

As documented in the ISS, the investment strategy and return expectations set out above equate to an overall best estimate average expected return of 3.7% per annum in excess of CPI inflation. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

7

IDENTIFICATION OF RISKS AND COUNTER-MEASURES

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

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

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

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

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

DEMOGRAPHIC

The demographic risks are as follows:-

- Longevity horizon continues to expand

- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations
- The level of take-up of the 50:50 option at a higher or lower level than built into the actuarial assumptions.

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

Whilst regulatory procedures are in place to ensure that ill-health retirements are properly controlled, employing bodies also need to recognise that unforeseen costs for them will arise in the event that the number of ill-health retirements were to exceed the assumptions made. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

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

INSURANCE OF CERTAIN BENEFITS

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

REGULATORY

The key regulatory risks are as follows:-

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

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

GOVERNANCE

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

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated

- Administering Authority unaware of structural changes in employer’s membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- Changes in the Committee membership.

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

8
MONITORING AND REVIEW

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

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

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

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

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

APPENDIX A – ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

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

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)
The discount rate has been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 2.2% per annum above CPI inflation, i.e. a total discount rate of 4.4% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

Inflation (Consumer Prices Index)
The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, but subject to

- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

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

Salary increases
In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in

their financial plan. For example for public sector employers this results in a total salary increase of 1.0% per annum to 2019/20 in line with Government policy.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. some Guaranteed Minimum Pensions where the LGPS is not currently required to provide full indexation).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity. The mortality tables used are set out below, with a loading reflecting LGPS 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 Fund experience carried out by the Actuary, the proportions married/civil partnership assumption has been modified from the last valuation. No allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

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

Discretionary Benefits

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

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

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

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

The financial assumptions in relation to future service (i.e. the normal cost) are based on an overall assumed real discount rate of 2.75% per annum above the long term average assumption for consumer price inflation of 2.2% per annum.

EMPLOYER ASSET SHARES

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

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

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

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

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2016 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.2% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	4.4% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

Life expectancy assumptions

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

Current Status	Retirement Type	2016 study
Annuitant	Normal Health	95% S2PMA_CMI_2015[1.5%] / 85% S2PFA_CMI_2015[1.5%]
	Dependant	119% S2PMA_CMI_2015[1.5%] / 98% S2DFA_CMI_2015[1.5%]
	Ill Health	95% S2PMA_CMI_2015[1.5%] + 3 yrs / 85% S2PFA_CMI_2015[1.5%] + 3 yrs
Active	Normal Health	95% S2PMA_CMI_2015[1.5%] / 85% S2PFA_CMI_2015[1.5%]
	Ill Health	95% S2PMA_CMI_2015[1.5%] + 4 yrs / 85% S2PFA_CMI_2015[1.5%] + 4 yrs
Deferred	All	95% S2PMA_CMI_2015[1.5%] / 85% S2PFA_CMI_2015[1.5%]

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

APPENDIX B –

EMPLOYER DEFICIT RECOVERY PLANS

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

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

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

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

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

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

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

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period).

Other factors affecting the Employer Deficit Recovery Plans

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

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore may in some cases be willing to use its discretion to accept an evidence based affordable level of contributions for such organisations for the three years 2017/2020. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

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

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

APPENDIX C –

ADMISSION AND TERMINATION POLICY

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

- Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.

- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

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

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

ENTRY TO THE FUND

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

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

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;

- If the admitted body has an expected limited lifespan of participation in the Fund;

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

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

ADMITTED BODIES PROVIDING A SERVICE

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

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

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

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

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

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

PRE-FUNDING FOR TERMINATION

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

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

EXITING THE FUND

TERMINATION OF AN EMPLOYER'S PARTICIPATION

When an employing body terminates for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

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

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

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

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

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

FUTURE TERMINATIONS

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

The Fund's standard policy is to recover termination deficits (including interest and expenses) as a one off payment. However, at the discretion of the Administering Authority, the deficit can be recovered over an agreed period as certified by the Actuary. This period will depend on the Administering Authority's view on the covenant of the outgoing employer.

MINIMUM RISK TERMINATION BASIS

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2016) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Least risk assumptions	31 March 2016
Discount Rate	2.2% p.a.
CPI price inflation	2.2% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

All demographic assumptions will be the same as those adopted for the 2016 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2% p.a. from 1.5% used in the 2016 valuation for ongoing funding and contribution purposes.

APPENDIX D –

COVENANT ASSESSMENT AND MONITORING POLICY

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

An assessment of employer covenant focuses on determining the following:

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

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

RISK CRITERIA

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

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

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

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

ASSESSING EMPLOYER COVENANT

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

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

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score

FREQUENCY OF MONITORING

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

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

COVENANT RISK MANAGEMENT

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

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

APPENDIX E – GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

INVESTMENT STRATEGY

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

Contents

1. Introduction

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

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

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

1.4. The ISS, which was approved by the Committee on 8 March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Strategy with each of its employers and the Pension Board. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement.

2. Statutory Background

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

2.2. The ISS required by Regulation 7 must include:

a) A requirement to invest money in a wide variety of investments;
b) The authority’s assessment of the suitability of particular investments and types of investments;
c) The authority’s approach to risk, including the ways in which risks are to be measured and managed;
d) The authority’s approach to pooling investments, including the use of collective investment vehicles and shared services;

e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

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

3. Directions by the Secretary of State

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

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

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

a) To require an administering authority to make changes to its investment strategy in a given timescale;
b) To require an administering authority to invest assets as specified in the Direction;
c) To transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and
d) To require an administering authority to comply with any instructions from either the Secretary of State or the appointed person in circumstances when the investment function has been transferred.

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

4. Advisers

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

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

5. Objective of the Fund

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

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

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

6. The suitability of particular investments and types of investments

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

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

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

6.4. As part of the 2016 triennial valuation the Committee at its meeting on 8 March 2017, as advised by Aon Hewitt, considered its investment strategy alongside its funding objective and agreed the following benchmark structure and target ranges.

	Benchmark %	**Target Range %**
UK Equities	0	0 - 20
Global Equities	40	30 - 60
Total Equities	**40**	**30 - 65**
Global Bonds (inc. Corporates)	10	5 - 15
UK Government Bonds	10	0 - 15
Total Bonds	**20**	**5 - 25**
Property	15	5 - 25
Private Equity	7	0 - 15
Infrastructure	8	0 - 15
Diversified Growth Fund	10	5 - 20
Total Alternatives	**40**	**20 - 50**
Cash	0	0 - 5
Total	**100**	**100**

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

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

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

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

7. Asset classes

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

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

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

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

8. Managers

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

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

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

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

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

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

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

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

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

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

9. Approach to risk

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

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

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

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

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

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

9.7. Funding risks

9.7.1. The major funding risks identified are:

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

9.7.2. The Committee measures and manages these potential financial mismatches in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling undertaken in

2013 which focused on probability of success and level of downside risk. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities; however, key metrics such as probability of reaching full funding and a key risk measure will be re-evaluated once the results of the 2017 analysis have been considered, to ensure the benchmark is still appropriate.

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

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

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

9.8. Asset risks

9.8.1. The major asset risks identified are:

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

9.8.2. The Committee measure and manage asset risks as follows:

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

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

9.9. Security

9.9.1. The major asset risks identified are:

- Investment manager may not have an appropriate control framework in place to protect and value Fund assets
- Custody arrangements may not be sufficient to safeguard fund assets
- Counterparty default in stock lending programme

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

10. Approach to pooling

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

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

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

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

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

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

11. Social, environmental and governance considerations

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

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

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

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

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

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

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

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

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

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

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

13. Stewardship

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

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

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

14. Compliance with “Myners” Principles

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

Appendix 1 - Compliance with “Myners” Principles

1. Effective decision-making

1.1. Administering authorities should ensure that:

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

1.2. Fund compliance – Full

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

2. Clear objectives

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

2.2. Fund compliance - Full

- The Fund’s Investment Strategy Statement and Funding Strategy Statement set out its investment objectives which are agreed after consultation with the Fund actuary and take into account the Fund’s liabilities, the impact on employer contribution rates, future cashflows and the Fund’s attitude to risk.

- Asset allocation, benchmarks and risk parameters are set with the aim of achieving these objectives.
- Fund managers have clear written mandates with individual performance targets and benchmarks and their performance is measured and reviewed by the Committee on a quarterly basis.
- Full account is taken of the strength of the sponsor covenant for all non-local authority employers admitted to the fund and contribution rates set accordingly.

3. Risks and Liabilities

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

3.2. Fund compliance – Full

- A risk register is maintained with specific investment risks identified
- The Committee, in setting its investment strategy, has taken account of the form and structure of its liabilities following advice from the Fund's actuary. The strategy aims to achieve the return required to meet its liabilities whilst taking into account stability of contributions and affordability for employers.
- Consideration is given to the payment of a bond by prospective admitted bodies to the Fund to minimise the financial consequences of default.
- A risk assessment and suggestions as to how the risks can be managed is included in the triennial valuation.
- Longevity risk is built into the triennial actuarial and is therefore included when determining the investment strategy
- Investment risk, including that of underperformance is taken into account in the Investment Strategy Statement and the Fund's Annual Report.

4. Performance Assessment

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

4.2. Fund compliance – Partial

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

5. Responsible Ownership

5.1. Administering authorities should:

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

5.2. Fund compliance – Partial

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

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

6. Transparency and Reporting

6.1. Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.
- Provide regular communication to members in the form they consider most appropriate.

6.2. Fund compliance – Full

- The Fund makes available a range of documents including:
  - Annual Report including Statement of Accounts.
  - Communications Policy Statement.
  - Investment Strategy Statement.
  - Funding Strategy Statement.
  - Triennial Actuarial Valuation.
  - Agenda and Minutes of the Pensions Committee.
  - Annual Statement of Benefits to all active and deferred members.
  - Newsletter to pensioners once a year.
  - Newsletters to active members at least once a year.

COMMUNICATIONS POLICY

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 2014-15: Based on International Financial Reporting Standards (the Code) aims to achieve consistent financial reporting between all English local
authorities. It is based in generally accepted accounting standards and practices.
Collateral
An asset (cash or securities) posted from one counterparty to another, and held as a guarantee against the value of a specified portfolio of trades or other transactions. Commonly referred to as margin, the collateral acts as a credit-risk mitigant. A collateral call is the demand by a derivatives counterparty for an investor to transfer cash or securities to collateralise movements in the value of a derivatives contract.
Contingent Liabilities
Potential costs that the Pension Fund may incur in the future because of something that happened in the past.
Creditors
Amounts owed by the Pension Fund for goods and services provided for which payment has not been made at the end of
the financial year.
Currency Forward
An agreement between two counterparties to buy/sell a specified quantity of the underlying currency at a specified future date. Contracts are settled in cash on the expiration date.
Custody/Custodian
Safekeeping of securities by a financial institution. The custodian keeps a register of holdings and will collect income and distribute monies according to client instructions.

Debtors
Sums of money due to the Pension Fund but not received at the end of the financial year.
Deficit
Arises when expenditure exceeds income or when expenditure exceeds available budget.
Equities
Ownership positions (shares) in companies that can be traded on public markets. They often produce income that is paid in the form of dividends. In the event of a company going bankrupt, equity holders' claims are subordinate to the claims of bond holders and preferred stock holders.
Events After The Balance Sheet Date
Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.
Exceptional Items
Material items which derive from events or transactions that fall within the ordinary activities of the Pension Fund and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.
Expected Return On Pension Assets
This is the average rate of return, including both income and changes in fair value but net of scheme expenses, which is expected over the remaining life of the related obligation on the actual assets held by the scheme.
Extraordinary Items
Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the Pension Fund and which are not expected to recur. They do not include exceptional items, nor do they include prior period items merely because they relate to a prior period.
Fair Value
The price at which an asset could be bought or sold in a transaction with another organisation.
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.
Investment Strategy Statement
Requirement, arising from the Pensions Act 1995, that all occupational pension plan trustees must prepare and maintain a written Investment Strategy Statement outlining policy on various investment matters (e.g. risk, balance between real and monetary assets, realisability of assets etc).
Surplus
Arises when income exceeds expenditure or when expenditure is less than available budget.
Transfer Values
Capital value transferred to or from a scheme in respect of a contributor's previous periods of pensionable employment.
Unit Trusts
A method which allows investors money to be pooled and used by fund managers to buy a variety of securities.
Value Added Tax (VAT)
A tax on consumer expenditure, which is collected on business transactions at each stage in the supply, but which is ultimately borne by the final customer.

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

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