



Bedfordshire
Pension
Fund

Bedfordshire Pension Fund Report and Accounts 2012 - 2013



BEDFORD
BOROUGH COUNCIL

Registration number: 00328861RF

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Foreword

It gives me great pleasure to present the Bedfordshire Pension Fund's Annual Report and Accounts for 2012/2013.

Firstly, I would like to thank John Titmuss, my vice-chairman, and other members who have sat on the Committee during the year. Their participation, support and advice has been invaluable and importantly, constructive.

As I write this foreword the Local Government Pension Scheme (LGPS) reform continues to evolve and consultations continue. The new scheme will be introduced in April 2014, however it is clear there remains a lot of work to be completed. BPF (Bedfordshire Pension Fund) continues to grow – by £150 million during 2012/2013 – and now stands at over £1.4 billion. Market conditions remain volatile through the period although it is recognised that the last quarter (January - March 2013) was particularly strong in some asset classes. With continued advice from our external consultants and a clear funding strategy in place we are optimistic we will be in a good place going forward. In the year 2012/2013 the Fund has introduced some changes to the distribution of assets in an attempt to counter the challenges that we face.

It is obvious, and not unique to Bedfordshire, that our liabilities increase faster than our assets at current times. The reasons for this are varied and are often complex, ranging from reduction in interest rates through to life longevity, by way of example. This is a very challenging time to undertake the formal triennial Valuation and, at the time of writing, the results will be known shortly. More detail is contained in the body of this report and you are encouraged to read it at your convenience. Indeed, if you have any questions we will be only too pleased to help and contact details can be found at page 96 of the report.

I would, on behalf of the Committee, like to thank the Director of Finance and Corporate Services and his colleagues for their sustained efforts in providing the advice and support required for Members, Employers, administration and the investments of the Pension Fund.

Councillor Doug McMurdo

Chairman of the Pension Fund Committee

Management Report



- Management and Advisers
- Legal Framework and Administration
- Contributions and Benefits
- Membership
- Participating Employers
- Funding Strategy Statement
- Governance Compliance Statement
- Communications Policy Statement

Management & Advisers as at 31 March 2013

Administering Authority	Bedford Borough Council
Administrator	Trevor Roff, Director of Finance & Corporate Services
Pension Fund Committee Members	
Bedford Borough Councillors	Doug McMurdo (Chair) Shan Hunt Jon Gambold
Central Bedfordshire Councillors	David Jones David Lawrence
Luton Borough Councillors	Stephen Lewis Jon Titmuss
Scheme Member Representative (non-voting)	Willy White
Independent Adviser	Valentine Furniss
Investment Managers	
	Baring Asset Management
	BlackRock Advisors
	CBRE Global Investors
	Credit Suisse Asset Management
	Insight Investment Management
	Lazard Asset Management
	Legal & General Investment Management
	Pyrford International
	Trilogy Global Advisors
Custodian	The Northern Trust Company
Investment Consultant	Linda Selman Hymans Robertson
Actuary	Peter Summers Hymans Robertson
External Auditor	Ernst and Young LLP
AVC Providers	Prudential Standard Life Assurance Company
Bankers	National Westminster Bank Royal Bank of Scotland plc Santander UK plc

Legal Framework & Administration

The Scheme

The local government pension scheme is statutorily based and governed by the Local Government Pension Scheme Regulations 2008 and subsequent amendments.

Administering Authority

Bedford Borough Council is the administering authority for the Bedfordshire Pension Fund. The Fund Administrator is Bedford Borough Council's Director of Finance & Corporate Services.

Role of the Pension Fund Committee

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

The membership of the Pension Fund Committee at 31 March 2013 is shown on page 5.

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

Fund Administrator

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

Corporate Governance

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

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

The Governance Policy Statement can be seen in full on the Pension Fund's website at www.bedspensionfund.org

In addition, the Pension Fund Committee has published a governance compliance statement in accordance with current regulations. This statement is reproduced in full on page 28.

Changes in Legislation

There were no significant changes of legislation affecting the fund during 2012/2013.

Administration of the Scheme

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

The local government pension fund administered by the Borough Council was established in 1974 to cover the future pension entitlements of all eligible employees of the Borough and Unitary Councils within Bedfordshire, other than teaching staff, police officers and firefighters who have their own pension schemes. A number of other bodies also participate in the pension scheme as of right (scheduled bodies) or are admitted to the scheme following application for membership (admitted bodies).

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

The local government pension scheme is required to be 'funded', i.e. it must be sufficient to sustain the future pension entitlements of both past and present employees. The scheme is financed by

contributions from employees and employers and by earnings from investments. Cash not immediately required to meet pensions and other benefits is invested in a selection of securities, equities, property and other assets. The level of employers' contributions is re-assessed every three years following an actuarial review of the fund by the fund's actuary.

Financial Performance (Administrative)

A budget for the administrative cash flows of the Pension Fund is prepared prior to the beginning of each financial year. The key elements of the 2012/2013 budget approved by the Pension Fund Committee in March 2012 are shown below together with actual performance.

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

Contributions are payable by participating employers on a monthly basis, due in arrears by the 7th working day of the following month. During 2012/2013, 99% of contributions were received by the due date and none were more than a month late. All contributions due were collected and there were no bad debt write-offs in respect of contributions. The Fund charges interest on overdue contributions in accordance with LGPS regulations.

Administrative cash flows

£000s	Budget	Actual	Variance
Contributions received	88,800	89,300	500
Transfers of value received	8,000	6,900	-1,100
Benefits paid	-74,300	-76,700	-2,400
Transfers of value paid	-8,000	-3,200	4,800
Cost of administering the fund	-4,200	-3,200	1,000
Net additions/withdrawals from dealings with members	10,300	13,100	2,800

Benchmarking

The Fund benchmarks its administrative costs against the SF3 data collected annually by the Office of National Statistics. The most recent data is that for the financial year 2011/2012 and is summarized in the following table:

Cost per Scheme Member (£)	2011/2012		2010/2011	
	Bedfordshire	All LGPS	Bedfordshire	All LGPS
Investment management:				
base fee	72.59		74.64	
performance fee	9.94		16.76	
Investment advice/ support:	5.93		6.54	
Total Investment Costs	88.46	83.03	97.94	75.23
Administration:	22.42		25.49	
Total	22.42	27.82	25.49	29.98

Communications

The Pension Fund is committed to establishing and maintaining effective communications with its members and other interested parties. To this end, the fund has issued a Communications Policy Statement formalising the processes by which this will be achieved. This policy statement may be seen on the Fund's website at www.bedspensionfund.org and is reproduced in full on page 37.

Systems & Technological Innovation

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

The Fund's financial data is collected on the Borough Council's Agresso system. This system is maintained in-house by the Council's IT team and includes comprehensive contingency and business continuity provisions. The Fund payroll is managed in-house utilising AXISE software. All Borough Council staff involved in Pension Fund administration and investment activities have access to the internet and the Council's intranet.

Equality and Diversity

The Council's policy on Equality & Diversity is available on the Council's website at www.bedford.gov.uk

Training - CIPFA Pensions Finance Knowledge & Skills Framework

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

Every public sector organisation should secure appropriate training, having assessed the professional competence of both those involved in pensions scheme financial management and those with a policy, management and/or oversight role. They should also ensure that those charged with pension scheme governance have access to the skills and knowledge they require to carry out this role effectively. CIPFA has published its Pensions Finance Knowledge and Skills Framework as a basis for the training and development of those involved in pension scheme finances. The six areas within the Knowledge and Skills framework are:

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

The Pension Fund has adapted the CIPFA framework in formulating and implementing its own training plan and, as recommended by CIPFA, makes the following compliance statement: As the administering authority of the Bedfordshire Pension Fund, the Council recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. It therefore seeks to appoint individuals who are both capable and experienced and will provide training for staff and members of the decision making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

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

The Fund has appointed the Fund Administrator to be responsible for ensuring that policies and strategies are implemented. The Fund has conducted a training needs assessment and, based on the outcome, has formulated a training plan. The following training against the plan has been provided during the year. The table reviews the training received by the Fund in 2012/2013.

Key for attended:

M = Members O = Officers Ob = Observer

Suggested optional events are shown shaded whilst others are suggested to be essential in the first two years in the committee.

Event	Length & timing of Training	Legislative & Governance	Accounting & Audit	Procurement & Relationships	Investment & Risk	Financial Markets	Actuarial	Attended
Local Event led by Actuary	¼ day 2 Oct 2012	X	X				X	2 M 2 O
Local Event led by Investment Consultant	½ day Tied into Panel Training 1 June 2012, 17 Nov 2012 15 Feb 2013			X	X	X		1 June 7 M 3 O 17 Nov 5 M 3 O 15 Feb 5 M 1 O
Local Government Employers (LGE) Trustee training	3 days	X	X	X	X	X	X	2 M Total to date 6 M 3 O 1 Ob
Annual Training Day LGE Refresher	1 day 25 March 2013	X	X	X	X	X	X	5 M 3 O 2 Ob
NAPF Local Authority Conference	2 days May 2011	X	X	X	X	X	X	3 O 0 M
LGC – Investment Seminar	2 days 6/7 Sep 2012	X			X	X		1 M 2 O
CIPFA – Pensions Conference	7 Nov 2012	X				X	X	2 O 0 M
LGE Trustee Conference	2 day Sep 2012	X				X		0 M 0 O
LAPFF Conference	3 days 28 Nov 2012				X			1 M 1 O
LGC – Investment Summit	2 days Feb/Mar 2013	X		X	X	X	X	1 M 1 O
Infrastructure Introduction	23 Jan 2013				X			2 M 1 O
Risk & Diversification Strategies for Local Authority Funds	21 Mar 2013				X	X		1 M 0 O

Contributions and Benefits

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

Contributions

Legislation requires regular three-yearly actuarial valuations of local authority pension funds to establish the annual contribution to be made by the employing bodies. The valuation on which the employers’ contributions for 2012/2013 were based was carried out as at 31 March 2010. The employers’ contributions resulting from this valuation were implemented from 1 April 2011 (see also Actuarial Statement on page 67).

Employees contribute to the scheme at a rate set by statute. On 1 April 2008, a tiered structure, in which rates vary according to salary, was introduced for all new and existing members. Employers make a contribution to the fund at a common (or primary) contribution rate, calculated as a percentage of employees’ pensionable pay. The actuary determines the common rate of contribution at the time of valuation, having regard to any statutory requirements then in force. A secondary employer’s contribution rate is calculated for each employing body to reflect their particular individual circumstances. The administering authority is also required to enable employees to make additional voluntary contributions (AVCs) to obtain enhanced pension benefits. The Standard Life Assurance

Company and Prudential plc have been appointed to provide this facility.

Pension Benefits

The local government pension scheme is a “defined benefit final salary” scheme, with employees’ pensions and benefits determined in accordance with statute and regulation. The annual pension and the retirement lump sum are based on length of service and, usually, the final twelve months pay. On retirement, members can elect to commute part of their pension to increase their lump sum payment.

Contributors can transfer accumulated benefits between pension funds on change in employment, where regulations allow. When an employee leaves the scheme with over three months service counting towards pension entitlement and does not transfer their benefits to another pension scheme, the employee is awarded a pension and lump sum, the payment of which is deferred until the individual’s earliest retirement age (deferred benefits).

Pension Increases

Mandatory increases in pensions and deferred benefits are made, in accordance with annual Statutory Pensions Increase (Review) Orders, to maintain the purchasing power of the benefit. The pension increase is effective from April each year and from April 2011 is based on the annual movement in the Consumer Price Index (CPI) as at the previous September. Previous to April 2011, it was based on the Retail Price Index (RPI). When the annual movement is negative, a zero increase is applied.

Proposed LGPS 2014 reforms

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

Membership

During 2012/2013 the number of pensioners increased from 12,527 at 31 March 2012 to 13,158 at 31 March 2013; the number of contributors within the fund increased from 17,244 to 17,442.

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

Active membership by Employer as at 31 March

2012		2013
4,456	Luton Borough Council	4,339
4,332	Central Bedfordshire Council	3,975
3,019	Bedford Borough Council	2,976
1,698	Academies	2,430
870	Bedfordshire Police Authority	845
593	University of Bedfordshire	687
451	Cranfield University	443
1,825	Other bodies	1,747
17,244	Total	17,442

Five Year Membership Summary as at 31 March

	2009	2010	2011	2012	2013
Active members	17,288	17,972	17,503	17,244	17,442
Pensioners	10,772	11,237	11,764	12,527	13,158
Deferred Pensioners	15,825	16,882	18,382	19,757	21,142
Total	43,885	46,091	47,649	49,528	51,742

Participating Employers

The following are the employers participating in the Bedfordshire Pension Fund as at 31 March 2013.

The contribution rates shown are the percentage of its employees' pensionable pay that each employer paid into the fund during 2012/2013.

Common contribution rate is set at a level so as

to bring the fund to 100% funding over a period of twenty years. However, some employers have opted to fund the deficit by making additional annual monetary payments and consequently have a lower contribution rate. The additional payments in 2012/2013 are included in the table below.

Scheduled Bodies:	Contribution Rate %	Additional payments £000
Alameda Academy	17.7	
Alban Church of England Academy	17.7	
All Saints Academy	12.8	4
Amphill Town Council	17.3	
Ardley Hill Academy	19.1	
Arlesey Town Council	17.3	
Arnold Academy	20.5	
Barnfield Academy Trust (was Barnfield West)*	21.9	2
Barnfield Business & Enterprise Studio Academy	14.8	
Barnfield College	14.5	154
Barnfield Education Services	20.0	
Barnfield South Academy	13.6	3
Bedford Academy*	21.9	
Bedford Borough Council	21.9	
Bedford College	14.2	114
Bedford Free School	19.2	
Bedfordshire Fire & Rescue Service	11.9	118
Bedfordshire and River Ivel Drainage Board	17.3	
Bedfordshire Police Authority	12.9	
Bedfordshire Probation Service	19.2	60
Biddenham Parish Council	17.3	
Biggleswade Academy Trust*	21.9	
Biggleswade Town Council	17.3	
Blunham Parish Council	17.3	
Bolnhurst Parish Council	17.3	
Brickhill Parish Council	17.3	
Bromham Parish Council	17.3	
Brooklands Academy*	21.9	
Caddington Parish Council	17.3	
Cedars Academy	22.5	
Central Bedfordshire College	15.2	90
Central Bedfordshire Council	21.9	
Central Bedfordshire UTC	20.0	
Challney Boys Academy	20.9	
Chantry Academy	21.9	
Cranfield Church Of England Academy*	21.9	
Daubeney Academy	21.9	
Denbigh High Academy	18.0	
Dunstable Town Council	17.3	
Eastcotts Parish Council	17.3	
Eaton Bray Academy	21.9	
Etonbury Academy	21.9	
Eversholt Lower	23.8	
Flitwick Town Council	17.3	
Fulbrook Academy	21.9	
Gilbert Inglefield Academy	21.9	
Goldington Academy	19.4	
Grange Academy	21.9	
Greenfield & Pulloxhill Academy	26.8	
Hadrian Academy*	21.9	
Harlington Academy	17.3	
Harlington Area Schools Trust*	21.9	
Harlington Parish Council	17.3	
Haynes Parish Council *	17.3	
Henlow Church of England Academy *	21.9	

Holywell School *	21.9	28
Houghton Conquest Parish Council *	17.3	
Houghton Regis Academy *	21.9	
Houghton Regis Town Council	17.3	
Icknield Academy*	19.1	
Kempston Burials Joint Committee	17.3	
Kempston Rural Parish Council	17.3	
Kempston Town Council	17.3	
Lark Rise Academy	17.3	
Leighton Linlade Town Council	17.3	
Linslade Academy Trust	17.0	
Luton Borough Council	12.6	5,803
Luton VI Form College	15.2	27
Mark Rutherford Academy	21.5	
Marston Moretaine Parish Council	17.3	
Moorlands Free School	14.8	
Northill Parish Council	17.3	
Potton Town Council	17.3	
Priory Academy *	21.9	
Queens Park Academy	15.4	
Queensbury Academy *	21.9	
Redborne Academy	16.7	
Robert Bloomfield Academy *	21.9	
Samuel Whitbread Academy *	21.9	
Sandy Town Council	17.3	
Sandye Place Academy	14.8	
St Augustine's Academy *	21.9	
St Christopher's Academy *	21.9	
St Johns Special School and College	17.4	
St Mary's School, (Stotfold) *	21.9	
Sharnbrook Academy Federation	16.5	
Staploe Parish Council	17.3	
Stotfold Town Council	17.3	
Stratton Education Trust	22.6	
The Firs Academy	22.9	
Toddington Parish Council	17.3	
Turvey Parish Council	17.3	
University of Bedfordshire	13.5	792
Vandyke Academy	20.5	
Weatherfield Academy *	21.9	
Whipperley Infant Academy	19.1	
Woodland Academy	16.0	
Wootton Academy Trust *	21.9	
Wootton Parish Council	17.3	

Admitted and Other Member Bodies:	Contribution Rate %	Additional payments £000
Active Luton (Leisure Trust)	11.7	45
Amey Infrastructure Services	28.8	
Aragon Housing Association	12.9	104
Bedfordshire Pilgrims Housing Association	16.9	400
Christian Family Care	19.8	48
Civica UK Limited (2009)	7.2	
Civica UK Limited (2011)	20.1	
Cranfield University	17.0	1,658
Creative Support	22.8	
Grand Union Housing	12.9	73
Luton Cultural Services Trust	13.4	
Macintyre Housing	12.9	12
Mitie	20.0	
One Housing Association	18.3	
South Essex Partnership Trust (formerly Beds and Luton Mental Health Trust)	14.7	41
St Christopher's Fellowship	16.4	2
St Francis Children's Society	19.0	

* these academy schools are using their previous local authority contribution rate until the results of the 2013 valuation are implemented.

Funding Strategy Statement

1. Introduction

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

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP and after consultation with the Fund’s employers and investment adviser and is effective from 31 March 2011.

1.1 Regulatory Framework

Members’ accrued benefits are guaranteed by statute. Members’ contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Regulations 1997 (regulations 76A and 77 are particularly relevant);
- the Local Government Pension Scheme (Administration) Regulations 2008 (regulations 35 and 36);
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary’s triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’

contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

The key requirements relating to the FSS are that:

- After consultation with all relevant interested parties involved with the Fund, the administering authority will prepare and publish their funding strategy.
- In preparing the FSS, the administering authority must have regard to:
 - » FSS guidance produced by CIPFA
 - » its statement of investment principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

The Fund’s actuary must have regard to the FSS as part of the fund valuation process.

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31 March 2014. More frequently, Annex A is updated to reflect any changes to employers.

The FSS is a summary of the Fund’s approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Geoff Reader in the first instance at Geoff.Reader@bedford.gov.uk or on 01234 228562.

2. Purpose

2.1 Purpose of FSS

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

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

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

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers’ contributions, and prudence in the approach to funding the scheme’s liabilities across a range of employers participating in the Fund.

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfer payments and investment income;
- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex B.

2.3 Aims of the Funding Policy

The objectives of the Fund’s funding policy include the following:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;
- to minimise the degree of short-term change in the level of each employer’s contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to maintain the affordability of the fund to employers as far as is reasonable over the longer term.

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

- a. the estimated cost of future benefits being accrued, referred to as the “future service rate”; plus
- b. an adjustment for the funding position (or “solvency”) of accrued benefits relative to the Fund’s solvency target, “past service adjustment”. If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund’s actuary is required by the regulations to report the Common Contribution Rate, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years.

The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

In effect, the Common Contribution Rate is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.

For some employers it may be agreed to pool contributions, see Section 3.7.6.

Annex A contains a breakdown of each employer’s contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14. It includes a reconciliation of each employer’s rate with the Common Contribution Rate.

Any costs of non ill-health early retirements must be paid as lump sum payments at the time of the employer’s decision in addition to the contributions described above (or by instalments shortly after the decision).

Employers’ contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

3.2 Solvency and target funding levels

The Fund’s actuary is required to report on the “solvency” of the whole fund at least every three years.

“Solvency” for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary’s ongoing funding basis. This quantity is known as a funding level.

The ongoing funding basis has traditionally been used for each triennial valuation for all employers in the fund. The ongoing funding basis assumes employers in the Fund are an ongoing concern and is described in the next section.

Where an admission agreement for an admission body that is not a Transferee Admission Body and has no guarantor is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe, the fund reserves the right to set contribution rates by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment outperformance relative to gilts). The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the agreement terminates or the last active member leaves in order to protect other employers in the fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

The Fund also reserves the right to adopt the above approach in respect of those admission bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

The Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority.

The fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. The time horizon of the funding target for community and transferee admission bodies will vary depending on the expected duration of their participation in the fund. Please refer to paragraph 3.8 for the treatment of departing employers.

3.3 Ongoing funding basis

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds advised by the Fund Actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Employers should be aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profiles of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from the Fund's assets in excess of gilts. There is, however, no guarantee that assets will out-perform gilts or even match the return on gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

In light of the statutory requirement for the Actuary to consider the stability of employer contributions it is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2010 valuation, it is assumed that the Fund's investments will deliver an average real additional return of 1.9% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation. The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation.

3.4 Future service contribution rates

The future service element of the employer contribution rate is traditionally calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The future service rate has been calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. Where it is considered appropriate to do so then the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a gilts basis (most usually for admission bodies that are not a Transferee Admission Body and that have no guarantor in place). The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 Employers that admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits that employee members earn from their service each year. Technically these rates will be derived using the *Projected Unit Method* with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

3.4.2 Employers that do not admit new entrants

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long term stability to such employers' contributions, the Attained Age funding method is normally adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both funding methods are described in the Actuary's report on the valuation.

Both future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Adjustments for individual employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.

The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;

- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between the 2007 and 2010 valuations and each subsequent triennial valuation period..

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

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation [see section 3.6 below], including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of more or fewer withdrawals than assumed;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

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

3.6 Asset share calculations for individual employers

The Administering Authority does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of the whole fund between the employers (or pool of employers) at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer or pool of employers. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions.

The split is calculated using an actuarial technique known as “analysis of surplus”. The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary’s approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of employer contributions

3.7.1 Solvency issues and target funding levels

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of prudential strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible.

These include:

- capping of employer contribution rate increases / decreases within a pre-determined range (“Stabilisation”)
- the pooling of contributions amongst employers with similar characteristics
- the use of extended deficit recovery periods
- the phasing in of contribution increases / decreases

3.7.2 Stabilisation

There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

In view of this possibility, the Administering Authority has commissioned the Fund Actuary to carry out extensive modelling to explore the long term effect on the Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit employer contribution rate changes from 1 April 2011, subject to the following conditions being met:

- the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
- there are no material events between now and 1 April 2011 which render the stabilisation unjustifiable.

Contributions for such employers will not increase in 2011/12 and 2012/13 and then increase by 2% in 2013/14.

In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been “stabilised” and are therefore paying less than their theoretical contribution rate should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

For the avoidance of doubt it should be noted that the Administering Authority will not allow the Academy Trusts joining the Fund after the valuation date of 31st March 2010 to adopt a stabilised contribution strategy.

The Fund currently has a strong net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.

The LGPS regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities. The role of the Fund Actuary in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements. The approach to the actuarial valuation and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

3.7.3 Deficit recovery periods

The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table below:

Type of Employer	Maximum Length of Deficit Recovery Period
Statutory bodies with tax raising powers	a maximum period 20 years
Admission Bodies with funding guarantees	a period to be agreed with each employer not exceeding 20 years
Admission Bodies with significant Central Government Funding	a period to be agreed with each employer not exceeding 15 years
Transferee Admission Bodies	the period from the start of the revised contributions to the end of the employer's contract or not exceeding expected future working lifetime of remaining scheme members allowing for expected leavers (whichever is shorter)
Community Admission Bodies that are closed to new entrants whose admission agreements continue after last active member retires.	A period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers.
All other types of employer	a period equivalent to the expected future working lifetime of the remaining scheme members

This maximum period is used in calculating each employer's minimum contributions. Employers may opt to pay higher regular contributions than these minimum rates. The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2011 for 2010 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods.

3.7.4 Surplus spreading periods

Following the completion of the 2010 valuation, some employers may have a funding level greater than 100%.

Any employers deemed to be in surplus could have been permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their minimum contribution. However, in light of recent market conditions, the Administering Authority believes that it would not be prudent for these employers to reduce their contributions. Therefore it may require that employers in surplus will pay contributions which are at least equal to the cost of accruing benefits.

3.7.5 Phasing in of contribution rises

Transferee Admission Bodies are not eligible for phasing in of contribution rises. Other employers may opt to phase in contribution rises as follows:

- for employers contributing at or above its future service rate in 2010/11, phasing in the rise in employer contributions over a period of three years;

3.7.6 The effect of opting for longer spreading or phasing-in

Employers that are permitted and elect to use a longer deficit spreading period than was used at the 2007 valuation or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions is expected to lead to higher contributions in the long-term (depending on the actual financial and demographic performance of the Fund relative to the valuation assumptions).

However any adjustment is expressed for different employers, the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

3.7.7 Pooled contributions

a. Smaller employers

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

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

At the 2004, 2007 and 2010 valuations, a separate pool was operated for Town and Parish Councils.

b. Other contribution pools

Schools are also pooled with their funding Council.

Those employers that have been pooled are identified in Annex A.

3.8 Admission bodies ceasing

Admission Agreements for Transferee Admission Body contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended and to continue until all the benefits have been paid in full. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point subject to the terms of the agreement.

The Fund, however, considers any of the following as triggers for the termination of an admission agreement:

- Last active member ceasing participation in the LGPS;
- The insolvency, winding up or liquidation of the admission body;
- Any breach by the Admission Body of any of its obligations under the agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the admission body to pay any sums due to the

Fund within the period required by the Fund; or

- The failure by the admission body to renew or adjust the level of the bond or indemnity or to confirm appropriate alternative guarantor as required by the Fund.

In addition either party can voluntarily terminate the admission agreement by giving the appropriate period of notice as set out in the admission agreement to the other party (or parties in the case of a Transferee Admission Body).

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit. The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances.

For example:

- a. For Transferee Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with the assumptions used to calculate the initial transfer of assets to accompany the active member liabilities transferred.
- b. For admission bodies that are not Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or which triggers a cessation event, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. Where there is a guarantor, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis" with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required.

- c. For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

In the event that the Fund is not able to recover the required payment in full directly from the Admission Body or from any bond or indemnity or guarantor, then:

- a. In the case of Transferee Admission Bodies the awarding authority will be liable. At its absolute discretion, the Administering Authority may agree to recover any outstanding amounts via an increase in the awarding authority's contribution rate over an agreed period.
- b. In the case of admission bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date.

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

3.9 Early retirement costs

3.9.1 Non ill-health retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at

which the valuation assumes that benefits are payable.

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire. Members receiving their pension unreduced before this age other than on ill-health grounds are deemed to have retired early.

The additional costs of premature retirement are calculated by reference to these ages.

Employers must make these additional contributions as a one off payment to the fund immediately on awarding the early retirement. The exception to this rule are statutory bodies with tax raising powers, where, depending on the circumstances, the Administering Authority may at its absolute discretion agree to spread the payment over a period not exceeding 3 years. If this is agreed, interest will be charged, using factors provided by the actuary. In any event the spread period cannot exceed the period to the member's normal retirement date if this is shorter than 3 years.

3.9.2 Ill-health monitoring

The Fund monitors each employer's, or pool of employers, ill health experience on an ongoing basis. If the cumulative number of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases.

3.10 New admitted bodies

The Fund requires the following from any potential Admission Bodies wishing to join the Fund.

Transferee Admission Bodies will be required to have a guarantee from the transferring scheduled body and also provide a bond if requested by the Administering Authority. The bond is required to cover the following:

- the strain cost of any redundancy early retirements

resulting from the premature termination of the employer's contract

- allowance for the risk of asset underperformance
- allowance for the risk of a fall in gilt yields

The employer may also be required to include their current deficit within the bond amount. The bond will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies to join the Fund if they are sponsored by a scheduled body with tax raising powers, guaranteeing their liabilities and also provide a bond if requested.

This reduces the risk to the Fund of potentially having to pick up any shortfall in respect of Admission Bodies.

4. Links to investment strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the administering authority, after consultation with the employers' representatives and after taking investment advice.

4.1 Investment strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2010, the proportion held in equities and property was 68% of the total Fund assets.

The investment strategy of lowest risk would be one which provided cashflows which replicate the expected benefit cashflows (i.e. the liabilities). Equity investment would not be consistent with this.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from index-linked bonds. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants.

4.2 Consistency with funding basis

The funding policy currently adopts an asset out-performance assumption of 1.9% per annum over and above the redemption yield on index-linked gilts. This resulted in a return on the Fund's assets of 6.4% p.a. to be adopted for the 2007 and 2010 formal valuation. The Fund's investment strategy is as currently outlined in the Fund's Statement of Investment Principles. The Fund's Actuary considers that the funding basis does conform to the requirements to take a "prudent longer-term" approach to funding.

The Administering Authority has sought specific advice from the Fund's Actuary on the interaction between funding and investment strategy. In particular, the Administering Authority will consider the implications of the combined strategy on the key objectives of stability of contributions, affordability for employers, transparency of process and method, and prudence. The Administering Authority considers that its funding and investment policy appropriately balances these objectives.

The Administering Authority is aware that, in the short term – such as the three yearly assessments at formal valuations – the proportion of the Fund invested in equities brings the possibility of considerable volatility and there is a material chance that in the short term and even medium term, the asset returns will fall short of the out-performance target. The stability measures described in Section 3 will dampen down, but not remove, the effect on employers' contributions.

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

4.3 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Strategic Benchmarking techniques to model the range of potential future solvency levels and contribution rates.

4.4 Inter-valuation monitoring of funding position

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of measuring investment returns relative to the returns on a least risk portfolio of index linked bonds and measuring investment manager returns against their mandate. Where regulatory change takes place that may have a significant and detrimental effect on the funding position actuarial advice is sought on the approach that should be adopted. The fund also reports back to employers annually at its Annual General Meeting.

5 Key risks and controls

5.1 Types of risk

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

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

5.2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	<p>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between formal valuations subject to market experience</p>
Inappropriate long-term investment strategy	<p>Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.</p> <p>Consider measuring performance relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	<p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>
Active investment manager under-performance relative to benchmark	<p>Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.</p> <p>This could be supplemented with an analysis against of absolute returns against those under-pinning the valuation.</p>
Pay and price inflation significantly more than anticipated	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in index-linked bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	<p>Seek feedback from employers on scope to absorb short-term contribution rises.</p> <p>Mitigate impact through deficit spreading and phasing in of contribution rises.</p>

5.3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.</p> <p>Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.</p>
Deteriorating patterns of early retirements	<p>Employers are charged the extra capital cost of non ill health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored.</p>
A company admitted to the Fund as an admission body may become financially unviable	<p>A surety bond is required to cover the potential risk of the admitted body becoming insolvent and the value of this surety or bond is reviewed regularly to ensure it provides adequate cover for the financial risks involved.</p>
Ill-health retirements significantly more than anticipated	<p>Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill-health assumption built in.</p>

5.4 Regulatory

Risk	Summary of Control Mechanisms
<p>Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees</p> <p>Changes to national pension requirements and/or HM Revenue and Customs rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006, abolition of 85 year rule, new 2008 scheme, tax simplification and budget changes for higher earners.</p>	<p>The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.</p> <p>It considers all consultation papers issued by the CLG and comments where appropriate.</p> <p>The Administering Authority will consult employers where it considers that it is appropriate.</p> <p>In all circumstances where it appears that changes may impact on the Fund's solvency the Administering Authority will consider seeking actuarial advice to mitigate or manage the impact of such changes.</p>

5.5 Governance

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).	The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.
Administering Authority not advised of an employer closing to new entrants.	<p>The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations</p> <p>Deficit contributions are expressed as monetary amounts (see Annex A).</p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with Transferee Admission Agreements to inform it of forthcoming changes.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <ul style="list-style-type: none"> • Seeking a funding guarantee from another scheme employer, or external body, where-ever possible. • Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. • Vetting prospective employers before admission. • Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.

Governance Compliance Statement

The fund is required to publish a statement disclosing the degree to which it complies with best practice in its governance procedures. This statement is reproduced in full below:

Governance Best Practice: Compliance Statement

Approved by the Bedfordshire Pension Fund Panel
22 February 2010 (Based on draft guidance issued
08 October 2007)

Structure

- a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.
Fully Compliant – Pension Committee

- b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. **Fully Compliant – All Unitary councils are represented on the Committee.**
- c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. **Fully Compliant: membership is the same.**
- d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel. **Fully Compliant: membership is the same.**

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

* Please use this space to explain the reason for non-compliance (regulation 73A(1) (c)/1997 Regulations)

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

b) Due to the preferred size of the Panel more observers not invited. The current Panel structure covers 70% of the active membership (based on 31 March 2008 membership).

Representation

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

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

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

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

Full compliance

	Not Compliant*		Fully Compliant	
a)			✓	
b)				✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

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

a) The current Panel structure covers 70% of the active membership (based on 31 March 2008 membership).

Selection and role of lay members

a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

Full compliance – See governance statement

	Not Compliant*		Fully Compliant	
a)			✓	

* Please use this space to explain the reason for non-compliance
(regulation 73A(1)(c)/1997 Regulations)

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

Voting

a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

Partial compliance – See governance statement

	Not Compliant*		Fully Compliant	
a)				✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations)

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

Training/Facility time/Expenses

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.

Full compliance

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

Full compliance

c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.

There was and will be a log kept of all training undertaken by the committee members. A training plan will be compiled although one particular course is targeted for newcomers to the Pension Fund.

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

* Please use this space to explain the reason for non-compliance (regulation 73A(1) (c)/1997 Regulations)

All new committee participants are expected to complete the Local Government Employers' Trustee Training Fundamentals course.

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

Meetings (frequency/quorum)

a) That an administering authority's main committee or committees meet at least quarterly. Fully Compliant:
Meets four times a year

b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. Fully Compliant – Panel meets at least 4 times a year just before a Committee meeting.

c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.
Fully compliant: via annual general meeting

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

* Please use this space to explain the reason for non-compliance (regulation 73A(1) (c)/1997 Regulations)

The Pension Fund Panel operates in an advisory capacity to the Committee and shares Chairman and membership. It meets and discusses the agenda without public and press being present as it is a Panel. The Panel minutes are accepted by the Committee which also receives a six monthly report that is then reported onto full Council

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

Access

a) That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee. Full compliance

	Not Compliant*		Fully Compliant		
a)					✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1) (c)/1997 Regulations)

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

Scope

a) That administering authorities have taken steps to bring wider scheme issues, such as administration issues, within the scope of their governance arrangements

Full compliance – See governance statement

	Not Compliant*		Fully Compliant		
a)					✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1) (c)/1997 Regulations)

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

Publicity

a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

Full Compliance

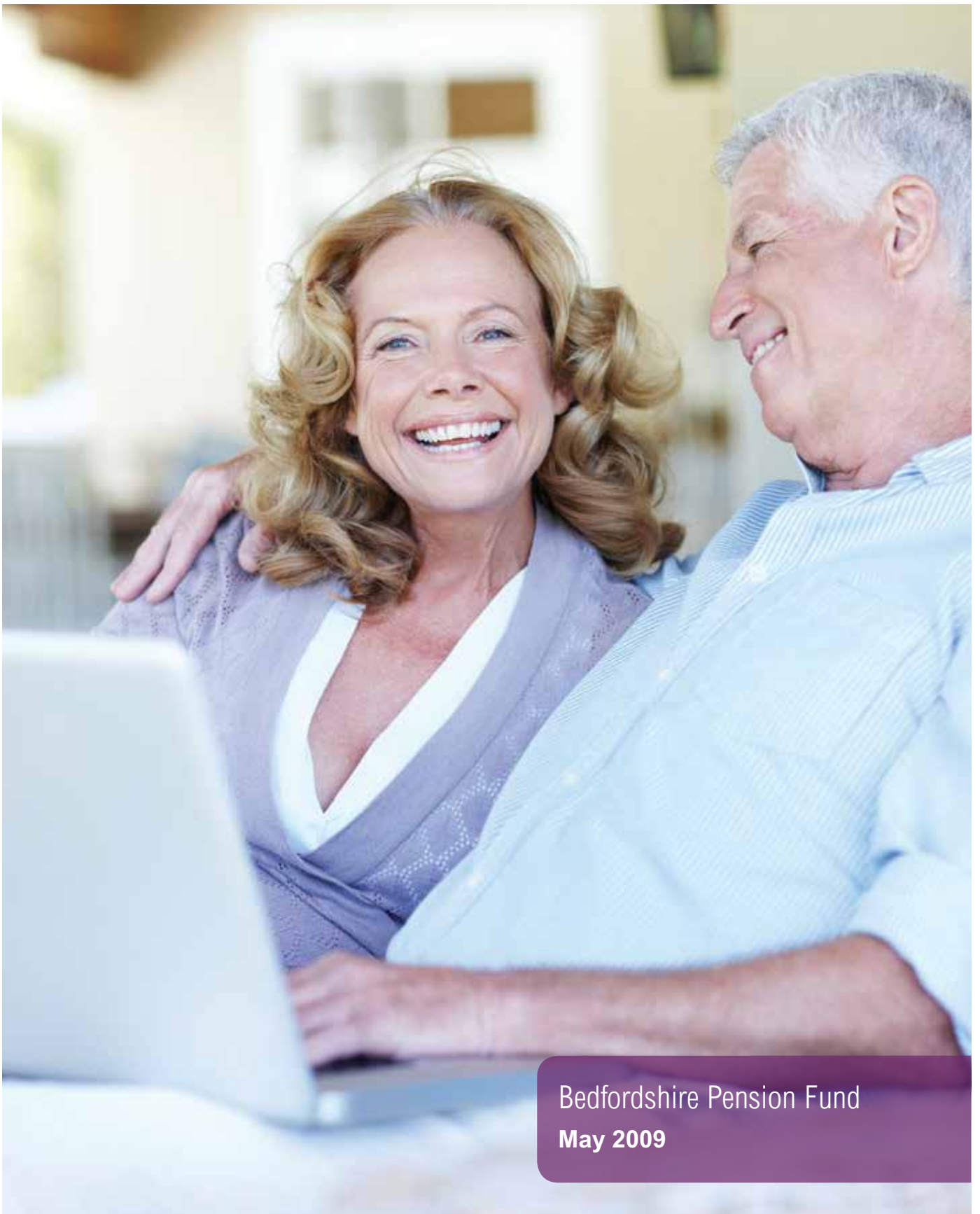
	Not Compliant*		Fully Compliant		
a)					✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1) (c)/1997 Regulations)

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

There was consultation on the latest Governance Statement and an employer did express an interest in increasing the membership of the Panel. This interest was reported to the Panel.

Communications Policy Statement



Bedfordshire Pension Fund
May 2009


Introduction

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

The Fund liaises with over 40 employers and approximately 32,500 scheme members in relation to the Local Government Pension Scheme. The delivery of the benefits involves communication with a number of other interested parties. This statement provides an overview of how we communicate and how we intend to measure whether our communications are successful.

It is effective from 1 April 2009.

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

 **Mrs Claire Bennett**
Pensions Administration Manager
Bedford Borough Council
Cauldwell Street
Bedford
MK42 9AP

 **01234 228873**

 **claire.bennett@bedford.gov.uk**

Regulatory Framework

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

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

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

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

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

As a provider of an occupational pension scheme, we are already obliged to satisfy the requirements of the Occupational Pension Schemes (Disclosure

of information) Regulations and other legislation, for example the Pensions Act 2004. Previously the disclosure requirements have been prescriptive, concentrating on timescales rather than quality. From 6 April 2006 more generalised disclosure requirements are to be introduced, supported by a Code of Practice. The type of information that pension schemes are required to disclose will remain very much the same as before, although the prescriptive timescales are being replaced with a more generic requirement to provide information within a “reasonable period”. The draft Code of Practice¹ issued by the Pensions Regulator in September 2005 sets out suggested timescales in which the information should be provided. While the Code itself is not a statement of the law, and no penalties can be levied for failure to comply with it, the Courts or a tribunal must take account of it when determining if any legal requirements have not been met. A summary of our expected timescales for meeting the various disclosure of information requirements are set out in the Performance Management section of this document, alongside those proposed by the Pension Regulator in the draft Code of Practice.

1 Code of Practice - Reasonable periods for the purposes of the Occupational Pension Schemes (Disclosure of Information) Regulations 2006 issued September 2005

Responsibilities and Resources

Within the Pensions Section the responsibility for communication material is performed by our Pension Administration Manager with the assistance of a pensions administrator. The administrator post is a new one to help meet the communication policy.

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

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

Communication with key audience groups

Our audience

We communicate with a number of stakeholders.

For the purposes of this communication policy statement, we are considering our communications with the following audience groups:

- active members;
- deferred members;
- pensioner members;
- prospective members;
- employing authorities
(scheme employers and admission bodies);
- union representatives;

- elected members/the Pension Panel;
- Pension Section staff;
- tax payers;
- the specialist media.

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

How we communicate

General communication

We will use paper based communication as our main means of communicating. For security reasons, we will only use e-mail for communicating non-sensitive issues. So as to minimise costs, we will tend to develop alternative means of communication only where necessary.

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

Branding

As the Pension Fund is administered by Bedford Borough Council, all literature and communications will conform to the branding of the Council.

Accessibility

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

Policy on Communication with Active, Deferred and Pensioner Members

Our objectives with regard to communication with members are:

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

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

The communications are explained in more detail in table below:

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

Explanation of communications

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

Newsletters - An annual/biannual newsletter which provides updates in relation to changes to the LGPS as well as other related news, such as national changes to pensions, forthcoming roadshows, a summary of the accounts for the year, contact details, etc.

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

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

Estimated Benefit Statements - For active members these include the current value of benefits as well as the projected benefits at age 65. In relation to deferred members, the benefit statement includes the current value of the deferred benefits and the earliest payment date of the benefits as well.

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

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

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

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

Joiner packs - These complement the joiner booklet and enclose information on AVCs and the paperwork needed to join the scheme.

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

Our objectives with regard to communication with prospective members are:

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

As we in the Pension Fund office do not have direct access to prospective members, we will work in partnership with the employing authorities in the Fund to meet these objectives.

We will do this by providing the following communications:

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

Explanation of communications

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

Policy on communication with Employing Authorities

Our objectives with regard to communication with employers are:

- to improve relationships.
- to assist them in understanding costs/funding issues.
- to work together to maintain accurate data.

- to ensure smooth transfers of staff.
- to ensure they understand the benefits of being an LGPS employer.
- to assist them in making the most of the discretionary areas within the LGPS.

Our objectives will be met by providing the following communications:

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

Explanation of communications

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

Newsletters - A technical briefing newsletter that will include recent changes to the scheme, the way the Pension Section is run and other relevant information so as to keep employers fully up to date.

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

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

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

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

Policy on communication with union representatives

Our objectives with regard to communication with union representatives are:

- to foster close working relationships in communicating the benefits of the scheme to their members
- to ensure they are aware of the Pension Fund's policy in relation to any decisions that need to be taken concerning the scheme
- to engage in discussions over the future of the scheme
- to provide opportunities to education union representatives on the provisions of the scheme

Our objectives will be met by providing the following communications:

Explanation of communications

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

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

Method of communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Briefing papers	Paper based and electronic	As and when required	Email or hard copy	All
Face to face education sessions	Face to face	On request	On request	All

Policy on communication with elected members / the Pension Fund Panel

Our objectives with regard to communication with elected members/the Pension Fund Panel are:

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

Our objectives will be met by providing the following communications:

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

Explanation of communications

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

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

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

Policy on communication with pension section staff

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

- ensure they are aware of changes and proposed changes to the scheme
- to provide on the job training to new staff
- to develop improvements to services, and changes to processes as required
- to agree and monitor service standards

Our objectives will be met by providing the following communications:

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

Explanation of communications

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

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

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

Policy on communication with tax payers

Our objectives with regard to communication with tax payers are:

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

Our objectives will be met by providing the following communications:

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

Explanation of communications

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

Pension Fund Committee Papers - a formal document setting out relevant issues in respect of the LGPS, in many cases seeking specific decisions or directions from elected members

SIP – Statement of Investment Principles - a formal document setting out relevant issues in respect of the Pension Fund investments

Governance Policy - a formal document setting out how the Pension Fund is administered by the Borough Council.

Media - use of the local and national press

Policy on communication with the specialist press

Our objectives with regard to communication with the media are:

- to ensure the accurate reporting of Fund valuation results, the overall performance of the Fund and the Fund's policy decisions against discretionary elements of the scheme

Explanation of communications

News releases - provide statements setting out the Fund's opinion of the matters concerned (i.e. Fund valuation results). These tend to be reactive to specific queries

Specific queries - respond to specific questions about the Fund e.g. current size and make up.

All enquiries from the media will be handled through the Bedford Borough Council communications team.

All news releases and statements will also be issued by the Bedford Borough Council communications team.

Our objectives will be met by providing the following communications:

<i>Method of Communication</i>	<i>Media</i>	<i>Frequency of Issue</i>	<i>Method of Distribution</i>	<i>Audience Group</i>
News releases	Paper based or electronic	Every three years following the valuation of the Fund, annually on the publication of the Fund accounts and as and when required for other matters	Post or email	Specialist
Specific queries	Paper based, electronic or telephone	As and when	As requested	Specialist

Policy on communication with other stakeholders/interested parties

Our objectives with regard to communication with other stakeholder/interested parties are:

- to meet our obligations under various legislative requirements

- to ensure the proper administration of the scheme
- to deal with the resolution of pension disputes

Our objectives will be met by providing the following communications:

Method of Communication	Media	Frequency of Issue	Method of Distribution	Audience Group
Pension Fund valuation reports • R&A certificates • Revised R&A certificates • Cessation valuations	Electronic	Every three years	Via email and post	Office of the Deputy Prime Minister (ODPM)/Her Majesty's Revenue and Customs (HMRC)/all scheme employers
Details of new employers entered into the Fund	Hard copy	As new employers are entered into the Fund	Post	ODPM/HMRC
Completion of questionnaires	Electronic or hard copy	As and when required	Via email or post	ODPM/HMRC/the Pensions Regulator

Explanation of communications

Pension Fund Valuation Reports - a report issued every three years setting out the estimated assets and liabilities of the Fund as a whole, as well as setting out individual employer contribution rates for a three year period commencing one year from the valuation date

Details of new employers - a legal requirement to notify both organisations of the name and type of employer entered into the Fund (i.e. following the admission of third party service providers into the scheme)

Completion of questionnaires - various questionnaires that my received, requesting specific information in relation to the structure of the LGPS or the make up of the Fund.

Performance Measurement

So as to measure the success of our communications with active, deferred and pensioner members, we will use the following methods:

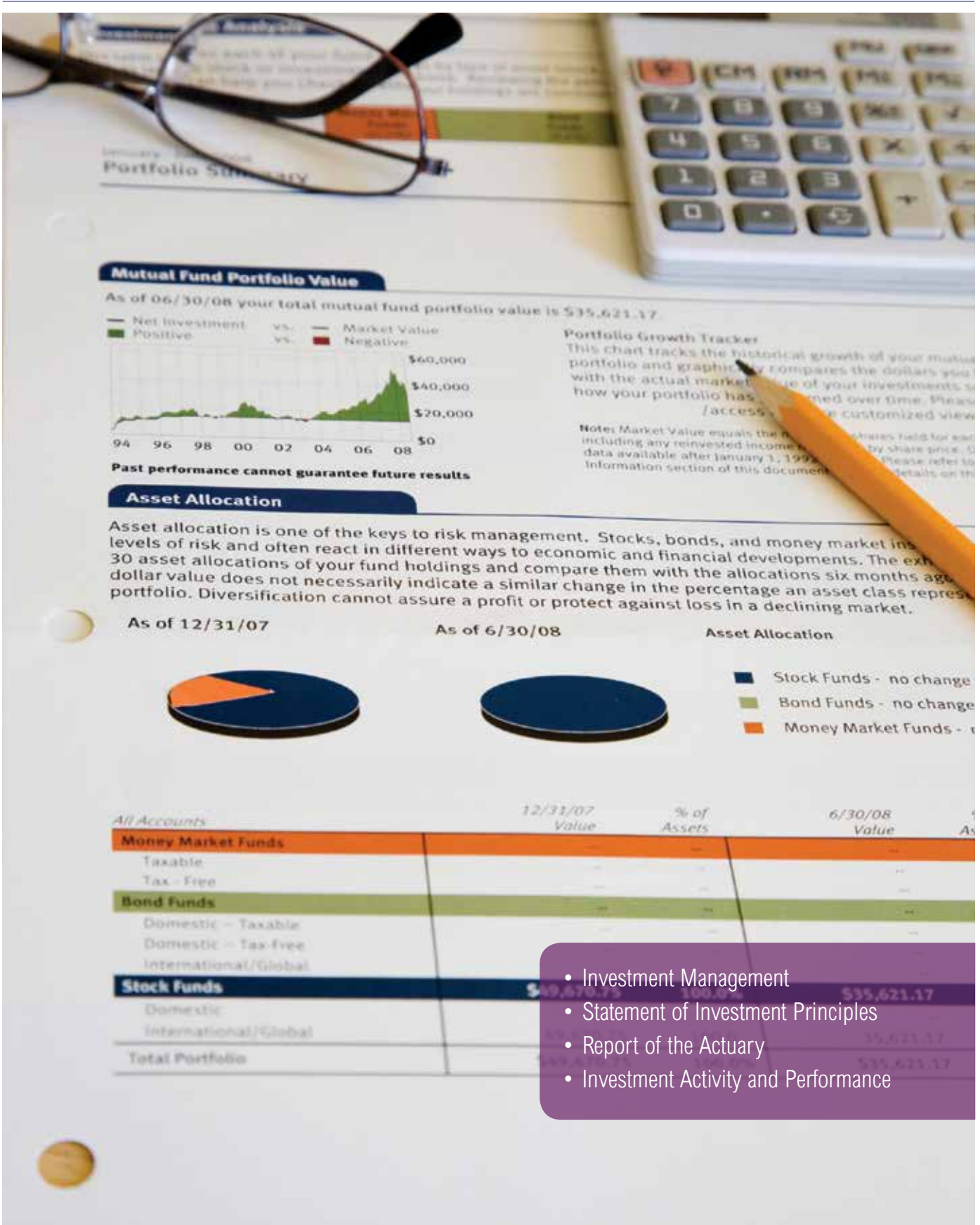
We will measure against the following target delivery timescales:

Communication	Audience	Statutory delivery period
Scheme booklet	New joiners to the LGPS	Within two months of joining
Estimated Benefit Statements as at 31 March	Active members	On request
Telephone calls	All	Not applicable
Issue of retirement benefits	Active and deferred members retiring	Within two months of retirement
Issue of deferred benefits	Leavers	Within two months of withdrawal
Transfers in	Joiners/active members	Within two months of request

Review Process

We will review our communication policy to ensure it meets audience needs and regulatory requirements at least every three years. A current version of the policy statement will always be available on our website at www.bedspensionfund.org/ and paper copies will be available on request

Investment Report



- Investment Management
- Statement of Investment Principles
- Report of the Actuary
- Investment Activity and Performance

Investment Management

Investment Powers

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

Myners' Principles for Institutional Investment Decision Making

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

Legislation requires administering authorities to publish a written statement of investment principles, which is to include the extent to which the administering authority has complied with the Myners' principles. The Borough Council complies fully with all six of the principles as is reported in the Fund's statement of investment principles, reproduced in full on page 54.

Investment Management

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

The present investment structure involves a passively managed portfolio, together with actively managed specialist portfolios for UK equities, overseas equities, bonds, property, commodities, absolute return multi asset and a global tactical asset allocation fund. The objective is for the specialist portfolios to add value by diversifying from the traditional asset classes.

The investment managers and their appointed portfolios are shown below, the figures in brackets showing the percentage of the Fund's assets that each manager handles based on market values at 31 March 2013:

- Legal & General - Passive UK & overseas equity portfolios (27%)
- Lazard Asset Management – Active overseas equity portfolio (10%)
- Trilogy Global Advisors – Active overseas equity portfolio (4%)
- Insight Investment – Absolute return bond portfolio (9%)
- CBRE Real Estate Investment Management - Active indirect property portfolio (9%)
- Credit Suisse Asset Management – Passive commodities portfolio (2%)
- Pyrford – Absolute Return multi asset (6%)
- Barings – Absolute Return multi asset (8%)
- BlackRock Advisors – Active Global Tactical Asset Allocation portfolio (4%)
- BlackRock Advisors - Passive, multi-asset portfolio (19%). The aim of this portfolio is to track various market indices and also enable that the overall allocation of the fund's equity and bond assets stay in line with the Fund's overall benchmark.

In addition, net current assets comprising 2% of Fund value are managed by the administering authority. The benchmarks and target returns governing these portfolios are detailed in the Statement of Investment Principles, included in full within this report.

Custody Arrangements

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

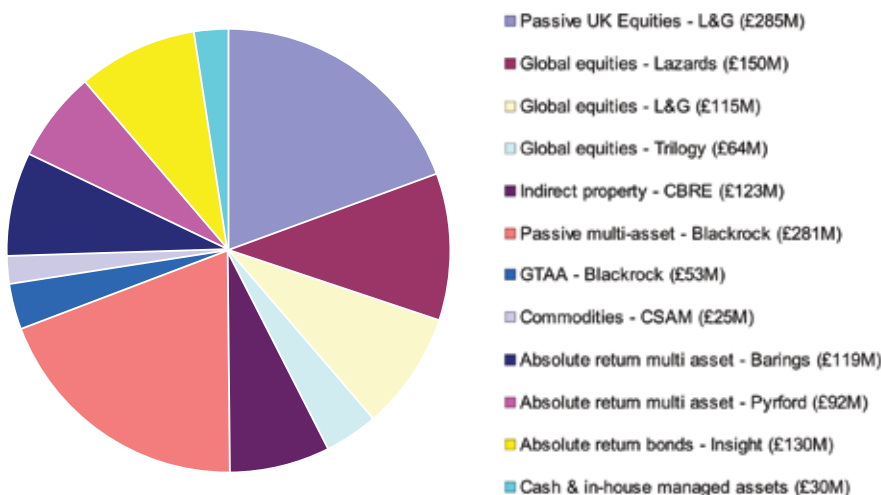
Stock Lending

There were no direct stock lending arrangements in place during 2012/2013.

Monitoring and Review

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

Composition of the fund by portfolio as at 31 March 2013



Statement of Investment Principles

The Council is required to disclose its investment management arrangements in a "Statement of Investment Principles" (SIP). This is available from the Pension Fund as shown on page 64 and can also be seen on the internet at www.bedspensionfund.org. The SIP describes the investment principles pursued and the policies adopted by the Borough Council in its stewardship of the fund's assets. It also describes the respective responsibilities of the Pension Fund Committee, investment managers and custodian and details the investment management structure. The following replicates the SIP current at the time of writing.

1 Introduction

1.1 Fund Details

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

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

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

the principles governing their decisions about investments.

The statement must cover their policy on:

- a. the types of investments to be held;
- b. the balance between different types of investments;
- c. risk;
- d. the expected return on investments;
- e. the realisation of investments;
- f. the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments, and
- g. the exercise of the rights (including voting rights) attaching to investments if they have any such policy.

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

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

A copy of the document has been provided to each Investment Manager. The Committee will review this document at least once a year.

1.3 Financial Services and Market Act 2000

- 1.3.1 In compliance with the Financial Services and Markets Act 2000, the Panel will set general investment policy, but will delegate the responsibility for selection of specific investments to appointed Investment Managers in accordance with The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Investment Managers of portfolios of stock market securities will be authorised by the Financial Services Authority or equivalent and shall provide the skill and expertise necessary to manage the investment of the Fund competently.

and fund managers;

- d. To decide on requests for admission to the Bedfordshire Pension Scheme and to ensure a first rate service to its members;
- e. To publicise its stewardship role to all Scheduled and Admitted Bodies of the Bedfordshire Pension Fund and to all contributors and beneficiaries in accordance with the Fund's Communication Strategy.

2.2 Fund Administrator

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

2 Division of Responsibilities

2.1 Pension Fund Committee

- 2.1.1 The Bedford Borough Council delegates responsibility for the Administrating Authority role to the Pension Fund Committee. This includes investing the Fund's assets. This Committee comprises three members of Bedford Borough Council, two members of Central Bedfordshire Council, two members of Luton Borough Council supported by the Fund Administrator and an Independent Investment Adviser. A fund member (nominated by the trade unions) and the Chief Finance Officers of Luton Borough Council and Central Bedfordshire Council, all with observer status, are also invited to join the Committee. The Committee responsibility for investment matters includes:
- a. To determine the overall strategy relating to the investment of the Fund's assets and to meeting the Fund's liabilities;
- b. To keep under review the performance of the Fund and the Fund's managers;
- c. To approve the appointment of advisers

2.3 Pension Fund Panel

- 2.3.1 The Panel has the same membership as the Committee but acts in an advisory capacity to the Pension Fund Committee. It is responsible for reviewing investment matters and, in particular, the following activities prior to approval by the Committee:
- f. To keep under review the overall strategy relating to the investment of the Fund's assets and to meeting the Fund's liabilities;
- g. To keep under review the performance of the Fund and the Fund's managers;
- h. To consider the appointment of advisers and fund managers;
- i. To review requests for admission to the Bedfordshire Pension Scheme and to ensure a first rate service to its members;

2.4 Investment Managers

- 2.4.1 Each Investment Manager will be responsible for:
- Discretionary management of their portfolio, in accordance with the terms of their management agreement, having regard to the need for diversification of investments so far as appropriate and the suitability of investments;
 - Providing the Panel with quarterly statements of the assets together with a quarterly report on their actions and future intentions, and any changes to the processes applied to their portfolio;
 - Providing the designated provider with the information necessary to calculate performance statistics;
 - Instructing the Custodian in respect of any corporate actions, which the Investment Manager deems necessary in the interests of the portfolio.

2.5 Custodian

- 2.5.1 The Custodian will be responsible for:
- Safekeeping of the assets within the Fund's investment portfolio;
 - Providing the Fund Administrator with regular statements of the assets, cashflows and corporate actions;
 - Undertaking all appropriate administration relating to the portfolio's assets;
 - Processing all dividends and tax reclaims in a timely manner;
 - Investing cash in a suitable low risk manner consistent with the Fund's guidelines;
 - Dealing with corporate actions;
 - Measuring and reporting the investment performance of both the Fund and the investment managers.

2.6 Investment Consultant

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

support is likely to be sought in regard of:

- Annual reviews of the Statement of Investment Principles;
- Presentation and interpretation of investment performance measurement results;
- The potential impact of:
- Any changes in the Investment Managers' organisations that could affect the interests of the Fund;
- Any changes in the investment environment that could present either opportunities or problems for the Fund;
- Investment manager selection, retention and termination;
- Benchmark adjustments;
- The appropriate content of Investment Management and other related agreements;
- Appropriate investment structures for the Fund in the light of the Fund's liability profile. This will involve working with the Fund's Actuary;
- Ad-hoc project work as required including research reviews of Investment Managers.

2.7 Independent Investment Adviser

- 2.7.1 The Independent Investment Adviser will contribute independent advice to the Committee and/or Panel on the management, composition of portfolios and investment strategy of the Fund's Investment Managers.
- 2.7.2 The Independent Investment Adviser will also provide independent advice informally to the Fund Administrator between meetings and formally to the Committee or Panel on any appropriate investment related issues with which the Fund has to deal, including the performance of the Investment Managers.

2.8 Actuary

- 2.8.1 The Actuary will be responsible in respect of investment matters, when so requested by the Fund, for:
- Advising the Fund on how any changes within the Fund's membership and funding position

may affect the manner in which the assets should be invested. This would be undertaken in consultation with the Fund's Investment Consultant;

b. Undertaking project work as required including reviews of asset allocation policy.

2.9 Audit

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

a. The external auditors are responsible for reporting on whether or not the Fund's Report and Accounts presents fairly the income and expenditure and the financial position of the Fund for each financial year. The auditor's report is contained within the Fund's Report and Accounts;

b. The Internal Audit Section carries out a programme of work designed to assure the Director of Finance & Corporate Services that pension fund investment systems and records are properly controlled to safeguard the Fund's assets and income.

3 Long Term Policy

3.1 Objectives

3.1.1 The major objectives of the Fund are as follows:

a. to maintain a portfolio of secure and sufficiently liquid assets, which, together with new contributions from active members of the fund and employing bodies will generate sufficient income and capital growth to meet the cost of current and future benefits that the Fund provides;

b. to minimise the long term costs of the Fund by maximising the return on the assets whilst having regard to the objectives shown under 3.1.1 a. above;

c. to ensure that employer contributions rates are set at a level to attain and maintain solvency, as certified by the Fund's Actuary, whilst keeping the employer contribution rate as stable as possible

3.1.2 The Fund has set an overall asset allocation for the Fund.

UK equities	19%	
Global/Overseas equities	29%	Range 38%- 58%
UK Gilts	4%	
Absolute Return Bonds	10%	Range 8%-28%
Corporate Bonds	4%	
Absolute Return Multi Asset	20%	Range 15%-25%
Property	10%	Range 5%-15%
Global Tactical Asset Allocation	4%	Range 0%-8%

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

UK equities	FTSE All Share Index
Overseas equities	45% - FTSE America 35% - FTSE Developed Europe ex UK 15% - FTSE Japan 5% - FTSE Developed Pacific ex Japan
Global equities	RPI + 5% *
UK Gilts	42% - FTSE A All Stocks Gilt Index 58% - FTSE A Index-Linked Index (all stocks)
Absolute Return Bonds	LIBOR + 2%
Corporate Bonds	Bank of America Merrill Lynch Sterling Non-Gilt Index
Absolute Return Multi Asset	RPI +5% & LIBOR + 4%
Property	IPD Index
Global Tactical Asset Allocation	RPI + 5%

Key:

IPD	Investment Property Databank Ltd
FTSE	Financial Times/ Stock Exchange
RPI	Retail Price Index
LIBOR	London Interbank Offer Rate

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

- 3.1.4 The Funds overall performance benchmark is the weighted average of the asset allocation and the asset allocation performance index. The Committee currently considers that these benchmarks in aggregate are consistent with achieving the objectives in 3.1.1 above.
- 3.1.5 The above performance benchmark was determined following a review of the strategic asset allocation. The review caused the Committee to increase its corporate bond allocation and reduce its UK equities holdings. The Committee has also increased its active currency mandate.
- 3.1.6 The cost of carrying out the investment management function, which includes both the fees paid to the Investment Managers and the internal costs of the Borough Council are benchmarked against annual data derived by the Department of the Communities and Local Government from the Pension Funds' Accounts return completed for all Local Government Pension Scheme Funds (Form SF3).

3.2 Risk

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

- 3.2.2 The Fund's cash balance is invested by the Custodian, who invests the small working cash balances held by each active Investment Manager to enable day to day operation of their respective portfolios. A small cash balance is also maintained by the Administering Authority to meet the liquidity requirements of the Fund. In both cases risk is controlled by using a wide range of counterparties of high credit rating.
- 3.2.3 To control risk a detailed set of performance targets and restrictions has been agreed with each manager, subject to advice and guidance from the investment consultant and specialist legal advice. (See sections 4.2 and 5.)
- 3.2.4 The Fund also has a risk register that it reviews at least annually to ensure that it is kept current.

3.3 Diversification

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

3.4 Suitability

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

3.5 Review

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

4 Investment Management Arrangements

4.1 Investment Management Structure

4.1.1 The Fund commissioned an Asset Liability study in 2011 that prompted it to review both the Asset classes it should hold, and how and by whom these assets should be managed. A further review looking at improved expected diversification was undertaken in late 2011. In early 2012 a review of the Bond portfolios revised the asset allocation as shown in paragraph 3.1.2.

4.1.2 The Committee has divided the Fund's assets between nine Investment Managers responsible for seven asset classes (see below).

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

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

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

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

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

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

4.2 Performance Targets

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

Manager	Asset Class
Baring Asset Management	Multi Asset Absolute return*
BlackRock Advisers UK Ltd	Passive Equities and Bonds *
BlackRock Advisers UK Ltd	Global Tactical Asset Allocation *
CB Richard Ellis	Indirect UK and European Property
Insight	Bond Absolute Returns*
Lazard Asset Management	Active Global Equities
Legal and General Investment Management	Passive Equities *
Pyrford	Multi Asset Absolute return*
Trilogy Global Advisors	Active Global Equities *

* Via Pooled Investments

Manager	Asset Class	Performance Target
Barings	Active Absolute Return Multi Asset	LIBOR +4%
Blackrock Advisors UK Ltd	Passive Equities and Bonds	To track appropriate benchmark indices as follows within a benchmark tolerance of +/- 0.5%. <ul style="list-style-type: none"> - UK Equities – FTSE Actuaries All Share Index - Overseas Equities – FTSE America <ul style="list-style-type: none"> – FTSE Europe ex UK – FTSE Japan – FTSE Pacific ex Japan - UK Gilts – FTSE A All stocks Gilt Index - UK Index-Linked– FTSE A Index Linked Index (all stocks)
Blackrock Advisors UK Ltd	Global Tactical Asset Allocation	LIBOR +15%
CBRE Global Investors	Indirect UK Property	To outperform the IPD UK Annual Index – All Property by not less than 1% per annum on a three year rolling basis.
Insight	Active Absolute return Bonds	LIBOR + 2%
Lazard Asset Management	Active Global Equities	To achieve a return of at least the benchmark return (net of fees) over rolling five-year periods. Performance Benchmark – RPI + 5%
Legal and General Investment Management	Passive Equities	To track the appropriate benchmark indices within a tolerance of +/-0.5%.
Pyrford	Active Absolute Return Multi Asset	RPI+5%
Trilogy Global Advisors	Active Global Equities	To achieve a return of at least the benchmark return (net of fees) over rolling seven-year periods. Performance Benchmark – RPI + 5%

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

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

4.3 Stocklending

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

5 Investment Restrictions

5.1 Overall Restriction

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

5.2 Specific Restrictions

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

5.3 Breaches of Limits

5.3.1 Each Investment Manager's portfolio will be monitored monthly, in conjunction with the

Custodian, to ensure that the restrictions applying to that portfolio are not breached.

5.3.2 Any breach will be reported to the Investment Manager. Where a breach has arisen because of price movements of existing holdings, the Investment Manager will be required to rectify the breach immediately, but this will not be viewed as a serious breach. However, where a breach occurs through a new investment transaction, this will be treated as a more serious breach. The Manager will be required to rectify the breach immediately and appropriate representation made to the Investment Manager, depending on the circumstances, nature and seriousness of the breach.

5.3.3 Occasionally breaches may occur which indirectly result from actions of the Investment Manager and which would act to the detriment of the Fund if rectified immediately. These may be allowed, subject to the Fund's agreement being obtained, and this will depend on the nature of the circumstances and duration of the proposed breach.

6 Corporate Governance and Socially Responsible Investment

6.1 Voting Policy

6.1.1 The Fund has adopted the Statement of Principles from Institutional Shareholders' Committee. These principles require that Trustees and Investment Managers embrace the practice of voting as part of their fiduciary responsibility towards their members, seeing it as part of good governance to develop and implement considered voting policies.

6.1.2 The Fund's policy is:

- to have a consistent approach
- to act as a responsible investor
- to be able to manage the process in a practical way

6.1.3 The investment management agreements with the Investment Managers investing directly in UK equities require them to exercise voting rights. This is expected to be in line with the voting policy set out in [Appendix 1](#) in respect of all resolutions at annual and extraordinary general meetings of companies, Investment Managers may vote contrary to this policy only if they give an exception report as to the reasons why they did so. The Investment Managers may refer back to the Fund those issues which they feel are contentious and warrant further discussion before taking action. Similarly, if the Fund has a specific view on an issue requiring a vote (e.g. take-over bid, etc.), they will contact the relevant Investment Manager(s) to discuss.

6.1.4 Where assets are in a pooled fund, individual voting is inappropriate.

6.1.5 The actual execution of voting rights will be undertaken by the Custodian.

6.1.6 The Managers are instructed to confirm to the Fund that voting rights attaching to holdings have been exercised, and the manner in which they have been exercised.

6.1.7 Details of the Investment Managers' current corporate governance policies have been supplied to the Director of Finance & Corporate Services.

6.2 Socially Responsible Investment

6.2.1 The Panel holds a policy of not interfering in the day to day investment decisions of its investment managers and does not actively invest in nor disinvest from companies solely or largely for social or ethical or environmental reasons.

6.2.2 As a responsible investor, the Committee wishes to promote corporate social responsibility, good practice and improved company performance amongst all companies in which it invests. The Fund's appointed external fund managers are

encouraged to operate a policy of constructive shareholder engagement with companies.

6.2.3 The Committee endeavours to be a socially responsible investor wherever possible but does so within the duties placed upon it under statute and under general trust law principles to manage the Scheme in the best financial interests of the Scheme members and beneficiaries.

6.2.4 The Fund has also joined the Institutional Investors Group on Climate Change, which has an aim to encourage companies and markets in which its members invest to address any material risks and opportunities to their businesses associated with climate change.

7 Monitoring and Implementation of Investment Policy

7.1 Monitoring and Review

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

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

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

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

7.1.5 If an Investment Manager's performance prompts concerns then the Committee may ask the manager to come to Borough Hall for a special review meeting.

7.1.6 If, after this, the Investment Manager's performance continues to cause concern, or if as a result of the review meeting the Fund is sufficiently worried about the performance, it may ask officers and the Independent Investment Adviser to visit the manager and undertake a due diligence review. The results of this would be reported back to the Committee who will then decide on a course of action

7.2 Criteria for Selection

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

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

7.3 Criteria for Dismissal

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

7.4 Custodian

7.4.1 The appointment of the Custodian will also be reviewed every three years to ensure that the responsibilities listed in section 2.4 are being fulfilled.

7.5 Investment Consultant

7.5.1 The appointment of the Investment Consultant will be reviewed every 3 years to ensure that the responsibilities listed in section 2.6 are being fulfilled. The next review is 2013.

7.6 Independent Investment Adviser

7.6.1 The appointment of the Independent Investment Adviser will be reviewed every three years to ensure that the responsibilities listed in section 2.7 are being fulfilled. The next review is 2015.

7.7 Actuary

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

8 Myners Investment Principles for Pension funds

8.1 Compliance with the Myners Investment Principles for Pension Funds

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

Further copies of this document may be obtained from:

Head of Pension Fund Management
Finance & Corporate Services
Borough Hall
Bedford MK42 9AP

Or from the internet: www.bedspensionfund.org

Principle		Comments
Principle 1: Effective decision making	<p>Administering authorities should ensure that;</p> <ul style="list-style-type: none"> • Decisions are taken by persons or organisations with the skills, knowledge, advice and resource necessary to make them effectively and monitor their implementation and • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest 	<i>Full compliance</i>
Principle 2: Clear objectives	An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority and scheme employers, and these should be clearly communicated to advisors and investment managers	<i>Full compliance</i>
Principle 3: Risk and liabilities	In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk	<i>Full compliance</i>
Principle 4: Performance assessment	Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report this to scheme members.	<i>Full compliance</i>
Principle 5: Responsible ownership	<p>Administering authorities should:</p> <ul style="list-style-type: none"> • Adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents • Include a statement of their policy on responsible ownership in the statement of investment principles • Report periodically to scheme members on the discharge of such responsibilities 	<i>Full compliance</i>
Principle 6: Transparency and reporting	<p>Administering authorities should:</p> <ul style="list-style-type: none"> • Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives • Provide regular communication to scheme members in the form they consider most appropriate 	<i>Full compliance</i>

Appendix 1

Voting Policy

Directors' Contracts

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

Share Options or Incentive Schemes

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

Internal Committees

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

Other Issues

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

Remuneration

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

a. regards performance related bonuses as an investment by the company to improve its performance. Therefore the Remuneration Committee should satisfy itself that, as with any other investment, the returns justify the expenditure;

b. should not be based upon performance reward criteria which disbenefit the long term interests of the company;

c. rewards recipients for exceptional and not for average performance;

d. awards bonuses in the form of shares (held in trust) thereby subjecting Directors to the same risks and interests as shareholders;

e. requires any contractual compensation for loss of office to be paid annually and be dependent upon the individual not acquiring another post.

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

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

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

Actuarial Statement for 2012 / 2013

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2011/12.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), produced as part of the 2010 valuation process. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to maintain the affordability of the fund to employers as far as is reasonable over the longer term

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 21 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a sufficiently high likelihood that the Fund will return to full funding over 21 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £1,168 million, were sufficient to meet 72% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £449 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 30 March 2011.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2010 valuation were as follows:

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.4%	3.1%
Pay increases *	5.3%	2.0%
Price inflation/Pension increases	3.3%	-

* 1% p.a. for the three years following the valuation, reverting to 5.3% p.a. thereafter. Plus an allowance for promotional pay increases.

The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with standard PXA92 year of birth mortality tables, with medium cohort projections and a minimum improvement of 1% p.a. underpin effective from 2010. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.6 years	23.2 years
Future Pensioners	23.6 years	25.6 years

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from Bedford Borough Council, administering authority to the Fund.

Experience over the year since April 2010

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 March 2012. It showed that the funding level (excluding the effect of any membership movements) has worsened since the 2010 valuation due to falling real bond yields and lower asset returns than expected.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.



Gemma Sefton

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
11 June 2013

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

Investment Activity and Performance

Investment Activity

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

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

In June 2012, the Pension Fund Committee received a review of its Fixed Interest holdings from the Fund's external investment consultant, Hymans Robertson. The review concluded that the risks inherent in a traditional fixed interest mandate were high and the Committee agreed to restructure its traditional fixed index mandate and move the assets to both its Multi Asset and Fixed Interest Absolute return mandates as well as the residual to passive fixed interest.

In March 2013, following advice from the Investment Adviser, Hymans Robertson, the Committee made the decision to remove Commodity Futures from its asset allocation and switch those resources to one of its Multi Asset Absolute return mandates. This change was partially completed at 31 March 2013.

Economic background

2012/2013 started with some pessimism about the outlook for global economic growth due to a mix of political, economic and financial factors. In September policy makers in the UK, Eurozone, US, Japan and China announced further asset purchase programmes to stimulate economies. This stimulus provided support for financial markets; and this was maintained for the rest of the year.

The Euro zone showed mixed fortunes; while Germany continued to enjoy the growth rates, others saw their economies contract. The overall zone moved into recession in 2012/2013. The division between the varying economies of the Euro zone continues to give

concerns about the future viability of the Euro, and the sovereign debt crisis in Greece may return in the future.

In the UK, interest rates were maintained at historically low levels, despite inflation remaining well above the Government's 2% target. Growth figures have been lower than originally estimated and that has led to the UK losing its AAA credit rating. There was no noticeable effect on government interest rates.

Against this background there was a variety of positive returns from asset classes ranging from very positive, equities to much lower returns for Property and cash and negative for commodities futures. The Fund's own returns were very positive although poor performances from some of its managers served as a drag and overall it did exceed its benchmark. The overall value of the fund increased by £150 million, indicating an investment return of about 10.5%.

UK Equities

Despite the adverse domestic factors, UK equities increased their value with the FTSE all share benchmark rising by about 16.8% in the 12 months to March 2013. As an asset class, UK equities was managed passively during 2012/2013 and slightly out-performed the benchmark by 0.1%.

Overseas Equities

After initially showing losses, US equity markets rallied in response to the US Treasury's support, and to improving economic indicators, and ended the year some 19% higher. Euro zone equities had a mixed year initially dominated by the continuing sovereign debt concerns but the central bank's increased liquidity and support led to a 17.8% increase in the 12 months to March 2013. Japan had its own particular problems and their central bank undertook late quantitative easing on a massive scale that saw Japanese equities post 14.3% gains for the year. Asian equities (ex-Japan) showed a good performance supported by Chinese economic growth.

The Fund adjusted its passive overseas equity investments by increasing the weight of emerging markets in early 2012/2013 and to switch about 8% of the Fund to a fundamental index rather than the traditional market capitalisation index. The Fund's overseas equity portfolio showed a positive return of 16.0% for the year. Overseas equities are benchmarked against UK RPI over a rolling seven year period. Because of the long term nature of the benchmark, annual returns are compared to MSCI global developed equities index, which gave a return of 18.4% for 2012/2013.

Fixed Interest

Despite concerns over sovereign credit quality in some European countries, overall fixed interest investments performed strongly in the first half of the year. However the growing optimism that buoyed equities undermined government bond markets in the latter half of the year. As an asset class, UK government fixed income gave a benchmark return of 5.3% for the year, UK

Government index linked 10.2%, Corporate Bond 13.2% and overseas bonds 4.5%. The Fund invests passively, which returned 10.2%, and via a Fixed Interest Absolute Return fund returned 4.7%. The Absolute Return fund beat its benchmark and is included to protect against raising interest rates.

Property

The capital values of the UK commercial property market continued to rise throughout 2012/2013, albeit at a slower rate than previously experienced. Weak returns from Continental Europe properties, relative to the UK, dragged performance as did a number of individual property fund issues that experienced redemption pressures that affected the investment value. The property manager is involved to put those funds and the portfolio overall on a better footing. Overall, the property portfolio returned 0.6%, compared to a benchmark of 1.4% in 2012/2013.

GTAA

As a strategic mix of other asset classes, the GTAA portfolio reflects performance in those markets as a whole. The return for 2012/2013 was -2.05% against a benchmark of 8.1%; however this benchmark is based on RPI.

Commodities

The environment was very unfavourable for commodities towards the end of the year. Falling global demand and the concerns about Chinese growth in particular produced very low returns. The Fund's commodities portfolio gave a return for 2012/2013 of -2.7%, slightly ahead the benchmark return of -3.0%. The Fund's portfolio was fully sold in April 2013.

Multi Asset Absolute Return

As a strategic mix of other asset classes, the mandate is seeking to smooth the return profile and over the medium term provide equity like investment returns. The two managers averaged a return of 7.5% in 2012/2013 ahead of the combined benchmark return of 6.4%.

Future Developments

The Pension Fund continues to monitor the strategic asset allocation of the fund, seeking to improve performance within its accepted risk parameters and has implemented a greater holding in Multi Asset Absolute Return relative to its Equity holding in the early part of 2013/2014 as a result of market movements. There are no further developments in progress at the time of writing.

Investment Performance

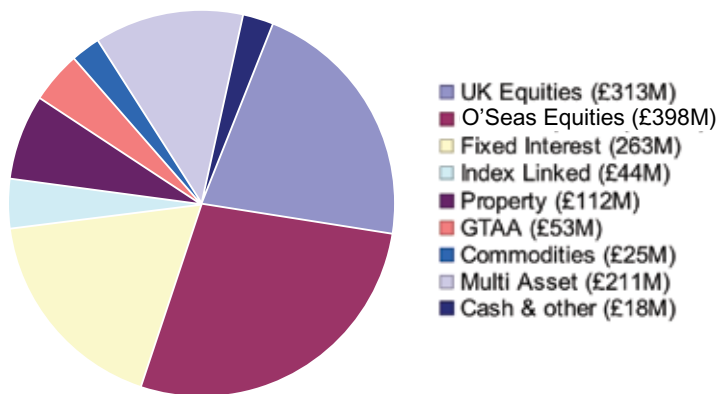
The Fund measures performance using the service provided by its custodian, Northern Trust.

The investment target for each manager with an active portfolio is to out-perform an appropriate

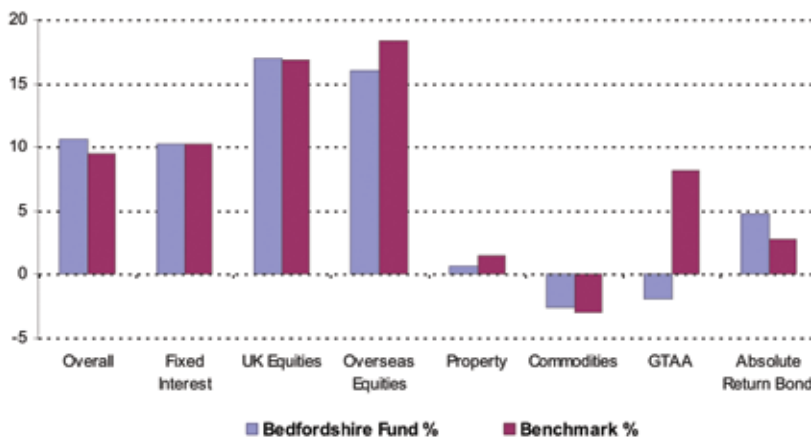
benchmark that reflects market performance in their respective asset class. The performance of the Fund as a whole is measured against a blended benchmark based on the individual portfolio benchmarks set out in the Statement of Investment Principles.

Northern Trust's analysis for the year to 31 March 2013 showed an overall return on the Fund's assets of 10.6%, 1.2% more than the benchmark return of 9.4%. Returns achieved by the major asset classes are shown in the graph below. Over the three-year period to 31 March 2013, the Fund's assets in total gave a 7.1% return against a benchmark of 7.9% and the five year period showed a return of 4.9% compared to a benchmark of 5.9%.

Investments analysed by asset class



Returns by asset class for the year ended 31 March 2013



Financial Statements



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

Statement of responsibilities

The Bedford Borough Council is the administering authority of the Bedfordshire local government pension fund and is required to:

- make arrangements for the proper administration of the financial affairs of the Pension Fund and to secure that one of its officers has the responsibility for the administration of those affairs. The Borough Council has assigned this responsibility to the Director of Finance & Corporate Services
- manage the affairs of the fund to secure economic, efficient and effective use of the fund's resources and to safeguard its assets.

Responsibilities of the Director of Finance & Corporate Services

The Director of Finance and Corporate Services is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy Code of Practice on Local Authority Accounting in Great Britain (the "Code of Practice").

In preparing this statement of accounts, the Director of Finance & Corporate Services has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the Code of Practice.

The Director of Finance & Corporate Services has also:

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

Director of Finance & Corporate Services' Certificate

I hereby certify that the statement of accounts presents fairly the financial position of the fund at 31 March 2013, and its income and expenditure for the year ended 31 March 2013.

Trevor Roff

Director of Finance & Corporate Services
24 September 2013

Independent Auditor's Report To The Members Of Bedford Borough Council

Opinion on the pension fund accounting statements

We have audited the pension fund financial statements for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Bedford Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

As explained more fully in the Statement of the Director of Finance and Corporate Services' Responsibilities set out on page 73, the Director of Finance and Corporate Services is responsible for the preparation of the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Corporate Services and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2012/13 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the Annual Report and Accounts 2012/13 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Peter O'Neill

for and on behalf of Ernst & Young LLP,
Appointed Auditor
Reading

26 September 2013

Critical Judgements in Applying Accounting Policies

Pension Fund Liability

The pension fund liability is calculated every three years by the Fund's actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in the Actuarial statement on page 67. This estimate is subject to significant variances based on changes to the underlying assumptions.

Unquoted Investments

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

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

There are no items in the net assets statement at 31 March 2013 for which it is considered that there is a significant risk of material adjustment in the forthcoming financial year.

Events after the Balance Sheet Date

There have been no events since 31 March 2013, and up to the date that these accounts were authorised, that require any adjustments to these accounts.

Accounting Policies

Accounting Standards

The accounts of the Pension Fund have been prepared to meet the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and in accordance with the Statement of Recommended Practice on Financial Reports of Pension Schemes (Revised May 2007). The accounts are also compliant with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, which is based on International Financial Reporting Standards (IFRS) as amended for the UK public sector.

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

The accounts summarize the transactions and net assets of the Fund and do not take account of liabilities to pay pensions and other benefits in the future. They should therefore be read in conjunction with the actuarial reports on pages 67 and 93 which take account of such liabilities.

Basis of Preparation

Unless otherwise stated, the accounts have been prepared on the accruals basis.

Benefits

All pensions and lump sums payments have been included on the accruals basis other than some death gratuities. The payment of some death gratuities is dependant upon the receipt of probate or letters of administration. Where death occurs before the end of the year but probate or letters of administration has not been received by the balance sheet date, then no accrual is made. The departure from the accruals basis for these death gratuities does not materially affect the reported figure.

Only benefits paid under local government pension scheme regulations are included in the fund account. For administrative ease, the Fund also pays out compensatory added years benefits on behalf of scheme employers; these are refunded in full by the employer. Both the benefit paid and the subsequent reimbursement are excluded from the fund account.

Refunds of Contributions

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

Transfer Values

Transfer values to and from other schemes have been included on a cash basis.

Administrative Expenses

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

Investment Management Expenses

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

- Aberdeen Asset Management – Fixed Interest
- BlackRock Advisors – Global Tactical Asset Allocation
- Insight Investment – Absolute Return Bonds
- Trilogy – Global Equities

In 2012/2013, £0.2 million of fees was performance related.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2012/2013, £0.7 million of fees is based on such estimates.

The cost of obtaining investment advice from external consultants is included in investment management charges.

A proportion of the Borough Council's costs representing time spent by officers on investment management is also charged to the fund.

Investments

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

- (i) Quoted securities are valued by reference to market bid price at the close of business on 31 March 2013.
- (ii) Traded futures are valued by reference to their exchange prices as at 31 March 2013.
- (iii) Other unquoted securities are valued having regard to latest dealings, professional valuations, asset values and other appropriate financial information.
- (iv) Unit trust and managed fund investments are valued by reference to the latest bid prices quoted by their respective managers prior to 31 March 2013. If bid prices are unavailable, mid prices or net asset value will be used.
- (v) Assets, including investments, denominated in foreign currencies are valued on the relevant basis and translated into sterling at the rate ruling on 31 March 2013. Exchange gains and losses arising from movements in current assets and liabilities are included in the fund account for the year.

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

Acquisition Costs of Investments

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

AVC Investments

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

Taxation

The Fund is exempt from tax on capital gains and from income tax on interest receipts. VAT is recoverable on all expenditure, and all of the fund's income is outside the scope of VAT. The Fund is liable to tax at a rate of 20% on small pensions that have been compounded into a lump sum. The Fund is exempt from US withholding tax. Where the Fund is subject to other foreign tax, income is shown as the grossed up figure and the tax withheld as an item of expenditure.

New Accounting Standards

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

For 2012/13 there was one new accounting standard – IFRS 7 Financial Instruments: Disclosure (transfer of financial assets). The adoption of this amendment has no impact on the main statements for 2012/13, with minor changes in the disclosure notes relating to financial instruments.

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

The Pension Fund is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted by the Pension Fund. The adoption of the following accounting policy changes are expected in future years:

- IFRS 13 Fair Value Measurement (May 2011)

Five Year Financial Summary

	2008 /2009	2009 /2010	2010 /2011	2011 /2012	2012 /2013
	£000	£000	£000	£000	£000
Net assets at 1 April	1,074,800	887,416	1,168,330	1,279,685	1,316,706
Contributions	81,232	88,064	92,508	86,198	86,065
Investment and other income	25,972	27,613	25,513	21,051	19,605
Total income	107,204	115,677	118,021	107,249	105,670
Benefits and other expenses	(66,846)	(76,913)	(82,698)	(82,632)	(81,872)
Change in market value of investments	(227,742)	242,150	76,032	12,404	126,559
Increase/(decrease) in value of fund	(187,384)	280,914	111,355	37,021	150,357
Net Assets at 31 March	887,416	1,168,330	1,279,685	1,316,706	1,467,063

Fund Account for the Year Ended 31 March 2013

	2011/2012 £000	2012/2013 £000	See Note
Contributions and Benefits			
Contributions	86,198	86,065	1
Transfers in from other pension funds	7,217	6,855	2
Other Income	188	165	
	93,603	93,085	
Benefits	(72,660)	(73,485)	3
Payments to and on account of leavers	(4,809)	(3,231)	4
Administrative expenses	(1,044)	(1,083)	5
Net additions/(withdrawals) from dealings with members	15,090	15,286	
Returns on Investments			
Investment income	14,207	13,168	6
Profit and losses on disposal of investments and changes in value of investments	12,404	126,559	8.8
Taxes on income	(561)	(583)	6.1
Investment management expenses	(4,119)	(4,073)	7
Net return on investments	21,931	135,071	
Net increase/(decrease) in the fund during the year	37,021	150,357	
Net assets of the fund at 1 April	1,279,685	1,316,706	
Net assets of the fund at 31 March	1,316,706	1,467,063	

Net Assets Statement

	31 March 2012	31 March 2013	See
	£000	£000	Note
Investment Assets			
Fixed interest securities	1,296	-	8.1
Equities	122,093	144,344	8.2
Managed and unitised funds	1,165,358	1,274,093	8.3
Derivative contracts	21	-	8.4
Cash deposits & other assets	11,035	19,380	8.5
	1,299,803	1,437,817	
Investment Liabilities			
Other liabilities	(69)	(789)	8.6
	1,299,734	1,437,028	
Long Term Assets	4,284	3,816	9
Current Assets	14,519	29,430	10
Current Liabilities	(1,831)	(3,211)	11
Net assets of the fund available to fund benefits at the period end	1,316,706	1,467,063	

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

Notes to the Accounts

Fund account		2011/2012	2012/2013
		£000	£000
1	Contributions		
	Employees' normal contributions	19,806	19,535
	Employees' additional voluntary contributions	463	377
	Employers' normal contributions	41,370	40,611
	Employers' deficit funding	21,220	23,864
	Employers' augmentation contributions	3,339	1,678
		86,198	86,065
	Administering authority	16,725	15,538
	Scheduled bodies	60,201	60,353
	Admitted and other bodies	9,272	10,174
		86,198	86,065

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

2	Transfers from other schemes		
	Group transfers from other schemes	-	-
	Individual transfers from other schemes	7,217	6,855
		7,217	6,855
3	Benefits		
	Pensions	52,958	57,515
	Commutations of pensions and lump sum retirement benefits	17,849	14,194
	Lump sum death benefits	1,853	1,776
		72,660	73,485

Benefits paid are further analysed as:

	Administering authority	9,145	9,157
	Scheduled bodies	56,978	58,018
	Admitted and other bodies	6,537	6,310
		72,660	73,485

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

4	Payments to and on account of leavers		
	Refunds of contributions	28	14
	State scheme premiums	2	-
	Transfers to other schemes – individuals	4,779	3,217
		4,809	3,231

		2011/2012	2012/2013
		£000	£000
5	Administrative expenses		
	Administering authority	817	854
	System costs & development	86	95
	Actuarial fees	28	46
	External Audit Fees (Net of Rebate)	37	21
	Other	76	67
		1,044	1,083
6	Investment income		
	Interest from fixed interest securities	45	195
	Dividends from equities	2,859	3,129
	Income from pooled investment vehicles	10,751	9,656
	Interest on cash deposits	552	188
		14,208	13,168
6.1	Irrecoverable with-holding tax	-561	-583
		13,647	12,585
7	Investment management expenses		
	Administering authority	122	119
	Investment managers' fees	3,380	3,599
	Investment managers' performance related fees	463	198
	Investment advice & other costs	154	157
		4,119	4,073

Note 5 External Audit Fees - Audit Fees are shown (net of rebate) For 2011/2012 the Gross Amount payable was £39,732, a rebate of £3,168. For 2012/2013 no rebate was applied.

	2011/2012	2012/2013
Net Asset Statement	£000	£000
8 Investments		
8.1 Fixed Interest Securities		
UK government securities	1,296	-
	1,296	-
8.2 Equities		
UK quoted equities	11,825	12,873
Overseas quoted equities	110,268	131,471
	122,093	144,344
8.3 Managed and Unitised Funds		
UK un-authorized unit trusts	4	3
UK insurance managed funds	467,594	558,196
UK property unit trusts	119,003	112,477
Overseas unit trusts	578,757	603,417
	1,165,358	1,274,093
8.4 Derivative Contracts		
Overseas fixed income futures	21	-
8.5 Cash Deposits & Other Investment Assets		
Due from the Stock Exchange	27	329
Investment income outstanding	1,064	1,017
Other Investment Assets	1,091	1,346
Cash deposits	9,944	18,034
	11,035	19,380
8.6 Investment Liabilities		
Due to the Stock Exchange	(69)	(789)
	(69)	(789)
Total	1,299,734	1,437,028
8.7 Quoted/Un-quoted Investments		
Quoted	491,908	556,611
Un-quoted	807,826	880,417
	1,299,734	1,437,028

8.8	Value of Investments	Market Value at 31/03/12	Purchases at cost & derivative payments	Sale proceeds & derivative receipts	Change in Market Value	Market Value at 31/03/13
		£000	£000	£000	£000	£000
	Fixed Interest Securities					
	UK	1,296	0	1,101	-195	0
	Overseas	0	0	0	0	0
		1,296	0	1,101	-195	0
	Equities					
	UK	11,825	1,377	2,530	2,201	12,873
	Overseas	110,268	17,462	12,195	15,936	131,471
		122,093	18,839	14,725	18,137	144,344
	Managed Funds	467,594	243,577	224,220	71,248	558,199
	Unit Trusts					
	Property	119,003	7,337	9,569	-4,294	112,477
	Other	578,761	154,179	171,236	41,713	603,417
		697,764	161,516	180,805	37,419	715,894
	Derivative contracts	21	0	0	-21	0
	Other Assets	48	0	0	-25	23
	Total	1,288,816	423,932	420,851	126,563	1,418,460
	Cash & other	10,918	0	0	7,650	18,568
	Total	1,299,734	423,932	420,851	134,213	1,437,028

Investments at 31 March 2013 had a market value of £1,437 million compared to a cost of £1,184 million (at 31 March 2012 the market value of investments was £1,300 million with a cost of £1,122 million). The increase in the cost of investments of £62 million (2011/2012: £65 million) represents the net effect of purchases of £424 million (2011/2012: £220 million) and the cost price of sales of £370 million (2011/2012: £155 million) plus movements in cash of £8 million (2011/2012: £0 million).

The net gain on the sale of investments was £51 million (2011/2012: £11 million gain). This sum, together with an excess of income over expenditure of £15 million (2011/2012: £15 million), generated additional funds available for investment during the year of £66 million (2011/2012: £26 million). Brokers' commissions and other costs of acquisition are included in the cost of investments purchased. Managed and unitised investments, other than property unit trusts, are predominantly in BlackRock Advisers' Aquila & Ascent Life Funds, Legal & General's

Pooled Pension Fund Policy and Insight Investment's Bonds Plus Fund. Baring Alpha Funds Dynamic and Pyrford Global Total Return (Sterling) Fund also each comprise over 5% of the total fund.

The amount and the percentage of the net assets of the fund, as at 31 March 2013, that these represent are shown below:

- BlackRock Advisers Aquila Life Fund - £254 million (18%)
- Legal & General Pooled Pension Fund Policy - £400 million (27%)
- Insight Investment Management Bonds Plus Fund - £130 million (9%)
- Baring - Absolute Return Multi Asset (£118 million – 8%)
- Pyrford - Absolute Return Multi Asset (£92 million – 6%)

No other assets comprised more than 5% of the net assets of the fund as at 31 March 2013:

9 Long Term Debtor

In 2005, Magistrates Courts' staff transferred from the Local Government Pension Scheme to the Civil Service Scheme. Whilst transfers of value were effected then, agreement on funding the deficit position was not finalised until February 2011 when it was agreed that the Bedfordshire Pension Fund would receive ten annual payments of £0.608 million, commencing April 2011. The fair value of these payments has been recognized in the Fund's accounts for 2012/2013. Those instalments falling due more than one year from the balance sheet date are shown as a long term debtor, £3,816 million at 31 March 2013 (£4,284 million at 31 March 2012). The amount falling due in less than a year is shown as current asset: Debtor.

10 Current Assets

The cash balance of £21.9 million is held in the Fund's own bank accounts. Cash held by the fund's managers is included in investment assets. See Note 8.5 above for details of the other investment assets of £1.3 million.

11 Current Liabilities

See Note 8.6 for details of the other investment liabilities of £0.8 million.

12 Provision for Tax reclaims over 1 year

The fund's managers reclaim tax withheld from investment income where international treaties allow. Allowance is made for those claims that are over one year old and considered unlikely to be recovered.

13 Self-investment

The regulations governing investment of pension funds require the disclosure of any self-investment by the fund. As at 31 March 2013, there was no self-investment by the fund.

Current Assets

	2011/2012	2012/2013
	£000	£000
Debtors		
Contributions due from Administering Authority	1,545	1,429
Contributions due from other admitted authorities	5,667	5,422
Civil Service Pension Scheme - see note 9 above	451	451
Other	104	185
	7,767	7,487
Cash	6,752	21,943
Current Assets	14,519	29,430

Current Liabilities

	2011/2012	2012/2013
	£000	£000
Creditors		
Administration costs etc due to Administering Authority	210	242
Investment managers' fees	683	739
Other professional fees	36	98
AVCs in transit	1	10
Death grants	629	519
Other	187	1,574
	1,746	3,182
Provision for Tax Reclaims over 1 Year (Note 12)	85	29
Current liabilities	1,831	3,211

14 Related party transactions

Administration and investment management costs include charges by Bedford Borough Council for providing services in its role as administering authority. For 2012/2013 these amounted to £1.0 million (2011/2012 - £0.9 million).

The Fund pays compensatory added years benefits on behalf of some of its employers. The costs of these are invoiced to the employer in a normal supplier/debtor relationship. In 2012/2013, £3.3 million (2011/2012 - £3.2 million) was paid and recovered in this way.

The relevant senior officers in the financial management of Bedfordshire Pension Fund are the Director of Financial and Corporate Services (The Fund Administrator), Assistant Director (Finance) and the Head of Pensions and Treasury Management. They are remunerated by Bedford Borough Council as the administering authority. They are not paid directly by the Bedfordshire Pension Fund. Further information is available within the financial statements of Bedford Borough Council. Each of the relevant senior officers charge a portion of their time to Bedfordshire Pension Fund as part of Bedford Borough Council's charge as administering authority.

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

- Councillor Doug McMurdo is a member of the Beds & River Ivel Drainage Board. A member of Councillor McMurdo's immediate family is an employee of the Sharnbrook Academy Federation.
- Trevor Roff, the Fund Administrator, is an elected member of Bromham Parish Council. Two members of Trevor Roff's immediate family are employees of Bedford Borough Council, the Administering Authority.
- Councillor Shan Hunt is a board member of BPHA, a scheme employer.

There were no material transactions between members and officers and the Fund during 2012/2013.

The only other material related party transactions during 2012/2013 were in respect of contributions paid by the employing bodies into the fund (see note 1).

15 Contingent Liabilities and Contractual Commitments

There were no material contingent liabilities and/or contractual liabilities as at 31 March 2013.

16 Stock Lending

The Fund did not undertake any stock lending in 2012/2013.

17 Additional Voluntary Contributions (AVC)

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. These contributions are invested separately from the Fund's other assets with the Standard Life Assurance Company & Prudential.

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

AVCs	2011/2012	2012/2013
	£000	£000
Value at 1 April	3,541	3,558
Income		
Contributions received	509	507
Transfer values received	110	-
	619	507
Expenditure		
Retirements	(765)	(522)
Transfers values paid	(1)	-
	(766)	(522)
Change in market value	164	257
Value at 31 March	3,558	3,800

18 Post Balance Sheet Events

There have been no events since 31 March 2013, and up to the date that these accounts were authorised, that require any adjustments to these accounts.

19 Actuarial Present Value of Promised Retirement Benefits

In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/2013, based on International Financial Reporting Standards and issued by the Chartered Institute of Public Finance and Accountancy, the future liabilities of the Fund to pay pensions and other benefits are disclosed in a report by the Fund's actuary as set out on page 93.

20 Financial Instruments

Classification of 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 by category and net assets statement heading. No financial assets were re-classified during 2012/2013.

Not all value in Assets & Liabilities note are financial instruments (for example contributions payable) and therefore the totals above may not be found in the related notes.

Financial Instruments have been restated for Debtors and Creditors as at 31 March 2012. This has been done to comply with the requirement to remove all non-financial instruments. These are classified as any monetary amount that is statutory.

The Pension Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Net Gains & Losses on Financial Instruments

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

Fair Value of Financial Instruments

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

31 March 2012			31 March 2013		
Designated as fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost	Designated as fair value through profit & loss	Loans & receivables	Financial liabilities at amortised cost
£000	£000	£000	£000	£000	£000
			Financial Assets		
1,296			Fixed interest securities	-	
122,093			Equities	144,344	
1,165,358			Managed & unitised funds	1,274,093	
21			Derivative contracts	-	
	16,696		Cash		39,977
27	1,064		Other investment assets	329	1,017
	5,237		Debtors		5,263
1,288,795	22,997	-		1,418,766	46,257
			Financial liabilities		
			Derivative contracts		
		(69)	Other investment liabilities		(789)
(85)		(1,746)	Creditors	(29)	(2,637)
(85)	-	(1,815)		(29)	-
					(3,426)
1,288,710	22,997	(1,815)		1,418,737	46,257
					(3,426)

21 Valuation of financial instruments carried at fair value

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

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. This bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

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

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity instruments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

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

	31 March 2013			
	Quoted Market Price	Using Observable Inputs	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Financial Assets at Fair Value through profit and loss	556,611	795,116	67,010	1,418,737
Loans and Receivables	46,257			46,257
Total Financial Assets	602,868	795,116	67,010	1,464,994
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(789)			(789)
Financial liabilities at amortised cost	(2,637)			(2,637)
Total financial liabilities	(3,426)	-	-	(3,426)
Net financial assets	599,442	795,116	67,010	1,461,568
	31 March 2012			
	Quoted Market Price	Using Observable Inputs	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial Assets				
Financial Assets at Fair Value through profit and loss	491,909	731,747	65,054	1,288,710
Loans and Receivables	22,997			22,997
Total Financial Assets	514,906	731,747	65,054	1,311,707
Financial Liabilities				

22 Nature and Extent of Risks Arising from Financial Instruments

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

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

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

- Market risk
- Credit risk
- Liquidity risk

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

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

Market Risk

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

Interest Rate Risk

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

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

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

Asset type	Carrying value at 31/03/2013	Change in year in net assets available to pay benefits	
		+100 bps	-100 bps
	£000	£000	£000
Fixed interest securities	295,248	2,952	-2,952
Cash & cash equivalents	59,406	594	-594
Total	354,654	3,546	-3,546

Asset type	Carrying value at 31/03/2012	Change in year in net assets available to pay benefits	
		+100 bps	-100 bps
	£000	£000	£000
Fixed interest securities	224,044	2,240	-2,240
Cash & cash equivalents	34,827	348	-348
Total	258,871	2,588	-2,588

Currency Risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund manages currency risk by:

- Investment managers operating in foreign currencies are able to use hedging techniques.
- The Fund's remaining commodities portfolio is 100% hedged

The following table summarises the Fund's currency exposure as at 31 March 2013 and also shows the increase/decrease in the value of net assets available to pay benefits arising from an 5.8% fluctuation in currency prices against sterling. Comparatives for the previous year, using the same criteria but adjusted for the different weightings then applying, are shown in the table below.

After consultation with The WM Company, the Fund considers 5.8% to be the likely volatility associated with foreign exchange rate movements (8.8% in 2011/12).

Asset type	Carrying value at 31/03/2013	Value of net assets available to pay benefits on increase/decrease	
		+5.8%	-5.8%
		£000	£000
Overseas equities	465,833	492,857	438,809
Overseas bonds	209,232	221,370	197,094
Overseas Property	2,586	2,736	2,436
Alternatives	126,589	133,933	119,245
Total	804,240	850,896	757,584

Asset type	Carrying value at 31/03/2012	Value of net assets available to pay benefits on increase/decrease	
		+8.8%	-8.8%
		£000	£000
Overseas equities	432,065	470,269	393,862
Overseas bonds	90,577	98,586	82,568
Overseas Property	2,789	3,036	2,542
Alternatives	111,458	121,313	101,603
Total	636,889	693,204	580,575

Market Price Risk

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

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

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

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

Sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisers (The WM Company), the Fund has determined that the following movements in market price risk are reasonably possible for the 2013/2014 reporting period.

Asset type	Potential market movement
UK Equities	12.9%
Overseas Equities	11.9%
Total Bonds	4.6%
Index Linked Gilts	7.2%
Cash	0.0%
Alternatives	9.1%
Property	2.2%

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

Asset type	Value at 31 March 2013 £000	% change	Value on increase	Value on decrease
UK Equities	358,012	12.9	404,052	311,972
Overseas Equities	465,833	11.9	521,267	410,399
Total Bonds	295,248	4.6	308,888	281,607
Index Linked Gilts	44,000	7.2	47,173	40,828
Cash	59,406	0.0	59,406	59,406
Alternatives	112,477	9.1	122,678	102,275
Property	126,589	2.2	129,411	123,766
Total	1,461,564		1,592,876	1,330,252

Asset type	Value at 31 March 2012 £000	% change	Value on increase	Value on decrease
UK Equities	346,810	14.6	397,444	296,175
Overseas Equities	432,065	17.0	505,517	358,614
Total Bonds	224,044	7.9	241,844	206,244
Index Linked Gilts	39,894	6.9	42,647	37,141
Cash	34,827	0.1	34,861	34,792
Alternatives	111,458	9.0	121,489	101,427
Property	120,794	8.0	130,457	111,130
Total	1,309,892		1,474,259	1,145,523

Credit Risk

Credit risk is the risk that a counterparty to a transaction involving a financial instrument will fail to discharge an obligation or commitment it has entered into with the Fund.

The net market value of the Fund's assets, as shown in the Net Assets Statement, represents the Fund's maximum exposure to credit risk in relation to those assets. The Fund does not have any significant exposure to any individual counter-party or industry. Credit risk is monitored through ongoing reviews of the investment managers' activity.

Apart from a small number of outstanding tax reclaims, represented by the provision for tax reclaims over 1 year in the Net Assets Statement, the Fund has no assets that are past due or impaired.

Liquidity Risk

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

The Fund manages liquidity risk by:

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

Present Value Of Promised Retirement Benefits

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2012/13 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

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

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

Balance sheet

Year ended	31 March 2013 £m	31 March 2012 £m
Present Value of Promised Retirement Benefits	2,578	2,140

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2010. I estimate this liability at 31 March 2013 comprises £1,336m in respect of employee

members, £508m in respect of deferred pensioners and £734m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

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

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2013 is to increase the actuarial present value by £258m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 March 2013 %pa	31 March 2012 %pa
Inflation/Pension Increase Rate	2.8%	2.5%
Salary Increase Rate*	5.1%	4.8%
Discount Rate	4.5%	4.8%

*Salary increases are 1% p.a. nominal until 31 March 2015 reverting to the long term rate thereafter.

Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements from 2010 in line with the Medium Cohort and a 1% p.a. underpin. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.6	23.2
Future Pensioners*	23.6	25.6

*Future pensioners are assumed to be currently aged 45.

This assumption is the same as at 31 March 2012.

Commutation assumption

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

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2013 for IAS19 purposes' dated April 2013. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

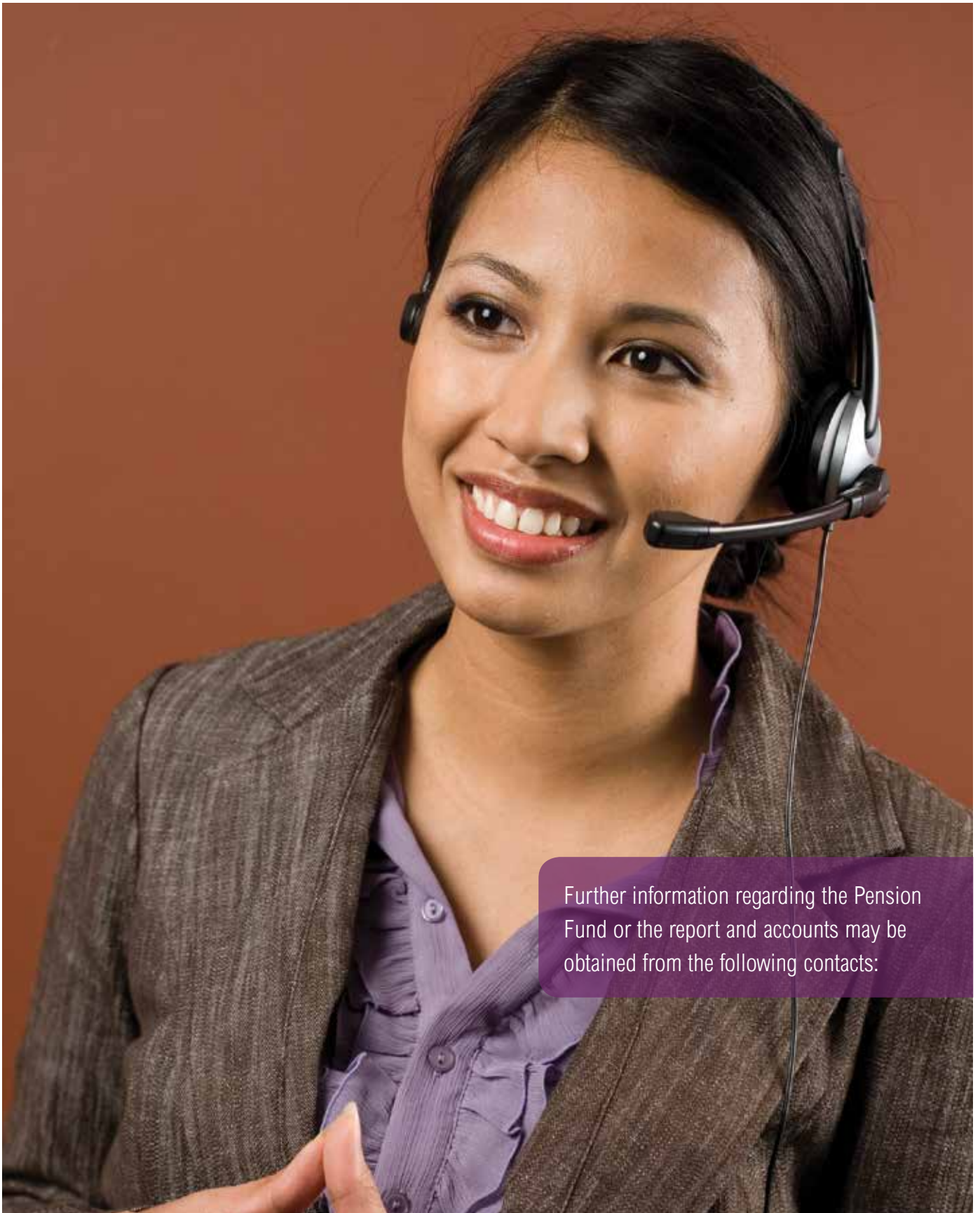


Gemma Sefton FFA

17 April 2013

For and on behalf of Hymans Robertson LLP

Contact Points



Further information regarding the Pension Fund or the report and accounts may be obtained from the following contacts:

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Benefits and Contributions:

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Advisory and Regulatory Bodies:

The Pensions Regulator

Napier House

Trafalgar Place

Brighton

East Sussex, BN1 4DW

Telephone: 0845 6000707

The Pensions Advisory Service

11 Belgrave Road

London SW1V 1RB

Telephone: 0845 6012923

Pensions Ombudsman

11 Belgrave Road

London SW1V 1RB

Telephone: 020 7630 2200

Glossary

Absolute Return

This is an approach to active investment management that focuses on an absolute return rather than a traditional index based benchmark. Freed from following an index, absolute return managers have the flexibility to pursue a range of strategies and are not pushed into holding certain assets just because they are in the benchmark.

Actuarial valuation

Every three years the Fund undergoes an actuarial valuation. An actuary assesses whether the Fund has enough money to pay everyone, and how much will need to be paid into the Fund in future to make sure all the benefits can be paid.

Actuary

An actuary is a business professional who analyses the financial consequences of risk. Actuaries use mathematics, statistics and financial theory to study uncertain future events, especially those relating to pensions and insurance.

Annual allowance

If the value of your pension benefits increases by more than the annual allowance in one year, you'll have to pay income tax at 40% on the excess. Most members of the scheme won't be affected by this - the annual allowance is set by the treasury at £50,000 for 2012/13.

If you fill in a self-assessment tax return, ask the pension office about the increase in the value of your benefits, and don't forget that any other pensions you may have will count as well. An accountant will be able to help you with your tax return.

Assets

The Fund's investments.

Bonds

Governments issue bonds in order to borrow money. The purchaser gets a fixed annual interest payment as well as eventual repayment of the purchase price.

The Fund has some bonds from many of the largest governments, as well as "company bonds", which are similar but are issued by companies not governments.

Civil partnership

A civil partnership is a legally registered relationship between two people of the same sex.

Consumer Prices Index (CPI)

This shows the changes in the cost of living. It reflects changes in prices of a cross-section of goods and services over time.

The amount pensions are raised annually is based on the Consumer Prices Index from the previous period September - September. This has been used from April 11th 2011 and was previously based on the Retail Prices Index.

Contracted-out

The Local Government Pension Scheme (LGPS) is contracted-out of the State Second Pension Scheme (S2P).

This means you won't get a State Second Pension when you retire - the LGPS is guaranteed to pay at least as much as S2P. It also means that you'll probably pay less National Insurance.

Currency investors

Currency investment involves buying currency when it is cheap and selling for a profit when it becomes stronger.

Deficit

If assets are less than liabilities, the Fund is said to be in deficit - there isn't enough money in the Fund to pay all future pension payments, so contributions may need to go up. This won't affect your pension because it's guaranteed by law.

Discretion

This is the power given by the LGPS to enable your employer or your administering authority to choose how they will apply the scheme in respect of certain

provisions. Under the LGPS, your employer or your administering authority are obliged to consider how to exercise their discretion and, in respect of some (but not all) of these discretionary provisions, to have a written policy on how they will apply their discretion. They have a responsibility to act with “prudence and propriety” in formulating their policies and must keep them under review. You may ask your employer or your administering authority what their policy is in relation to a discretion.

Enhanced protection

See protection - primary lifetime allowance protection.

Equities

Equities are shares in companies. The owner shares the profits (or losses) and growth (or fall) in the value of the company. The Fund owns shares in all the major markets in the world as well as some smaller, emerging markets.

Final pay

This figure is used to calculate most of your pension benefits and it's normally pensionable pay received over the last 365 days before retiring. If your pay went down in your last year, it could be the pay from one of the two previous years.

If you work part time, your final pay is normally scaled up to the full-time equivalent.

If your pay is reduced because of sickness, your final pay is taken to be the pensionable pay you would have received had you not been off sick.

If you're off on maternity, paternity, or adoption leave and are paying (or are considered to be paying) pension contributions, final pay is taken to be your pensionable pay if you were working normally.

Funding level

The percentage of the Fund's liabilities which can be paid out of the Fund. If the funding level falls below

100%, more will need to be paid into the Fund. This doesn't affect your pension because it's guaranteed by law.

Global equity

Investors in global equity can invest in equities from anywhere in the world, although they are limited by other aspects of their mandate. They are expected to give better returns than standard indices like the FTSE 100 or the local equivalent.

Guaranteed minimum pension (GMP)

The LGPS guarantees to pay you a pension that is at least as high as you would have earned had you not been contracted out of the State Earnings Related Pension Scheme at any time between 6 April 1978 and 5 April 1997. This is called the Guaranteed Minimum Pension.

Index-linked bonds

A type of bond where the annual interest payment varies with inflation.

Liabilities

The total expected value of future pension payments from the Fund to its members.

Lifetime allowance

The lifetime allowance is the maximum amount of pension and/or lump sum that you can get from your pension schemes that benefit from tax relief. The current lifetime allowance is £1.5 million.

Lower earnings limit

This is the amount you have to earn before you pay any National Insurance. For 2012/13 it is £5,564 per year. It usually increases every year.

Multi-asset passive investment

Multi-asset passive investors can invest in global markets and need only match the returns given by indices like the FTSE 100 (or the local equivalent)

Pensionable pay

This is your salary or wages plus shift allowance, bonuses, contractual overtime, and any other taxable benefit specified in your contract as pensionable.

Pay doesn't include non-contractual overtime, expenses, payment in lieu of notice, pay in lieu of lost holidays, any payment as inducement not to leave ("golden handcuffs") or company cars or payment in lieu of a company car.

Policy statement

Your employer must produce a policy statement. It sets out how they will treat discretionary items within the pension scheme.

If any changes are made to the policy statement, you should be told within one month. You can ask your employer or the Pension Fund for the latest copies of their policy statements.

Property

In investment, property can refer to offices, shops, shopping centres, retail parks and warehouses. Returns from property can include rental income and growth in value (capital growth).

Protection - primary lifetime allowance protection and enhanced protection

When the lifetime allowance was introduced on 6 April 2006, it was decided that benefits accrued up to this point could be protected. If the pension you'd built up by 5 April 2006 exceeded the lifetime allowance, you could apply for primary protection up to 5 April 2009 so you had a new, personal, lifetime allowance.

If you reached the lifetime allowance by 5 April 2006 or thought you might in the future, you could also apply for enhanced protection. Provided your benefits at 5 April 2005 had not increased beyond certain limits (more than 5% per year, the retail price index, or increases in pensionable pay, whichever is greater) you would not then pay tax on benefits greater than the lifetime allowance.

If you pay into another pension scheme or transfer your Local Government Pension Scheme pension, you will lose your enhanced protection. If you don't inform Her Majesty's Revenues and Customs within 90 days of this, you could be fined up to £30,000.

Protected members and the 85 year rule

If you joined the Local Government Pension Scheme after 30 November 2006 and decide to retire earlier than 65 years of age, your pension and lump sum will be reduced by a percentage relating to the number of years early you retire.

If you were a member of the scheme on or before 30 November 2006, some or all of your benefits paid early could be protected from the reduction under what is called the 85 year rule.

The 85 year rule is satisfied if your age at the date you draw your benefits and your scheme membership (each in whole years) add up to 85 or more.

The rules on deciding whether you have protection under the 85 year rule, and the level of that protection, are quite complex. If you are thinking of voluntarily retiring or asking for flexible retirement before age 65 you should contact the Pensions Section for a quotation of benefits payable.

Retail Prices Index (RPI)

This shows the changes in the cost of living. It reflects changes in prices of a cross-section of goods and services over time.

The amount pensions are raised annually used to be based on the Retail Prices Index from the previous period September - September. From April 11th 2011 it is based on Consumer Prices Index.

Specialist mandate

An investor with a specialist mandate will invest only in a particular geographical area, industry sector, or other limited field.

State Earnings Related Pension Scheme (SERPS)

This is the extra earnings related part of the state pension that employed people could earn up to 5 April 2002. LGPS members were automatically contracted out of SERPS, and most paid lower national insurance contributions as a result. SERPS was replaced with the Second State Pension (S2P) from 6 April 2002.

State Pension Age

This is the earliest age you can receive the state basic pension. State Pension Age (SPA) is currently age 65 for men. SPA for women is currently being increased to be equalised with that for men. The Government has announced that it will speed up the pace of SPA equalisation for women, so that women's SPA will reach 65 by November 2018.

State Pension Age Equalisation Timetable for Women

Date of birth	New State Pension Age
Before 6 April 1950	60
6 April 1950 - 5 April 1951	Between 60 & 61
6 April 1951 - 5 April 1952	Between 61 & 62
6 April 1952 - 5 April 1953	Between 62 & 63
6 April 1953 - 5 August 1953	Between 63 & 64
6 August 1953 - 5 December 1953	Between 64 & 65
After 5 December 1953	65

Increase in State pension age from age 65 for men and women

Under current legislation, State pension age is planned to increase to:

- 66 between November 2018 and October 2020
- 67 between 2034 and 2036
- 68 between 2044 and 2045

The government has announced that the increase to age 67 will take place between 2026 and 2028. This will mean that people born after 5 April 1961 but before 6 April 1969 will have a State Pension age of 67. Further changes are planned to start to increase to age 68 from 2044 which would affect anyone born after 5 April 1977. The government is considering how the State Pension age could better reflect changes in life expectancy in the future. This is likely to mean that the existing timetable to increase State Pension age to 68 will be revised.

Surplus

If assets are greater than liabilities, the Fund is said to have a surplus - there's enough to pay all future pensions to fund members, with some to spare. This is the ideal situation to be in.

Total membership

This is the amount of membership that counts for working out different benefits you may be due.

Working out if you're entitled to a benefit

There are two different ways your service counts within the Local Government Pension Scheme:

1. Your service counts in the calculation of your benefits in the scheme.
2. Your service in the scheme counts towards entitling you to a benefit in the scheme.

Although these statements may seem similar, both periods of service can be different. For example if a member works part-time, lets say 17.5 hours instead of 35 hours, the service for calculating benefits would be half it's actual length, i.e. 3 years service would only count as 1.5 years.

Having less than 2 years service the member would not normally be entitled to a retirement benefit, however, although the reduced service of 1.5 years is used to calculate the member's benefits, the full length service of 3 years is used in deciding the member's entitlement to benefit.

For working out the amount of pension you'll get, your total membership includes:

- The number of years and days you are a member - if you're part time, this is scaled down to the full time equivalent. For example, if you work exactly half time, every year worked counts for 6 months' membership.
- The number of years and days bought by transferring in a previous employer's pension plan, a personal pension plan, or a stakeholder pension scheme.
- Any additional years you've opted to buy or which have been granted to you by your employer.
- Any additional years from converting additional voluntary contributions to membership, available only to members who took out AVC contracts prior to 30/06/2005.
- Any membership given because of ill health enhancement.
- Any membership you're already receiving a pension from, or in an earlier deferred pension, will not be counted.
- If you were over 45 when you joined (or the last time you joined if you have any deferred membership), and you bought extra membership before 1 December 2006, that extra membership won't count towards lump sum calculations. It will instead be used in your annual payment calculation, but rather than dividing this membership by 80, it will be divided by 60.

Upper earnings limit

On anything you earn over the upper earnings limit, you only pay 1% National Insurance contributions. The upper earnings limit is usually increased annually by Parliament.

For 2012/13 it is £42,475 pa.

Finding out more

If you would like further copies, a large-print copy or information about us and our services, please telephone or write to us at our address below.

Për Informacion

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Informacja

برای اطلاع

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Per Informazione

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